



ABN 48 068 628 937

Interim Condensed Consolidated Financial Report  
and Appendix 4D  
for the Half-Year Ended 31 December 2014

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# **iiNet Limited**

## **Interim Condensed Consolidated Financial Report and Appendix 4D for the Half-Year Ended 31 December 2014**

### **Contents**

#### **Appendix 4D**

Results for Announcement to the Market	2
<b>Interim Condensed Consolidated Financial Report</b>	
Directors' Report	4
Consolidated Statement of Comprehensive Income	5
Consolidated Statement of Financial Position	6
Consolidated Statement of Changes in Equity	7
Consolidated Statement of Cash Flows	8
Notes to the Interim Condensed Consolidated Financial Report	9
Corporate Information	19
Directors' Declaration	20
Auditor's Independence Declaration	21
Independent Auditor's Review Report to the Members	22

# iiNet Limited

## Interim Condensed Consolidated Financial Report and Appendix 4D for the Half-Year Ended 31 December 2014

### Results for Announcement to the Market

Current Reporting Period: Half-year ended 31 December 2014

Previous Reporting Period: Half-year ended 31 December 2013

<b>Financial Performance</b>	<b>Change %</b>	<b>Amount \$'000</b>
<b>Revenue from ordinary activities</b>	<b>+11%</b>	<b>546,999</b>
<b>Profit/(loss) for the period</b>	<b>0%</b>	<b>29,065</b>
- iiNet Group (excluding Tech2 Group)	+3%	30,085
- Tech2 Group	n/a	(1,020)
<b>Profit/(loss) attributable to owners of the Company</b>	<b>+1%</b>	<b>29,473</b>
- iiNet Group (excluding Tech2 Group)	+3%	30,085
- Tech2 Group	n/a	(612)
<b>Other Financial Metrics</b>		
<b>Underlying earnings before interest, taxation, depreciation and amortisation (Underlying EBITDA)</b>	<b>+1%</b>	<b>96,638</b>
- iiNet Group (excluding Tech2 Group)	+2%	97,523
- Tech2 Group	n/a	(885)
<b>Underlying net profit/(loss) for the period after income tax attributable to owners of the Company (Underlying NPAT)</b>	<b>+1%</b>	<b>31,594</b>
- iiNet Group (excluding Tech2 Group)	+3%	32,206
- Tech2 Group	n/a	(612)
<b>Underlying net profit/(loss) for the period after income tax attributable to owners of the Company excluding non-cash subscriber base amortisation</b>	<b>+1%</b>	<b>35,989</b>
- iiNet Group (excluding Tech2 Group)	+3%	36,601
- Tech2 Group	n/a	(612)

See page 3 for reconciliation of underlying financial performance.

<b>Dividends</b>	<b>Amount per share cents</b>	<b>Franked amount per share %</b>
Interim dividend	10.5	100

The Company declared a fully franked interim dividend of 10.5 cents per share with respect to the year ended 30 June 2015. The dividend has a record date of 16 March 2015 and a payment date of 30 March 2015.

<b>Earnings Per Share</b>	<b>31 December 2014 cents</b>	<b>31 December 2013 cents</b>
Basic earnings per share	18.2	18.0
Diluted earnings per share	18.1	17.9

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Results for Announcement to the Market** *(continued)*

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Net Tangible Asset Backing</b>	<b>cents</b>	<b>cents</b>
Net tangible asset backing per security	(180)	(155)

Net tangible assets are defined as the net assets of the Group less intangible assets and goodwill. The number of shares on issue as at 31 December 2014 was 162,163,526 (2013: 161,238,847). A net tangible liability position exists as the Group has acquired significant intangible assets in the form of subscriber bases and goodwill through acquisitions. These acquisitions have largely been funded through bank debt.

**Other Financial Metrics**

EBITDA is not a financial measure recognised by International Financial Reporting Standards ('IFRS'). This measure is referenced because of its close approximation to the Group's net cash flows from operating activities and is a widely used performance measure in the Telecommunications Industry.

Underlying EBITDA and underlying NPAT provide a useful understanding of the Group's underlying operating results by removing the impact of significant non-recurring items.

Underlying NPAT excluding subscriber base amortisation provides a proxy for sustainable earnings by removing the impact of non-cash amortisation relating to previously acquired subscriber bases.

