

Preliminary Final Report Of iiNet Limited for the Financial Year Ended 30 June 2005

(ACN 068 628 937)

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A.

Current Reporting Period: Financial Year ending 30 June 2005

Previous Corresponding Period: Financial Year ending 30 June 2004

iiNet Limited

Results For Announcement To The Market For the Financial Year Ended 30 June 2005

**Source
Reference**

Revenue and Net Profit

			Percentage Change %	Amount \$'000
ASX Appdx 4E.2.1	Revenue from ordinary activities	Up	65.6%	To 157,668
ASX Appdx 4E.2.2	Profit from ordinary activities after tax attributable to members	Up	41.6%	To 5,593
ASX Appdx 4E.2.3	Net profit attributable to members	Up	41.6%	To 5,593

Dividends

		Amount per security	Franked amount per security
ASX Appdx 4E.2.4	Final dividend	4 ¢	4 ¢
ASX Appdx 4E.2.4	Interim dividend	2.5 ¢	2.5 ¢
ASX Appdx 4E.2.5	Record date for determining entitlements to the dividend:		
	• final dividend		9 September 2005
	• interim dividend		25 February 2005

Brief Explanation of Revenue, Net Profit and Dividends

ASX Appdx
4E.2.6

Operating revenue of \$158 million was 66% higher than that reported for the previous year. Earnings before interest, taxation, depreciation and amortisation, was \$36.5 million, an increase of 63% on the \$22.4 million achieved in the previous period.

Net profit, before goodwill and subscriber cost amortisation, of \$18.8 million for the year ended 30 June 2005, represents an increase of 73% on the previous year. The result includes just over four months contribution from OzEmail which was acquired on 1 March 2005. After \$13.2 million in amortisation of goodwill and subscriber costs, net profit was \$5.6 million.

The directors have declared a fully-franked final dividend of 4 cents per share which will be paid on 14 October 2005. This lifts the full-year dividend to 6.5 cents per share which is the same as last year's 6.5 cents.

iiNet Limited

Statement of Financial Performance For the Financial Year Ended 30 June 2005

	<u>Note</u>	<u>2005 \$'000</u>	<u>2004 \$'000</u>
Revenue from ordinary activities		157,668	95,236
Network costs		(80,269)	(44,944)
ADSL Customer Modem and Set Up costs		(1,922)	(4,154)
Customer Service charges		(16,839)	(11,802)
Amortisation expense on Goodwill and Client Databases		(13,161)	(6,910)
Marketing Sales expenses		(6,592)	(3,685)
Borrowing costs		(2,667)	(316)
Administration expenses		(14,351)	(7,592)
Office costs		(8,171)	(6,466)
Other expenses from ordinary activities		(2,662)	(449)
<i>Profit From Ordinary Activities Before Income Tax Expense</i>	2	11,034	8,918
Income tax expense relating to ordinary activities		(5,441)	(4,968)
<i>Profit From Ordinary Activities After Related Income Tax Expense</i>		5,593	3,950
Profit from extraordinary items after related income tax expense	5	-	-
<i>Net Profit</i>		5,593	3,950
Net profit attributable to outside equity interests		-	-
<i>Net Profit Attributable to Members of the Parent Entity</i>		5,593	3,950
Net Exchange Difference on translation of Financial Statements of foreign controlled entity		(13)	544
<i>Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directly in Equity</i>		(13)	544
<i>Total Changes In Equity Other Than Those Resulting From Transactions With Owners As Owners</i>		5,580	4,494

Source Reference: ASX Appdx 4E.3

iiNet Limited

**Statement of Financial Position
As at 30 June 2005**

	Note	2005 \$'000	2004 \$'000
Current Assets			
Cash assets		25,387	6,242
Receivables		21,836	8,761
Inventories		497	397
Other		5,681	803
Total Current Assets		53,401	16,203
Non-Current Assets			
Property, plant and equipment		31,149	17,076
Intangibles		203,041	85,486
Deferred tax assets		4,301	2,040
Other		2,589	2,538
Total Non-Current Assets		241,080	107,140
Total Assets		294,481	123,343
Current Liabilities			
Payables		31,211	12,519
Interest-bearing liabilities		11,993	3,041
Current tax liabilities		1,276	4,208
Provisions		5,876	2,386
Unearned Income		16,530	11,322
Total Current Liabilities		66,886	33,476
Non-Current Liabilities			
Interest-bearing liabilities		53,806	1,513
Deferred tax liabilities		1,270	375
Provisions		128	694
Total Non-Current Liabilities		55,204	2,582
Total Liabilities		122,090	36,058
Net Assets		172,391	87,285
Equity			
Contributed equity		169,171	84,397
Foreign Currency Translation Reserve		531	544
Retained profits	7	2,689	2,344
Total Equity		172,391	87,285

