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Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2015

iiNet Limited
Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2015

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iiNet Limited
Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2015

Results for Announcement to the Market

Current Reporting Period: Year ended 30 June 2015

Previous Reporting Period: Year ended 30 June 2014

Financial Performance	Change %	Amount $'000
Revenue from ordinary activities	**+11%**	**1,118,214**
Profit for the period	**+11%**	**69,963**
Profit attributable to owners of the Company	**+11%**	**70,073**
Underlying earnings before interest, taxation, depreciation and amortisation (Underlying EBITDA)	**+3%**	**201,049**

See page 3 for reconciliation of underlying financial performance.

Overview of Financial Performance

Revenue is up 11% to $1,118,214k (2014: $1,006,166k). The increase in revenue is attributable primarily to the following:

- Continued organic growth in residential and business broadband customers;
- Continued expansion of the services and products provided to residential and business broadband customers, including increased mobile hardware sales following the launch of the iPhone in November 2014; and
- The acquisition of a 60% interest in Tech2 Group Pty Ltd ("Tech2 Group") on 31 August 2014.

In addition to revenue growth, iiNet has also achieved the following operational KPIs for the year ended 30 June 2015:

- An average net promoter score (NPS) of 60% (2014: 58%);
- Closing broadband subscribers of 989,000 (2014: 950,000); and
- Revenue from business customers of $212,280k (2014: $204,913k).

Profit attributable to the owners of the company after income tax for the year ended 30 June 2015 increased 11% to $70,073k (2014: $63,024k), driven by increased revenue but offset by higher hardware, network and carrier costs and additional costs attributable to the acquisition of the Tech2 Group. The profit for the year was impacted by one-off costs relating to business acquisition and disposal activities of $3,565k net of tax. However this was offset by the release of a contingent payment provision relating to the Tech2 Group acquisition of $3,739k net of tax. The comparative year result was impacted by one-off costs relating to business acquisition and asset disposal activities of $2,779k net of tax.

Net cash flows from operating activities decreased 17% to $121,624k (2014: $145,995k), reflecting increased working capital investment in mobile handsets and the transition from quarterly to monthly tax instalments.

Results for Announcement to the Market (continued)

Dividends	Amount per share cents	Franked amount per share %
Interim dividend for 2015	10.5	100%

The company paid an interim fully franked dividend of 10.5 cents per share on 30 March 2015. In accordance with the Scheme Implementation Agreement between the Company and TPG Telecom Limited, the Group has not declared a fully franked final dividend with respect to the year ended 30 June 2015.

On 20 August 2015 iiNet declared a special dividend of $0.6914 per share as part of the iiNet/ TPG Scheme consideration. The record date for the special dividend is 5:00pm WST on 27 August 2015 and the special dividend will be paid to shareholders on 7 September 2015.

Net Tangible Asset Backing	30 June 2015 cents	30 June 2014 cents
Net tangible asset backing per security	(160)	(139)

Net tangible assets are defined as the net assets of the iiNet Group less intangible assets, IRU assets and goodwill. The number of iiNet shares on issue as at 30 June 2015 was 162,950,896 (2014: 161,238,847). A net tangible liability position exists as the iiNet 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 operating performance before financing, income tax and non-cash capital expenditure and is a widely used performance measure in the Telecommunications Industry.

Underlying EBITDA provides a useful understanding of the Group’s underlying operating results by removing the impact of significant non-recurring items.

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

Reported profit before income tax to underlying EBITDA reconciliation	30 June 2015 $’000	30 June 2014 $’000
Reported profit for the year before income tax	95,946	86,420
Add: Depreciation and amortisation expense	85,238	84,845
Add: Finance costs net of interest revenue	18,974	20,598
Add: Costs in relation to acquisition of business, scheme costs and asset disposal	4,630	3,770
Less: Release of Tech2 Group contingent payment provision (note 12)	(3,739)	-
Underlying earnings before interest, tax, depreciation and amortisation (Underlying EBITDA)	201,049	195,633

Results for Announcement to the Market (continued)

Details of Entities Where Control Has Been Gained or Lost During the Period

On 31 August 2014, iiNet Limited completed the acquisition of a 60% interest in The Tech2 Group Pty Ltd ('Tech2 Group'). 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 for NBN installations, in-home audio/visual installations and desktop support.