Non-IFRS measures have been calculated using inputs measured in accordance with IFRS as follows:

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Reported profit before income tax to underlying EBITDA reconciliation</b>	<b>\$'000</b>	<b>\$'000</b>
Reported profit for the period before income tax	42,520	39,932
Add: Depreciation and amortisation expense	42,289	41,379
Add: Finance costs net of interest revenue	9,263	11,034
Add: Costs in relation to acquisition of business, restructuring and asset disposal	2,566	2,998
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	96,638	95,343

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Reported NPAT to underlying NPAT reconciliation</b>	<b>\$'000</b>	<b>\$'000</b>
Reported profit for the period after income tax attributable to owners of the Company	29,473	29,101
Add: Costs in relation to acquisition of business, restructuring and asset disposal	2,121	2,308
Underlying net profit for the period after income tax attributable to the owners of the Company (Underlying NPAT)	31,594	31,409

	<b>31 December 2014</b>	<b>31 December 2013</b>
<b>Underlying NPAT excluding subscriber base amortisation</b>	<b>\$'000</b>	<b>\$'000</b>
Underlying net profit for the period after income tax attributable to owners of the Company (Underlying NPAT)	31,594	31,409
Add: Subscriber base amortisation (note 2(c))	4,395	4,190
Underlying net profit for the period after income tax attributable to the owners of the Company excluding non-cash subscriber amortisation	35,989	35,599

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Directors' Report**

Your directors present their report on the consolidated entity consisting of iiNet Limited and the entities it controlled at the end of, or during the half-year ended 31 December 2014.

**Directors**

The following persons were directors of iiNet Limited (the 'Company') during the whole of the half-year ended 31 December 2014 and up to the date of this report unless otherwise stated.

M. Smith (Chairman)  
D. Grant  
P. James  
L. McCann  
P. McCarney  
P. O'Sullivan

**Overview of Financial Performance**

Revenue is up 11% to \$546,999k (2013: \$493,150k). The increase in revenue was attributable primarily to the following:

- Organic growth in residential and business broadband customers;
- Continued expansion of the services and products provided to residential and business broadband customers, including the launch of new mobile phone products in November 2014;
- The acquisition of a majority interest in The Tech2 Group Pty Ltd ('Tech2 Group') on 31 August 2014; and
- The acquisition of Adam Internet Holdings Pty Ltd ('Adam') on 30 August 2013.

Profit before income tax increased by 6% on prior comparative period, impacted by a \$1,457k loss from the Tech2 Group since acquisition, lower margins on hardware revenues following the launch of new mobile phone products and an ongoing decline in fixed phone call usage revenue per customer. Profit after income tax was impacted by a higher tax expense due to tax losses being recognised during the prior period, resulting in profit after income tax attributable to the owners of the Company being a 1% increase on prior comparative period at \$29,473k (2013: \$29,101k).

Net cash flows from operating activities decreased 20% to \$57,556k (2013: \$72,137k), largely attributable to increased inventory for the Apple iPhone launch in November 2014, net cash outflows in Tech2 Group and higher tax payments.

**Rounding of Amounts**

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding' of amounts in the Directors' Report. Amounts in the Directors' Report and Interim Condensed Consolidated Financial Report have been rounded in accordance with that class order to the nearest thousand dollars.

**Auditor's Independence Declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

This report is made in accordance with a resolution of the directors.



**Michael Smith**  
Chairman

Sydney, New South Wales  
18 February 2015

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Consolidated Statement of Comprehensive Income**  
**for the half-year ended 31 December 2014**