Source Reference: ASX Appdx 4E.4

iiNet Limited

**Statement of Cash Flows
For the Financial Year Ended 30 June 2005**

	<u>Note</u>	<u>2005 \$'000</u>	<u>2004 \$'000</u>
Cash Flows From Operating Activities			
Receipts from customers		145,275	94,281
Payments to suppliers and employees		(113,252)	(75,563)
Interest Received		840	192
Interest and other costs of finance paid		(953)	(176)
Income tax paid		(9,740)	(1,302)
Net cash provided by operating activities	8(g) / (a)	<u>22,170</u>	<u>17,432</u>
Cash Flows From Investing Activities			
Payment for establishment of exchange space	(b)	(3,849)	-
Payment for subscriber acquisition costs		(2,365)	-
Payment for property, plant and equipment	(a)	(19,153)	(11,118)
Proceeds from sale of property, plant and equipment		508	13
Payment for acquisition of businesses	8(c)	(117,475)	(7,867)
Payment for acquisition of controlled entities	8(b)	-	(31,185)
Payment for other intangibles		(51)	(10)
Net cash (used in) investing activities		<u>(142,385)</u>	<u>(50,167)</u>
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		87,112	31,369
Proceeds from borrowings		94,286	5,290
Payment of Capital Raising Costs		(2,338)	(1,077)
Repayment of borrowings		(33,041)	(1,563)
Dividends paid		(5,248)	(3,584)
Net cash provided by / (used in) financing activities		<u>140,771</u>	<u>30,435</u>
Net (Decrease)/ Increase In Cash Held		20,556	(2,300)
Cash At The Beginning Of The Financial Year		6,242	8,576
Impact of Foreign Currency Translation		(13)	(34)
Cash At The End Of The Financial Year	8(a)	<u><u>26,785</u></u>	<u><u>6,242</u></u>

Source Reference: ASX Appdx 4E.5

- (a) *Operating activities includes net working deficiency acquired as part of the acquisition of Virtual Communities and Ozemail, totalling \$13.8 million (refer note 8(c)). Also acquired was \$2.1 million in property, plant and equipment.*
- (b) *Where Telstra Equipment Building Access space does not exist prior to the deployment of iiNet infrastructure, iiNet establishes such space. In establishing this space, iiNet creates space surplus to its needs for which Telstra reimburses iiNet at a later date.*

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

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**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

1. Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2004 annual financial report.

Details of changes in accounting policies:

None

	2005	2004
	\$'000	\$'000

2. Profit From Ordinary Activities

ASX Appdx
4E.3

Profit from ordinary activities before income tax includes the following items of revenue and expense:

(a) Revenue

Rendering of Service	153,209	92,341
Sale of Goods	2,612	2,364
Rent Received	264	83
Interest Revenue	627	192
Other	956	256

(b) Expenses

Cost of sales	1,922	1,737
Net bad and doubtful debts	1,227	599
Borrowing Costs	2,667	316
Depreciation of non-current assets	10,297	6,663
Amortisation of non current assets		
-Amortisation of goodwill	5,158	2,045
-Amortisation of client databases	8,000	4,862
-Amortisation of other	3	3
Loss on sale of assets	91	24
Foreign Exchange Losses	31	52

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

2. Profit From Ordinary Activities (continued)

(c) *Revision of Accounting Estimates*

Details of the nature and amount of revisions of accounting estimates:

None

3. Commentary on Results

ASX Appdx
4E.14

<p>The 2005 financial year result was driven by solid growth in the company's customer base following acquisitions of the OzEmail and Virtual Communities businesses in Australia.</p>
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<p>As at 30 June, the company had 690,000 services including casual and prepaid contracts of which 159,000 were on DSL and a further 71,000 utilising telephony services.</p>