Audit Report

This preliminary financial report is based on financial statements which are in the process of being audited.

Consolidated Statement of Comprehensive Income
for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Revenue			
Rendering of services		1,067,187	980,621
Sale of hardware		50,380	24,840
Other revenue	**2 (a)**	647	705
Total revenue		**1,118,214**	**1,006,166**
Other income		238	2,093
Network and carrier costs		(576,164)	(518,324)
Hardware costs		(48,917)	(27,523)
Employee expenses (i)	**2 (b)**	(170,868)	(156,289)
Marketing expenses		(37,929)	(37,942)
Occupancy costs		(30,039)	(26,563)
Corporate expenses (i)		(49,100)	(42,519)
Depreciation and amortisation expense	**2 (c)**	(85,238)	(84,845)
Finance costs	**2 (d)**	(19,621)	(21,303)
Other costs (i)(ii)		(4,630)	(6,531)
Profit before income tax		**95,946**	**86,420**
Income tax expense	**3**	(25,983)	(23,396)
Profit for the year		**69,963**	**63,024**
Attributable to:			
Owners of the Company		70,073	63,024
Non-controlling interest		(110)	-
		69,963	**63,024**
Other comprehensive loss for the year, net of tax			
Cash flow hedges:			
Net loss taken to equity		(2,410)	(4,498)
Income tax on items of other comprehensive income		723	1,449
Other comprehensive loss for the year, net of tax		**(1,687)**	**(3,049)**
Total comprehensive income for the year attributable to the owners of the company		**68,276**	**59,975**
Earnings per share	**4**	**Cents**	**Cents**
Basic earnings per share		43.2	39.1
Diluted earnings per share		42.7	38.7

(i) Employee expenses, Corporate expenses and Other costs include acquisitions of businesses and asset disposal activity related costs of $4,630k ($3,565k net of tax), and $3,770k ($2,779k net of tax) for the year ended 30 June 2015, and 30 June 2014, respectively.

(ii) Other costs includes $3,739k (2014: $nil) relating to release of Tech2 Group contingent payment provision.

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

iiNet Limited
Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2015

Consolidated Statement of Financial Position
as at 30 June 2015

	Note	2015 $'000	2014 $'000
Assets			
Current assets			
Cash and cash equivalents	**5**	14,595	25,166
Trade and other receivables		96,758	73,403
Prepayments		6,092	6,882
Inventory		13,676	12,887
Derivative financial instruments		4,565	865
Income tax receivable		771	-
Total current assets		**136,457**	**119,203**
Non-current assets			
Trade and other receivables		5,510	1,586
Prepayments		1,111	-
Plant and equipment		172,295	162,434
Intangible assets and goodwill		481,775	456,206
Indefeasible right of use (IRU) assets		171,762	124,365
Derivative financial instruments		12,174	1,569
Deferred tax assets		11,828	5,236
Total non-current assets		**856,455**	**751,396**
Total assets		**992,912**	**870,599**
Liabilities			
Current liabilities			
Trade and other payables		107,309	96,255
Unearned revenue		69,481	65,476
Interest bearing loans and borrowings		8,046	1,287
Indefeasible right of use (IRU) lease liabilities	**6**	34,482	18,205
Income tax payable		-	10,249
Provisions		1,193	691
Employee benefit liabilities		13,988	13,044
Derivative financial instruments		156	162
Total current liabilities		**234,655**	**205,369**
Non-current liabilities			
Derivative financial instruments		26	-
Interest bearing loans and borrowings		212,940	203,289
Indefeasible right of use (IRU) lease liabilities	**6**	141,118	99,960
Provisions		6,939	3,932
Unearned revenue		3,396	1,231
Employee benefit liabilities		1,158	819
Total non-current liabilities		**365,577**	**309,231**
Total liabilities		**600,232**	**514,600**
Net assets		**392,680**	**355,999**
Equity			
Issued capital	**7**	250,015	251,069
Retained earnings		129,717	97,715
Other reserves		13,414	7,215
Equity attributable to owners of the company		**393,146**	**355,999**
Non-controlling interest		(466)	-
Total equity		**392,680**	**355,999**