	Note	31 December 2014 \$'000	31 December 2013 \$'000
<b>Revenue</b>			
Rendering of services		523,962	476,149
Hardware sales and rentals		22,672	16,672
Other revenue	2(a)	365	329
<b>Total revenue</b>		<b>546,999</b>	<b>493,150</b>
Other income		664	851
Network and carrier costs		(279,069)	(251,958)
Hardware costs		(21,997)	(12,809)
Employee expenses (i)	2(b)	(91,116)	(77,044)
Marketing expenses		(18,744)	(19,315)
Occupancy costs		(14,686)	(12,987)
Corporate expenses (i)		(23,984)	(23,276)
Depreciation and amortisation expense	2(c)	(42,289)	(41,379)
Finance costs	2(d)	(9,628)	(11,363)
Other costs (i)		(3,630)	(3,938)
<b>Profit before income tax</b>		<b>42,520</b>	<b>39,932</b>
Income tax expense	3	(13,455)	(10,831)
<b>Profit for the period</b>		<b>29,065</b>	<b>29,101</b>
<b>Attributable to:</b>			
Owners of the Company		29,473	29,101
Non-controlling interest		(408)	-
		<b>29,065</b>	<b>29,101</b>
<b>Other Comprehensive Income/(Loss)</b>			
Items that may be reclassified subsequently to profit or loss			
<i>Cash flow hedges:</i>			
Net loss taken to equity		(1,189)	(641)
Income tax on items of other comprehensive income		356	(241)
<b>Other comprehensive loss for the period, net of tax</b>		<b>(833)</b>	<b>(882)</b>
<b>Total comprehensive income for the period</b>		<b>28,232</b>	<b>28,219</b>
<b>Attributable to:</b>			
Owners of the Company		28,640	28,219
Non-controlling interest		(408)	-
		<b>28,232</b>	<b>28,219</b>
<b>Earnings per share attributable to owners of the Company</b>	4	<b>Cents</b>	<b>Cents</b>
Basic earnings per share		18.2	18.0
Diluted earnings per share		18.1	17.9

- (i) Corporate expenses, Employee expenses and Other costs for the half-year ended 31 December 2014 include \$2,566k (\$2,121k net of tax) relating to acquisition of business, restructuring and asset disposal.

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Consolidated Statement of Financial Position**  
**as at 31 December 2014**

	Note	31 December 2014 \$'000	30 June 2014 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	5	16,079	25,166
Trade and other receivables	6	87,649	74,989
Prepayments		5,917	6,882
Inventory		17,678	12,887
Derivative financial instruments		3,520	865
Income tax receivable		939	-
<b>Total current assets</b>		<b>131,782</b>	<b>120,789</b>
<b>Non-current assets</b>			
Plant and equipment		164,813	162,434
Intangible assets and goodwill		481,015	456,206
Indefeasible right of use (IRU) assets		176,029	124,365
Derivative financial instruments		9,521	1,569
Deferred tax assets		4,212	5,236
Other assets		1,338	-
<b>Total non-current assets</b>		<b>836,928</b>	<b>749,810</b>
<b>Total assets</b>		<b>968,710</b>	<b>870,599</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	7	106,597	96,255
Unearned revenue		67,859	65,476
Interest bearing loans and borrowings		7,540	1,287
Indefeasible right of use (IRU) liabilities	8	21,228	18,205
Income tax payable		-	10,249
Provisions		5,225	691
Employee benefit liability		13,910	13,044
Derivative financial instruments		-	162
<b>Total current liabilities</b>		<b>222,359</b>	<b>205,369</b>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings		211,949	203,289
Indefeasible right of use (IRU) liabilities	8	158,065	99,960
Provisions		7,223	3,932
Unearned revenue		2,663	1,231
Employee benefit liability		1,126	819
<b>Total non-current liabilities</b>		<b>381,026</b>	<b>309,231</b>
<b>Total liabilities</b>		<b>603,385</b>	<b>514,600</b>
<b>Net assets</b>		<b>365,325</b>	<b>355,999</b>
<b>Equity</b>			
Issued capital	9	251,069	251,069
Retained earnings		106,227	97,715
Other reserves		8,424	7,215
<b>Equity attributable to owners of the Company</b>		<b>365,720</b>	<b>355,999</b>
Non-controlling interests		(395)	-
<b>Total equity</b>		<b>365,325</b>	<b>355,999</b>

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

**iiNet Limited**
**Interim Condensed Consolidated Financial Report and Appendix 4D  
for the Half-Year Ended 31 December 2014**
**Consolidated Statement of Changes in Equity  
for the half-year ended 31 December 2014**

	Attributable to owners of the Company						Total equity
	Issued capital	Retained earnings	Employee equity benefit reserve	Cash flow hedge reserve	Total	Non-controlling interest	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Balance at 30 June 2014</b>	<b>251,069</b>	<b>97,715</b>	<b>10,878</b>	<b>(3,663)</b>	<b>355,999</b>	-	<b>355,999</b>
Profit/(loss) for the period	-	29,473	-	-	29,473	(408)	29,065
Other comprehensive loss	-	-	-	(833)	(833)	-	(833)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>29,473</b>	<b>-</b>	<b>(833)</b>	<b>28,640</b>	<b>(408)</b>	<b>28,232</b>
Share-based payments	-	-	2,042	-	2,042	-	2,042
Dividends paid	-	(20,961)	-	-	(20,961)	-	(20,961)
Acquisition of non-controlling interests	-	-	-	-	-	13	13
<b>Total transactions with owners of the Company</b>	<b>-</b>	<b>(20,961)</b>	<b>2,042</b>	<b>-</b>	<b>(18,919)</b>	<b>13</b>	<b>(18,906)</b>
<b>Balance at 31 December 2014</b>	<b>251,069</b>	<b>106,227</b>	<b>12,920</b>	<b>(4,496)</b>	<b>365,720</b>	<b>(395)</b>	<b>365,325</b>