<p>The company expects an improvement in earnings in 2006, as OzEmail and previously acquired ISP's contribute to earnings for a full year. As the benefits of establishing its own infrastructure are realised, the company will be able to offer improved value propositions to its clients ensuring continued growth and sustainable profitability.</p>
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4. Fundamental Errors

ASX Appdx
4E.3

N/A

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

	2005 \$'000	2004 \$'000
5. Extraordinary Items		
ASX Appdx 4E.3		
Profits	-	-
Applicable income tax	-	-
	-	-
Losses	-	-
Applicable income tax	-	-
	-	-
Total Extraordinary Items		
Extraordinary items before tax	-	-
Applicable income tax	-	-
	-	-

6. Sales of Assets		
ASX Appdx 4E.3	Sales of assets in the ordinary course of business have given rise to the following profits and losses:	
Net Profits		
Investments	-	-
Property, plant and equipment	-	-
Intangibles	14	-
	14	-
Net Losses		
Property, plant and equipment	81	24
Inventory	24	-
	105	24

7. Retained Profits/(Accumulated Losses)		
ASX Appdx 4E.8		
Balance at beginning of financial year	2,344	1,978
Net profit	5,593	3,950
Dividends paid	(5,248)	(3,584)
	2,689	2,344
Balance at end of financial year	2,689	2,344

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

**2005
\$'000** **2004
\$'000**

8. Notes to the Statement of Cash Flows

ASX Appdx
4E.5

(a) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash		
- at bank	4,605	3,973
- short term deposits on call	20,782	2,269
- short term deposits incl. in receivables	1,398	0
	26,785	6,242
	26,785	6,242

ASX Appdx
4E.5

(b) Acquisition of Subscriber bases and controlled entities acquired

On 21 October 2003, the consolidated entity acquired 100% of the voting share capital in ihug Limited and IP Factory Limited, companies incorporated in New Zealand, and selected net assets of ihug in Australia (together the 'ihug Group'). The ihug Group are internet services providers.

Details of the acquisition were:

Consideration

Shares	-	41,556
Cost of Acquisition	-	1,042
Cash	-	30,143
	-	72,741
	-	72,741

Fair Value of Net Assets Acquired

Current assets:

Receivables	-	2,600
Fixed Assets	-	2,662
Inventory	-	538
Subscriber Bases	-	19,384
Other	-	2,384

Current liabilities

Trade Payables	-	(6,159)
Employee Entitlements	-	(393)
Other Provisions	-	(1,454)
Unearned income	-	(1,814)

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Net assets acquired	-	17,748
Goodwill on acquisition	-	54,993
Net Cash Outflow on Acquisition		
Cash consideration	-	30,143
Less cash balances acquired	-	-
Less amounts payable at year end	-	-
	-	30,143

ASX Appdx (c) Subscriber bases acquired
4E.5

On 9 October 2004 the consolidated entity acquired the customers and net assets of the Virtual Communities business and on 28 February 2005 acquired the customers and net assets of the OzEmail business.

During the 2004 financial year, the consolidated entity acquired the customers and net assets of the Froggy Internet business and Wave Internet (New Zealand).

Details of the acquisitions are as follows:

Consideration

Shares	-	-
Cash	110,826	7,603
Directly Attributable Costs	6,651	829
Cost of Acquisition	117,477	8,432

Fair Value of Net Assets Acquired

Current assets:

Receivables	962	-
Inventory	110	-
Prepayments	260	-
Term Deposit	2	-
Deferred tax asset	631	-

Non Current assets:

Fixed Assets	2,101	436
Client Databases Acquired	11,741	10,922

Current liabilities:

Payables	(4,006)	-
Employee Entitlements	(929)	(174)
Provisions - other	(7,542)	(1,819)
Unearned income	(5,437)	(932)

Net (liabilities) acquired (2,107) 8,433

Goodwill on acquisition 119,584 -

Net Cash Outflow on Acquisition

Cash consideration	117,477	8,432
Less cash balances acquired	(2)	-
Less amounts payable at year end	-	(565)
	117,475	7,867

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

8. Notes to the Statement of Cash Flows (continued)

ASX Appdx
4E.5

(d) *Non-Cash Financing and Investing Activities*

N/A

ASX Appdx
4E.5

(e) *Financing Facilities*

During the 2005 financial year, the economic entity entered into a financing facility with Westpac for three years. This facility expires on 28 February 2008.