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

Consolidated Statement of Changes in Equity
for the year ended 30 June 2015

	Attributable to owners of the Company						
	Issued capital	Retained earnings	Employee equity benefit reserve	Cash flow hedge reserve	Total	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2014	**251,069**	**97,715**	**10,878**	**(3,663)**	**355,999**	**-**	**355,999**
Profit/(loss) for the period	-	70,073	-	-	70,073	(110)	69,963
Other comprehensive loss (i)	-	-	-	(1,687)	(1,687)	-	(1,687)
Total comprehensive income/(loss) for the period	**-**	**70,073**	**-**	**(1,687)**	**68,386**	**(110)**	**68,276**
Shares Purchased (ii)	(1,054)	-	-	-	(1,054)	-	(1,054)
Share-based payments	-	-	7,886	-	7,886	-	7,886
Dividends paid	-	(38,071)	-	-	(38,071)	-	(38,071)
Acquisition of non-controlling interests	-	-	-	-	-	(356)	(356)
Total transactions with owners of the Company	**(1,054)**	**(38,071)**	**7,886**	**-**	**(31,239)**	**(356)**	**(31,595)**
Balance at 30 June 2015	**250,015**	**129,717**	**18,764**	**(5,350)**	**393,146**	**(466)**	**392,680**

	Attributable to owners of the Company						
	Issued capital	Retained earnings	Employee equity benefit reserve	Cash flow hedge reserve	Total	Non-controlling interest	Total equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2013	**251,069**	**66,938**	**6,949**	**(614)**	**324,342**	**-**	**324,342**
Profit for the period	-	63,024	-	-	63,024	-	63,024
Other comprehensive loss (i)	-	-	-	(3,049)	(3,049)	-	(3,049)
Total comprehensive income/(loss) for the period	**-**	**63,024**	**-**	**(3,049)**	**59,975**	**-**	**59,975**
Share-based payments	-	-	3,929	-	3,929	-	3,929
Dividends paid	-	(32,247)	-	-	(32,247)	-	(32,247)
Total transactions with owners of the Company	**-**	**(32,247)**	**3,929**	**-**	**(28,318)**	**-**	**(28,318)**
Balance at 30 June 2014	**251,069**	**97,715**	**10,878**	**(3,663)**	**355,999**	**-**	**355,999**

(i) Other comprehensive losses above may be recycled through profit and loss in the future.

(ii) During the year, the Group purchased shares from the market on behalf of employees as part of the LTI plan. These shares had been issued to the employees by 30 June 2015.

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

Consolidated Statement of Cash Flows
for the year ended 30 June 2015

	Note	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers		1,205,012	1,109,149
Payments to suppliers and employees		(1,024,574)	(908,205)
Interest received		647	705
Interest and other costs of finance paid		(18,334)	(20,186)
Income taxes paid		(36,498)	(31,698)
Costs incurred on acquisition of businesses and disposal of assets		(4,629)	(3,770)
Net cash inflows from operating activities		**121,624**	**145,995**
Cash flows from investing activities			
Purchase of plant and equipment		(35,187)	(21,088)
Payment of project development and other intangible costs		(22,302)	(20,407)
Payment for subscriber acquisition costs		(9,134)	(8,910)
Acquisition of subsidiary, net of cash acquired	**12**	(12,893)	(59,115)
Proceeds from sale of plant and equipment		-	9,003
Receipts from disposal of investments		80	24
Net cash flows used in investing activities		**(79,436)**	**(100,493)**
Cash flows from financing activities			
Purchase of own shares		(1,054)	-
Proceeds from borrowings		12,000	60,000
Repayment of borrowings		(4,886)	(41,000)
Payment for transaction costs related to borrowings		(7)	(1,289)
Payment of IRU and finance lease liabilities		(24,407)	(18,169)
Equity dividends paid		(38,071)	(32,247)
Net cash flows used in financing activities		**(56,425)**	**(32,705)**
Net increase/ (decrease) in cash		(14,237)	12,797
Cash and cash equivalents at the beginning of year		25,166	12,369
Cash and cash equivalents at the end of the year	**5**	**10,929**	**25,166**