	Attributable to owners of the Company						Total equity
	Issued capital	Retained earnings	Employee equity benefit reserve	Cash flow hedge reserve	Total	Non-controlling interest	
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
<b>Balance at 30 June 2013</b>	<b>251,069</b>	<b>66,938</b>	<b>6,949</b>	<b>(614)</b>	<b>324,342</b>	-	<b>324,342</b>
Profit for the period	-	29,101	-	-	29,101	-	29,101
Other comprehensive loss	-	-	-	(882)	(882)	-	(882)
<b>Total comprehensive income/(loss) for the period</b>	<b>-</b>	<b>29,101</b>	<b>-</b>	<b>(882)</b>	<b>28,219</b>	<b>-</b>	<b>28,219</b>
Share-based payments	-	-	1,099	-	1,099	-	1,099
Dividends paid	-	(17,736)	-	-	(17,736)	-	(17,736)
<b>Total transactions with owners of the Company</b>	<b>-</b>	<b>(17,736)</b>	<b>1,099</b>	<b>-</b>	<b>(16,637)</b>	<b>-</b>	<b>(16,637)</b>
<b>Balance at 31 December 2013</b>	<b>251,069</b>	<b>78,303</b>	<b>8,048</b>	<b>(1,496)</b>	<b>335,924</b>	<b>-</b>	<b>335,924</b>

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**iiNet Limited**
**Interim Condensed Consolidated Financial Report and Appendix 4D  
for the Half-Year Ended 31 December 2014**
**Consolidated Statement of Cash Flows  
for the half-year ended 31 December 2014**

	Note	31 December 2014 \$'000	31 December 2013 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		590,629	545,538
Payments to suppliers and employees		(499,050)	(442,090)
Interest received		365	329
Interest and other costs of finance paid		(8,965)	(10,490)
Income tax paid		(22,857)	(19,017)
Costs incurred on acquisition of business, restructuring and asset disposal		(2,566)	(2,133)
<b>Net cash flows from operating activities</b>		<b>57,556</b>	<b>72,137</b>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(15,805)	(13,626)
Payment of project development and other intangibles costs		(11,536)	(10,708)
Payment for subscriber acquisition costs		(4,410)	(3,954)
Acquisition of subsidiary, net of cash acquired	14	(13,293)	(59,115)
Proceeds from sale of plant and equipment		22	9,003
Receipts from disposal of investments		-	24
<b>Net cash flows used in investing activities</b>		<b>(45,022)</b>	<b>(78,376)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		12,000	60,000
Repayment of borrowings		(5,000)	(9,000)
Payment for transaction costs related to borrowings		(7)	(62)
Repayment of IRU and finance lease liabilities		(10,961)	(9,450)
Equity dividends paid	10	(20,961)	(17,736)
<b>Net cash flows (used in)/from financing activities</b>		<b>(24,929)</b>	<b>23,752</b>
<b>Net (decrease)/increase in cash</b>		<b>(12,395)</b>	<b>17,513</b>
Cash and cash equivalents at beginning of period		25,166	12,369
<b>Cash and cash equivalents at end of period</b>	5	<b>12,771</b>	<b>29,882</b>

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report**

**1. Summary of significant accounting policies**

**Basis of preparation**

The interim condensed consolidated financial report for the half-year ended 31 December 2014 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

iiNet Limited (the 'Company') is a for-profit entity limited by shares and incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ('ASX'). The principle activities of the Company and its subsidiaries (the 'Group') are described in note 11.

The interim condensed consolidated financial report does not include all the information and disclosures required in the annual financial statements. The report should be read in conjunction with the Group's annual financial statements as at 30 June 2014 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

**Changes in accounting policies**

Except as described below, the accounting policies and methods of computation applied in this interim condensed consolidated financial report are the same as those adopted in the most recent annual financial statements.