Amount used

Amount unused

	2005 \$'000	2004 \$'000
Amount used	61,500	-
Amount unused	-	-
	<u>61,500</u>	<u>-</u>

During the 2004 financial year, the economic entity entered into a \$4 million financing facility with Westpac. This facility expired on 31 December 2004.

Total Drawdown

Total Repayments

Net Outstanding at 30 June 2004

Amount Unused

Total Drawdown	-	3,200
Total Repayments	-	(900)
Net Outstanding at 30 June 2004	-	2,300
Amount Unused	-	1,700
	<u>-</u>	<u>4,000</u>

(f) *Cash Balances Not Available for Use*

ASX Appdx
4E.5

As at the end of the financial year \$1,397,888 was held in term deposits as security for bank guarantees and are not available for use (2004: \$1,974,430)

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

	2005	2004
	\$'000	\$'000

8. Notes to the Statement of Cash Flows (continued)

ASX Appdx
4E.5

*(g) Reconciliation of Profit From Ordinary Activities
After Related Income Tax to Net Cash Flows
From Operating Activities*

Profit from ordinary activities after related income tax	5,593	3,950
Loss on sale of non-current assets	91	24
Depreciation and amortisation of non-current assets	23,458	13,573
(Decrease)/increase in current tax liability	(2,932)	1,829
(Increase) in future income tax benefit	(2,261)	(1,769)
Increase/(decrease) in deferred tax liability	895	(323)
Other		
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase)/decrease in assets:		
Current receivables	(13,324)	(66)
Current inventories	(100)	489
Increase/(decrease) in liabilities:		
Current trade payables	7,825	1,559
Other liabilities	2,925	(1,834)

Net cash from operating activities

22,170

17,432

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

**Source
Reference**

9. Details Relating to Dividends

ASX Appdx
4E.6, ASX
Appdx
4E.14.2

		Date dividend payable	Amount per security
			¢
Final dividend	2005	14 October 2005	4
	2004	5 November 2004	4
Interim dividend	2005	25 February 2005	2.5
	2004	6 April 2004	2.5
Total	2005	-	6.5
	2004	-	6.5

Total dividend per security (interim plus final)

ASX Appdx
4E.6, ASX
Appdx
4E.14.2

	2005	2004
	¢	¢
Ordinary securities	6.5	6.5
Preference securities	-	-
Other equity instruments	-	-

Interim and final dividend on all securities

ASX Appdx
4E.6, ASX
Appdx
4E.14.2

	2005	2004
	\$'000	\$'000
Ordinary securities	5,248	3,584
Preference securities	-	-
Other equity instruments	-	-
Total	5,248	3,584

Any other disclosures in relation to dividends.

ASX Appdx
4E.6, ASX
Appdx
4E.14.2

The final dividend in respect of ordinary shares for the year ended 30 June 2005 has not been recognised in this preliminary final report because the final dividend was declared, determined or publicly recommended subsequent to 30 June 2005.

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

9. Details Relating to Dividends (continued)

Dividend Reinvestment Plans

ASX Appdx
4E.7 N/A

10. Earnings Per Share

	2005	2004
	¢ per share	¢ per share
Basic EPS	6.3	5.3
Diluted EPS	6.3	5.2

Basic Earnings per Share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2005	2004
	\$'000	\$'000
Earnings (a)	5,593	3,950

	2005	2004
	No. '000	No. '000
Weighted average number of ordinary shares (b)	88,599	75,228

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

10. Earnings Per Share (continued)

- (a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows:

	2005 \$'000	2004 \$'000
Net profit	5,593	3,950
Preference share dividends provided for or paid	-	-
Restatement of net profit used in the calculation of basic EPS for the effects of:	-	-
Changes in accounting policy adjusted directly against opening retained earnings in accordance with the transitional provisions of Accounting Standards and UIG Consensus Views (note 1)	-	-
Fundamental errors (note 4)	-	-
Other	-	-
Earnings used in the calculation of basic EPS	<u>5,593</u>	<u>3,950</u>

- (b) The share options on issue are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (refer below).