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

Notes to the Preliminary Financial Report

1. Summary of Significant Accounting Policies

Basis of Preparation

These preliminary consolidated financial statements relate to iiNet Limited and the entities it controlled at the end of, or during the year ended 30 June 2015 and has been prepared in accordance with rule 4.3A of the ASX listing rules (Appendix 4E).

The accounting policies adopted are consistent with those of the previous financial year. There were no new or amended standards impacting the Preliminary Financial Report.

2. Revenue and expenses

	Consolidated	
	2015	**2014**
	$'000	**$'000**
(a) Other revenue		
Bank and other interest received	**647**	**705**
(b) Employee expenses		
Wages and salaries	151,905	138,181
Superannuation expense	12,651	10,707
Expense arising from share-based payments	1,904	3,929
Other employee benefits expenses	4,408	3,472
Total	**170,868**	**156,289**
(c) Depreciation and amortisation expense		
Plant, equipment and leasehold improvements	40,851	43,206
Subscriber acquisition costs	10,176	6,534
Capitalised development costs	3,868	4,281
Subscriber bases	8,442	8,445
Indefeasible right of use assets	9,919	13,172
Software, licenses and other intangible assets	11,982	9,207
Total	**85,238**	**84,845**
(d) Finance costs		
Bank and other interest charges	9,428	11,096
Finance lease interest charges	209	69
Indefeasible right of use lease interest charges	9,018	9,005
Other borrowing costs	966	1,133
Total	**19,621**	**21,303**
(e) Operating leases		
Lease expense included in the statement of comprehensive income	**31,816**	**30,240**

Notes to the Preliminary Financial Report *(continued)*

3. Income tax expense

	Consolidated	
	2015	**2014**
	$'000	**$'000**
Current tax expense		
Current income tax charge	32,011	33,911
Benefit arising from utilisation of previously unrecognised tax losses	-	(5,122)
Adjustment for recoupment of tax losses previously booked	(4,728)	-
Adjustments in respect of previous years	(1,562)	512
Deferred tax expense		
Relating to the origination and reversal of temporary differences	(1,890)	(3,939)
Adjustments in respect of previous years	(1,407)	(148)
Adjustment for recoupment of tax losses previously booked	4,728	-
Recognition of tax losses	(1,169)	(1,818)
Total	**25,983**	**23,396**

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

Profit before income tax expense	**95,946**	**86,420**
At the Group's statutory income tax rate of 30% (2014: 30%)	28,784	25,926
Adjustments in respect of previous years	(2,969)	364
Expenditure not allowable for income tax purposes	2,698	4,046
Recognition of deferred tax assets not previously recorded	(2,530)	(1,818)
Utilisation of previously unrecognised tax losses	-	(5,122)
Income tax expense	**25,983**	**23,396**

4. Earnings per share

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

	Consolidated	
	2015	**2014**
	$'000	**$'000**
Net profit attributable to ordinary equity holders of the company	70,073	63,024
Weighted average number of shares	**Number**	**Number**
	'000	**'000**
Weighted average number of ordinary shares for basic earnings per share	162,199	161,239
Add effect of dilution – Share options	-	-
– Shares allocable under the LTI plan	1,923	1,683
Weighted average number of ordinary shares for diluted earnings per share	**164,122**	**162,922**

Notes to the Preliminary Financial Report *(continued)*

5. Cash and cash equivalents

	Consolidated	
	2015	**2014**
	$'000	**$'000**
Cash and cash equivalents balance comprises:		
Cash at bank	14,585	25,166
Short term deposits	10	-
Total cash and cash equivalents	**14,595**	**25,166**
Bank overdraft	(3,666)	**-**
Total cash and cash equivalents, net of bank overdraft	**10,929**	**25,166**

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. Indefeasible right of use (IRU) lease liabilities

	Consolidated	
	2015	**2014**
	$'000	**$'000**
Current	34,482	18,205
Non-current	141,118	99,960
Total	**175,600**	**118,165**

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 30 June 2015 is $61,398k, being the present value of the future cash flows associated with the lease component of this agreement. An IRU asset of $57,316k has been recognised within non-current assets.