**Non-controlling interest**

For each business combination, the Group elects whether to measure any non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets. For the Tech2 Group acquisition (refer note 14) the Group elected to measure non-controlling interest using the proportionate share of identifiable net assets approach.

**New standards and interpretations**

From 1 July 2014, the Group has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2014. Adoption of these Standards and Interpretations did not have a material effect on the financial performance and position of the Group.

**AASB 2014-1 Part A – Amendments to Australian Accounting Standards – Annual Improvements**

This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:

- AASB 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'.
- AASB 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.
- AASB 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.
- AASB 116 and AASB 138 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
- AASB 124 – Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items:

- AASB 13 – Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** *(continued)*

**2. Revenue and expenses**

	For the half-year ended	
	31 December 2014	31 December 2013
	\$'000	\$'000
<b>(a) Other revenue</b>		
Bank and other interest received	365	329
<b>(b) Employee expenses</b>		
Wages and salaries	80,247	69,030
Superannuation expense	6,496	5,284
Expense arising from share-based payments	2,042	1,099
Other employee benefits expense	2,331	1,631
<b>Total</b>	<b>91,116</b>	<b>77,044</b>
<b>(c) Depreciation and amortisation expense</b>		
Plant, equipment and leasehold improvements	20,520	21,108
Subscriber acquisition costs	4,719	2,732
Capitalised development costs	1,876	2,198
Subscriber bases	4,395	4,190
Indefeasible right of use (IRU) assets	5,652	6,586
Software, licenses and other intangible assets	5,127	4,565
<b>Total</b>	<b>42,289</b>	<b>41,379</b>
<b>(d) Finance costs</b>		
Bank and other interest charges	4,818	5,874
Finance lease interest charges	103	66
Indefeasible right of use (IRU) lease interest charges	4,224	4,844
Other borrowing costs	483	579
<b>Total</b>	<b>9,628</b>	<b>11,363</b>
<b>(e) Operating leases</b>		
Lease expense included in Statement of Comprehensive Income	6,005	5,205

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** *(continued)*

**3. Income tax**

	<b>For the half-year ended</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Current tax expense</b>		
Current income tax charge	14,000	17,307
Utilisation of previously recognised tax losses	(2,117)	(2,613)
Adjustments in respect of previous years	(214)	1,592
<b>Deferred tax expense</b>		
Relating to the origination and reversal of temporary differences	(238)	(612)
Adjustments in respect of previous years	2,084	(329)
Recognition of tax losses	(60)	(4,514)
<b>Total</b>	<b>13,455</b>	<b>10,831</b>

**Reconciliation between tax expense and pre-tax profit at the statutory rate**

<b>Profit before income tax</b>	<b>42,520</b>	<b>39,932</b>
Tax at the Group's statutory income tax rate of 30% (2013: 30%)	12,756	11,980
Adjustments in respect of previous years	1,870	1,263
Other non-deductible expenditure for tax purposes	1,713	2,102
Other deductible expenditure for tax purposes	(2,824)	-
Recognition of previously unrecognised tax losses	(60)	(4,514)
<b>Income tax expense</b>	<b>13,455</b>	<b>10,831</b>

**4. Earnings per share**

Earnings and weighted average number of shares used in calculating basic and diluted earnings per share are:

	<b>For the half-year ended</b>	
	<b>31 December 2014</b>	<b>31 December 2013</b>
	<b>\$'000</b>	<b>\$'000</b>
Net profit attributable to owners of the Company	29,473	29,101
<b>Weighted average number of shares</b>	<b>Number</b>	<b>Number</b>
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for basic earnings per share	161,663	161,239
Add effect of dilution:		
- Shares allocable under the LTI plan	1,294	1,217
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>162,957</b>	<b>162,456</b>

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** *(continued)*

**5. Cash and cash equivalents**

	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
The cash and cash equivalents balance comprises:		
Cash at bank	16,069	25,166
Short term deposits	10	-
<b>Total cash and cash equivalents</b>	<b>16,079</b>	<b>25,166</b>
Bank overdraft	(3,308)	-
<b>Total cash and cash equivalents, net of bank overdraft</b>	<b>12,771</b>	<b>25,166</b>

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash at bank and short term deposits as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities in the Statement of Financial Position.