Diluted Earnings per Share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

	2005 \$'000	2004 \$'000
Earnings (a)	<u>5,593</u>	<u>3,950</u>
	2005 No. '000	2004 No. '000
Weighted average number of ordinary shares and potential ordinary shares (b), (c), (d)	<u>88,709</u>	<u>76,228</u>

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

10. Earnings Per Share (continued)

- (a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows:

	2005 \$'000	2004 \$'000
Net profit	5,593	3,950
Restatement of net profit used in the calculation of diluted EPS for the effects of:	-	-
Changes in accounting policy adjusted directly against opening retained earnings in accordance with the transitional provisions of Accounting Standards and UIG Consensus Views (note 1)	-	-
Fundamental errors (note 4)	-	-
Other	-	-
	<u>5,593</u>	<u>3,950</u>

- (b) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2005 No. '000	2004 No. '000
Weighted average number of ordinary shares used in the calculation of basic EPS	88,599	75,228
Shares deemed to be issued for no consideration in respect of:		
Employee Share options	110	1,221
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	<u>88,709</u>	<u>76,449</u>

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

**Source
Reference**

10. Earnings Per Share (continued)

- (c) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	2005 No. '000	2004 No. '000
Employee share options	-	2,910
	-	2,910

- (d) Weighted average number of converted, lapsed, or cancelled potential ordinary shares used in the calculation of diluted earnings per share:

	2005 No. '000	2004 No. '000
Employee share options	-	-
	-	-

11. Net Tangible Assets Per Security

ASX Appdx
4E.9

Net tangible assets per security

	2005	2004
	-28.1 Cents	2.3 cents

12. Details of Entities Over Which Control Has Been Gained or Lost

ASX Appdx
4E.10

Control gained over entities

ASX Appdx
4E.10.3

Contribution of the controlled entity (or group of entities) to profit from ordinary activities during the period, from the date of gaining control.

**2005
\$'000**

N/A

**2004
\$'000**

ASX Appdx
4E.10.3

Contribution of the controlled entity (or group of entities) to profit from ordinary activities during the period, from the date of gaining control.

1,494

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

**Source
Reference**

12. Details of Entities Over Which Control Has Been Gained or Lost
(continued)

ASX Appdx
4E.10

Loss of control of entities

ASX Appdx
4E.10.1

Name of entity (or group of entities)

N/A

ASX Appdx
4E.10.2

Date control lost

N/A

**2005
\$'000**

ASX Appdx
4E.10.3

Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities during the period, to the date of losing control.

N/A

**2004
\$'000**

ASX Appdx
4E.10.3

Contribution of the controlled entity (or group of entities) to profit/(loss) from ordinary activities for the whole of the previous corresponding period.

N/A

13. Details of Associates and Joint Venture Entities

ASX Appdx
4E.11.1, 11.2,
11.3

Name of Entity	Ownership Interest		Contribution to net profit	
	2005 %	2004 %	2005 \$'000	2004 \$'000
Associates	-	-	-	-
Joint Venture Entities	-	-	-	-
Aggregate Share of Profits/ (Losses)	-	-	-	-

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

14. Contingent Liabilities and Contingent Assets

	2005 \$'000	2004 \$'000
Contingent Assets		
Contingent Liabilities	-	-
<i>Bank Guarantees</i>	1,398	1,974

Under the self assessment provisions and following the receipt of professional advice, certain costs relating to the acquisition of subscriber bases were claimed as deductions for income tax purposes for the years ended 30 June 1998 to 2001. The Australian Tax Office (ATO) has disputed the deductibility of these costs but have confirmed iiNet have a reasonable arguable case. However, as at the date of this report the issue remains unresolved and there is potential liability for associated general interest charges payable, which have not been fully provided for as an amount can not be reliably measured by management at this stage.

15. Segment Information

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

Geographic Segments	Australia		New Zealand		Eliminations		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	\$	\$	\$	\$	\$	\$	\$	\$
Segment Revenue	125,361	74,133	32,307	21,103	-	-	157,668	95,236
Segment Assets	289,792	101,908	56,536	53,810	(51,847)	(32,376)	294,481	123,342

16. Discontinuing Operations

None

17. Subsequent Events

Subsequent to the reporting date, there has not been any matter that has occurred or is at a stage to warrant disclosure or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of the consolidated entity or the state of affairs of the consolidated entity in future financial years.