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

7. Issued capital

Movement in consolidated ordinary share capital:

	2015	**2015**	**2014**	**2014**
	Number	**$'000**	**Number**	**$'000**
Issued and fully paid	**162,950,896**	**250,015**	**161,238,847**	**251,069**
Movement in shares on issue:				
At 1 July	161,238,847	251,069	161,238,847	251,069
Issue of shares under the LTI plan	1,712,049	-	-	-
Shares purchased (i)	-	(1,054)	-	-
At 30 June	**162,950,896**	**250,015**	**161,238,847**	**251,069**

(i) During the year, the Group purchased shares from the market on behalf of employees as part of the LTI plan. These shares had been issued to the employees by 30 June 2015.

Notes to the Preliminary Financial Report *(continued)*

8. Dividends paid and proposed

	2015		2014	
Recognised amounts	**Cents per share**	**Total $'000**	**Cents per share**	**Total $'000**
Current year interim dividend – fully franked	10.5	17,110	9.0	14,511
Previous year final dividend – fully franked	13.0	20,961	11.0	17,736
Total	**23.5**	**38,071**	**20.0**	**32,247**

Unrecognised amounts		
Current year final dividend – fully franked	-	-

On 20 August 2015 iiNet declared a special dividend of $0.6914 per share as part of the iiNet/ TPG Scheme consideration. The record date for the special dividend is 5:00pm WST on 27 August 2015 and the special dividend will be paid to shareholders on 7 September 2015.

9. Segment reporting

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 34 to the annual financial statements for the year ended 30 June 2014. The iiNet 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 to note 12). 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 is the provision of internet and telephony services to a wide range of residential and business customers across Australia.

The following table presents revenue and profit information about the Group's operating segments for the year ended 30 June 2015. No inter-segment transactions were identified. The comparative period is not presented as it consists of only one reportable segment.

	For the year ended 30 June 2015		
	iiNet Group $'000	**Tech2 Group $'000**	**Total $'000**
Segment Revenue	1,081,299	36,915	1,118,214
Segment Costs	(881,282)	(36,127)	(917,409)
	200,017	**788**	**200,805**
Depreciation and amortisation expense	(84,021)	(1,217)	(85,238)
Finance costs	(19,378)	(243)	(19,621)
Segment profit/(loss) before income tax	**96,618**	**(672)**	**95,946**

Notes to the Preliminary Financial Report *(continued)*

The following table presents segment assets and liabilities of the Group's operating segments as at 30 June 2015. The comparative period is not presented as it consists of only one reportable segment.

	For the year ended 30 June 2015		
	iiNet Group $'000	Tech2 Group $'000	Total $'000
Segment assets	977,176	15,736	992,912
Segment liabilities	583,332	16,900	600,232

10. Cash flow hedge reserve

The change in the cash flow hedge reserve to 30 June 2015, on page 7, represents the after tax net movement relating to effective cash flow hedges from 30 June 2014. At 30 June 2015 the cash flow hedge reserve comprised $148k (2014: $48k) relating to interest rate swaps and $5,202k (2014: $3,615k) relating to forward exchange rate contracts.

During the year ended 30 June 2015 net losses of $1,498k (2014: net losses of $970k) have been reclassified from the hedge reserve to the Statement of Comprehensive Income. This includes a loss of $2,599k (2014: loss of $1,298k) 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 loss has off-set a gain recognised in the Statement of Comprehensive Income following the settlement of the hedged cash flow relating to the IRU payments.