**6. Trade and other receivables**

	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade receivables	88,244	74,876
Allowance for impairment loss	(6,017)	(4,005)
	<b>82,227</b>	<b>70,871</b>
Other receivables	5,422	4,118
<b>Total</b>	<b>87,649</b>	<b>74,989</b>

**7. Trade and other payables**

	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade creditors	94,429	86,246
Other payables and accruals	5,149	4,239
GST payable	7,019	5,770
<b>Total</b>	<b>106,597</b>	<b>96,255</b>

**8. Infeasible right of use (IRU) liabilities**

	<b>31 December 2014</b>	<b>30 June 2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Current	21,228	18,205
Non-current	158,065	99,960
<b>Total</b>	<b>179,293</b>	<b>118,165</b>

The lease component of the Group's international capacity supply agreements are accounted for as IRU finance leases. During the period, the Group entered into an additional contract for international capacity supply with Southern Cross Cables Limited. The carrying value of this additional IRU liability at 31 December 2014 is \$57,316k, being the present value of the future cash flows associated with the lease component of this agreement. An equivalent IRU asset of \$57,316k has been recognised within non-current assets.

The carrying value of the IRU liabilities approximates their fair value.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** (*continued*)

**9. Issued capital**

	<b>2014</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<b>Number</b>	<b>\$'000</b>	<b>Number</b>	<b>\$'000</b>
<b>Issued and fully paid</b>	<b>162,163,526</b>	<b>251,069</b>	<b>161,238,847</b>	<b>251,069</b>
<b>Movement in shares on issue:</b>				
At 1 July	161,238,847	251,069	161,238,847	251,069
Issue of shares under the LTI plan	924,679	-	-	-
<b>At 31 December</b>	<b>162,163,526</b>	<b>251,069</b>	<b>161,238,847</b>	<b>251,069</b>

**10. Dividends paid and proposed**

	<b>31 December 2014</b>		<b>31 December 2013</b>	
	<b>Cents per share</b>	<b>Total \$'000</b>	<b>Cents per share</b>	<b>Total \$'000</b>
<b>Recognised amounts</b>				
Previous year final dividend – fully franked	13.0	20,961	11.0	17,736
<b>Unrecognised amounts</b>				
Current year interim dividend – fully franked	10.5	17,027	9.0	14,511

**11. Segment reporting**

The accounting policies used by the Group in reporting segment information internally, are the same as those contained in note 34 to the annual financial statements for the year ended 30 June 2014. The Group has identified its operating segments based on the internal management reporting that is used by the executive management team (the chief operating decision maker) in assessing performance and allocating resources.

iiNet, Adam, Internode and TransACT are operating segments within the telecommunications sector in the Australian market and have been aggregated to one reportable segment ('iiNet Group') given the similarity of the services provided, method in which services are delivered, types of customers and regulatory environment.

The Tech2 Group was acquired during the period (refer note 14). It represents a separate operating segment being a distinguishable component of the Group, engaged in business activities substantially different to the rest of the Group.

The Group's principal activity remains the provision of internet and telephony services to a wide range of residential and business customers across Australia.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** *(continued)*

**11. Segment reporting** *(continued)*

The following table presents revenue and profit information about the Group's operating segments for the half-year ended 31 December 2014. No inter-segment transactions were identified. The comparative period is not presented as it consists of only one reportable segment.

	<b>For the half-year ended 31 December 2014</b>		
	<b>iiNet Group</b>	<b>Tech2 Group</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Segment revenue	532,312	14,322	546,634
Segment costs	(437,355)	(15,207)	(452,562)
	94,957	(885)	94,072
Depreciation and amortisation expense	(41,815)	(474)	(42,289)
Finance costs, net of interest revenue	(9,165)	(98)	(9,263)
<b>Segment profit/(loss)</b>	<b>43,977</b>	<b>(1,457)</b>	<b>42,520</b>

The following table presents segment assets and liabilities of the Group's operating segments as at 31 December 2014. No inter-segment transactions were identified. The comparative period is not presented as it consists of only one reportable segment.

	<b>31 December 2014</b>		
	<b>iiNet Group</b>	<b>Tech2 Group</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Segment assets</b>	955,977	12,733	968,710
<b>Segment liabilities</b>	589,664	13,721	603,385

**12. Cash flow hedge reserve**

The change in the cash flow hedge reserve to 31 December 2014, on page 7, represents the after tax net movement in market value of effective cash flow hedges from 30 June 2014. At 31 December 2014 the cash flow hedge reserve comprised \$4,498k (2013: \$1,385k) relating to forward exchange contracts and (\$2k) (2013: \$111k) relating to interest rate swaps.

During the half-year ended 31 December 2014 net losses of \$1,121k (2013: net gains of \$2,922k) have been reclassified from the hedge reserve to the Statement of Comprehensive Income. This includes a loss of \$1,538k (2013: gain of \$2,826k) relating to the revaluation of forward exchange contracts entered into for the purpose of hedging the Group's exposure to the foreign currency risk associated with the IRU liability denominated in US dollars. The gain has offset a loss recognised in the Statement of Comprehensive Income following the revaluation of the IRU liability at spot rate at 31 December 2014.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** (*continued*)

**13. Financial instruments**

***Fair value hierarchy***

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- (a) Quoted prices in active markets (Level 1);
- (b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- (c) Inputs that are not based on observable market data (Level 3).

As at 31 December 2014, the Group held the following classes of financial instruments measured and recognised at fair value:

	31 December 2014			30 June 2014	
	Level 2	Level 3	Total	Level 2	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets measured at fair value:</b>					
Derivative financial assets					
Interest rate swap contracts	3	-	3	-	-
Foreign currency forward contracts	13,038	-	13,038	2,434	2,434
<b>Financial liabilities measured at fair value:</b>					
Derivative financial liabilities					
Interest rate swap contracts	-	-	-	(69)	(69)
Foreign currency forward contracts	-	-	-	(93)	(93)
Contingent consideration	-	7,247	7,247	-	-
<b>Total</b>	<b>13,041</b>	<b>7,247</b>	<b>20,288</b>	<b>2,272</b>	<b>2,272</b>

The foreign exchange contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. Fair values of interest rate swap contracts are based on the present value of the estimated future cash flows, reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty where appropriate.

The fair value of the contingent consideration is determined using the discounted cash flow method.

The Group recognises transfers between the levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1, Level 2 or Level 3 fair value measurements during the half-year ended 31 December 2014.

The carrying value of other financial instruments not measured at fair value approximates their fair values.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** *(continued)*

**14. Business combination**

On 31 August 2014, iiNet Limited completed the acquisition of a 60% interest in The Tech2 Group Pty Ltd ('Tech2 Group') to partner with its founder, Glen Powys. Tech2 Group provides professional technology services and solutions to residential and business customers across Australia, including communications build services, remote and on-site technical support and installation services. The investment in Tech2 Group represents a unique opportunity to partner with a business with a strong focus on market-leading customer service, as well as providing a new sales channel and capability set.

Provisional goodwill arising from the acquisition has been recognised as follows:

	<b>\$'000</b>
Net purchase consideration	11,052
Contingent consideration	7,165
Consideration transferred	<b>18,217</b>
Provisional share of fair value of identifiable net assets acquired	(19)
<b>Provisional goodwill arising on acquisition</b>	<b>18,198</b>

The purchase consideration was funded through a drawdown of the Group's available bank facility and existing cash.

As part of the purchase agreement, a portion of the consideration was determined to be contingent, based on performance targets of the acquired entity. Additional cash payments will be made to the previous owner of Tech2 Group if the Tech2 Group normalised EBITDA for the financial years ending 30 June 2015 and 30 June 2016, respectively, falls within a target range. The contingent consideration of \$7,165k represents its fair value at acquisition date. At acquisition it was estimated that target normalised EBITDA would be achieved resulting in recognition of the fair value of the maximum payment payable under the purchase agreement.

Due to the proximity of the transaction to the reporting date, the initial accounting for the business combination was incomplete at the reporting date. Accordingly, the Group has recognised the fair values of the assets acquired and liabilities assumed on a provisional basis.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Notes to the Interim Condensed Consolidated Financial Report** *(continued)*

**14. Business combination** *(continued)*

The provisional fair value of the identifiable assets acquired and liabilities assumed at the acquisition date were as follows:

	<b>\$'000</b>
<b>Assets</b>	
Cash and cash equivalents	417
Trade and other receivables	4,476
Prepayments	410
Inventory	1,287
Plant and equipment	1,448
Intangible assets – software	2,338
Intangible assets – customer contracts and relationships	2,086
Deferred tax assets	1,088
<b>Total assets</b>	<b>13,550</b>
<b>Liabilities</b>	
Trade and other payables	(6,414)
Unearned revenue	(1,160)
Interest bearing loans and borrowings	(518)
Bank overdraft	(2,258)
Provision for onerous lease and make good	(919)
Employee benefit liability	(1,567)
Deferred tax liabilities	(682)
<b>Total liabilities</b>	<b>(13,518)</b>
<b>Provisional fair value of identifiable net assets acquired</b>	<b>32</b>
<b>Cash flows on acquisition of subsidiary in the statement of cash flows comprises:</b>	<b>\$'000</b>
Net purchase consideration	11,052
<i>Add: Working capital adjustment receivable</i>	400
Purchase consideration paid	11,452
<i>Add: Net overdraft acquired</i>	1,841
<b>Net cash outflow on acquisition</b>	<b>13,293</b>