Notes to the Preliminary Financial Report *(continued)*

11. 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 30 June 2015, the Group held the following classes of financial instruments measured at fair value:

	Level 2	Level 3	Total
	$'000	$'000	$'000
Derivative financial assets			
Foreign exchange forward contracts	16,739	-	16,739
Derivative financial liabilities			
Interest rate swap contracts	(182)	-	(182)
Contingent consideration	-	(3,623)	(3,623)
Total	**16,557**	**(3,623)**	**12,934**

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 year ended 30 June 2015.

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

Notes to the Preliminary Financial Report *(continued)*

12. Business combination

On 31 August 2014, iiNet Limited completed the acquisition of a 60% interest in Tech2 Group. 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.

Goodwill arising from the acquisition has been recognised as follows:

	$'000
Net purchase consideration	11,052
Contingent consideration	7,165
Consideration transferred	**18,217**
Provisional share of fair value of identifiable net liabilities acquired	533
Provisional goodwill arising on acquisition	**18,750**

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. At 30 June 2015, Tech2 Group has not met the FY15 performance targets, and the full contingent consideration liability associated with FY15 has been released resulting in a $3,739k profit in FY15. At 30 June 2015, the group has recognised the finalised fair value of the identifiable assets acquired and liabilities assumed at the acquisition as follows:

Assets	
Cash and cash equivalents	417
Trade and other receivables	4,075
Prepayments	339
Inventory	1,045
Plant and equipment	1,333
Intangibles - software	2,339
Intangibles - customer contract	2,086
Deferred tax assets	1,076
Total assets	**12,710**
Liabilities	
Trade and other payables	(6,494)
Unearned revenue	(1,160)
Bank Overdraft	(2,258)
Interest bearing loans and borrowings	(518)
Provision for onerous lease and make good	(919)
Employee benefit liability	(1,567)
Deferred tax liabilities	(682)
Total liabilities	**(13,598)**
Fair value of identifiable net liabilities assumed	**(888)**

Notes to the Preliminary Financial Report *(continued)*

Cash flows on acquisition of subsidiary in the statement of cash flows comprises:	**$'000**
Purchase consideration paid	11,052
Add: Net overdraft acquired	1,841
Net cash outflow on acquisition	**12,893**

The acquired business contributed revenues of $36,915k and net losses of $276k to the Group for the period from acquisition to 30 June 2015. If the acquisition had occurred on 1 July 2014, iiNet Group revenues would have been $1,125,597k and net profit after tax would have been $68,738k (including costs in relation to acquisition and asset disposal of $2,121k after tax).

Direct costs relating to the acquisition totaling $959k have been recognised as Corporate expenses and Other costs in the Statement of Comprehensive Income for the year ended 30 June 2015.

Included in the business assets acquired were receivables with a gross contractual and fair value of $4,075k 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 $18,750k of goodwill are the synergies expected to be achieved as a result of combining Tech2 Group with the rest of the Group.

13. Post balance date events

On 20 August 2015 iiNet declared a special dividend of $0.6914 per share as part of the iiNet/ TPG Scheme consideration. The record date for the special dividend is 5:00pm WST on 27 August 2015 and the special dividend will be paid to shareholders on 7 September 2015.

On 21 August 2015 the Federal Court of Australia approved the iiNet /TPG Scheme, as a result the Scheme will now complete with an implementation date of 7 September 2015. At this time iiNet Limited will be delisted from the Australian Securities Exchange, and shares in iiNet Limited will be suspended from trading from the close of trade on 24 August 2015. Upon change of control a review event will be triggered under the Group's bank facility that may require those facilities to be repaid. As at 30 June 2015 this event had not occurred and therefore does not impact the classification of the debt at that date.

As a result of the iiNet/TPG Scheme being approved on 21 August 2015, $19,670k of unrecognised deal costs become due and payable.

On 10 July 2015, the Group issued 1,614,327 ordinary fully paid shares under the LTI Plan, resulting in a total of 164,565,223 ordinary fully paid shares outstanding.

iiNet Limited
Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2015

Corporate Information

Directors as at 21 August 2015

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

Company Secretary as at 21 August 2015

Mr. B. Jenkins

Registered Office & Principal Place of Business

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Share Registry

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