The acquired business contributed revenues of \$14,338k to the Group for the period from acquisition to 31 December 2014 and net losses of \$1,020k, of which \$408k is attributable to non-controlling interests and \$612k attributable to the owners of the Company. If the acquisition had occurred on 1 July 2014, Group revenues would have been \$554,168k and net profit after tax would have been \$28,635k (including costs in relation to acquisition, restructuring and asset disposal of \$2,121k after tax).

Direct costs relating to the acquisition totalling \$959k have been recognised as Corporate expenses and Other costs in the Statement of Comprehensive Income for the half-year ended 31 December 2014.

Included in the business assets acquired were receivables with a gross contractual and fair value of \$4,476k resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

Key factors contributing to the \$18,198k of goodwill are the synergies expected to be achieved as a result of combining Tech2 Group with the rest of the Group.

**iiNet Limited****Interim Condensed Consolidated Financial Report and Appendix 4D  
for the Half-Year Ended 31 December 2014****Notes to the Interim Condensed Consolidated Financial Report** *(continued)***15. Events after the reporting date**

On 18 February 2015, the Company declared a fully franked interim dividend of 10.5 cents per share with respect to the year ended 30 June 2015. The dividend has a record date of 16 March 2015 and a payment date of 30 March 2015.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Corporate Information**

**Non-executive Directors**

M. Smith (Chairman)  
D. Grant  
P. James  
L. McCann  
P. McCarney  
P. O'Sullivan

**Company Secretary**

B. Jenkins

**Registered office and Principal place of business**

iiNet Limited  
Level 1, 502 Hay Street  
Subiaco, Perth  
Western Australia 6008

Internet: [www.iinet.net.au](http://www.iinet.net.au)

**Share Registry**

Link Market Services Limited  
Level 4, Central Park  
152 St Georges Terrace  
Perth  
Western Australia 6000

Internet: [www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

Email: [info@linkmarketservices.com.au](mailto:info@linkmarketservices.com.au)

Telephone: +61 1300 554 474

iiNet Limited shares are listed on the Australian Securities Exchange (ASX) under the ASX code IIN.

**iiNet Limited**  
**Interim Condensed Consolidated Financial Report and Appendix 4D**  
**for the Half-Year Ended 31 December 2014**

**Directors' Declaration**

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

In the opinion of the directors:

- (a) The financial report and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
  - (ii) Complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting*.
- (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,



**Michael Smith**

Chairman

Sydney, New South Wales

18 February 2015

## Auditor's independence declaration to the Directors of iiNet Limited

In relation to our review of the Interim Condensed Consolidated Financial Report of iiNet Limited for the half-year ended 31 December 2014, 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  
18 February 2015

## To the members of iiNet Limited

### Report on the Interim Condensed Consolidated Financial Report

We have reviewed the accompanying Interim Condensed Consolidated Financial Report of iiNet Limited ("the Company"), which comprises the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, other information as set out in Appendix 4D to the Australian Stock Exchange ("ASX") Listing Rules and the directors' declaration of the consolidated entity, but excludes the results for announcement to the market as set out on pages 2 and 3 of the Appendix 4D. The consolidated entity comprises the Company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' responsibility for the Interim Condensed Consolidated Financial Report

The directors of the Company are responsible for the preparation of the Interim Condensed Consolidated Financial Report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and complies with the ASX Listing Rules as they relate to Appendix 4D. The directors are also responsible for such internal controls as the directors determine are necessary to enable the preparation of the Interim Condensed Consolidated Financial Report and Appendix 4D that is free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express a conclusion on the Interim Condensed Consolidated Financial Report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Interim Condensed Consolidated Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Company and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of the Interim Condensed Consolidated Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Condensed Consolidated Financial Report of iiNet Limited is not in accordance with:

- a. the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date
  - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*
- b. the ASX Listing Rules as they relate to Appendix 4D.



Ernst & Young



G H Meyerowitz  
Partner  
Perth  
18 February 2015