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

Source
Reference

18. Other Significant Information

ASX Appdx
4E.12

None noted

19. Impact of Adopting AASB Equivalents to IASB Standards

iiNet Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (A-IFRS) which will be applicable for the financial year ending 30 June 2006. In 2004 the company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to A-IFRS. As a result iiNet established a project team to address each area and make necessary decisions. The outcomes of this project will form the basis of iiNet's accounting for A-IFRS in the future and is required when iiNet prepares its first fully A-IFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of A-IFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to A-IFRS may differ from the estimated disclosed due to:

- Ongoing work being undertaken by the A-IFRS project team;
- Potential amendments to A-IFRSs and interpretations thereof being issued by the standards-setters and IFRIC; and
- Emerging accepted practice in the interpretation and application of A-IFRS and UIG interpretations.

a) Reconciliation of equity as presented under AGAAP to that under A-IFRS

	Notes	Consolidated	
		2005**	2004*
		\$	\$
Total equity under AGAAP		172,391,251	87,284,762
Write-back of goodwill amortisation	(i)	5,158,143	0
Recognition of share-based payment expense	(ii)	(847,265)	(234,406)
Recognition of option premium reserve	(ii)	847,265	234,406
Tax effect of prior business combinations	(iii)	(9,150,262)	(11,550,268)
Writeback of redundancy provision	(iv)	(610,963)	0
Total equity under A-IFRS		167,788,169	75,734,494

* This column represents the adjustments as at the date of transition to A-IFRS

** This column represents the cumulative adjustments as at the date of transition to A-IFRS and those for the year ended 30 June 2005.

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

(i) *Goodwill*

Under AASB 3 "Business Combinations" goodwill is not subject to amortisation, but must be tested for impairment annually and whenever there is an indication goodwill may be impaired. Currently the Group amortises goodwill on a straight-line basis over 20 years. The Group has not elected to apply AASB 3 retrospectively and hence, prior year amortisation would not be written back as at the date of transition.

(ii) *Share-based Payment*

Equity settled share based payments in respect of equity instruments issued after 7 November 2002 that were unvested as at 1 January 2005 would be measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments would be expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest. Share-based payment expenses are not recognised under AGAAP.

Under the transitional exemptions of AASB 1 "First-time Adoption of A-IFRS" we have elected not to apply AASB 2 "Share-based Payment" to equity instruments issued prior to 7 November 2002. This approach gives rise to a positive transitional adjustment to retained profits.

(iii) *Deferred Tax Balances*

AASB 112 "Income Taxes" would require the Group to recognise the deferred tax liability arising on initial recognition of subscriber base assets acquired as part of a business combination, which in turn would effect the amount of goodwill recognised. Such deferred taxes are not recognised under AGAAP. On transition, the deferred tax would be required to be recognised in retained earnings and not as an adjustment to goodwill.

AASB 112 "Income Taxes" requires the Group to use a balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base.

(iv) *Provision for Redundancy*

The adjustment relates to provision for redundancy recognised as part of the acquisition of Ozemail and VC under AGAAP which is not allowable under A-IFRS.

(v) *Business Combinations*

Under the transitional exemptions of AASB 1 we have the option not to apply AASB "Business Combinations" retrospectively to business combinations that occurred before the transition to A-IFRS (1 July 2004). We have chosen this option rather than restate all previous business combinations. The impact of AASB 3 and associated transitional arrangements will be that all prior business combination accounting entries will be frozen as at transition date.

(vi) *Cumulative Translation Differences*

Under the transitional exemptions of AASB 1 we have the option to reset the foreign currency translation reserve to nil as at transition date. This election has not been made.

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

b) Reconciliation of net profit under AGAAP to that under A-IFRS

	Notes	Consolidated
		2005
		\$
Net profit under AGAAP		5,593,090
Amortisation of goodwill	(i)	5,158,143
Adjustment to income tax expense (subscriber bases)		2,400,006
Share-based payment expense	(ii)	(612,859)
Redundancy costs expensed	(iii)	(610,963)
Net profit under A-IFRS		11,927,417

(i) *Goodwill*

Under AASB 3 "Business Combinations" goodwill is not subject to amortisation, but must be tested for impairment annually and whenever there is an indication goodwill may be impaired. Currently the Group amortises goodwill on a straight-line basis over 20 years. Under the new policy amortisation would no longer be charged, but goodwill would be written down to the extent it is impaired.

(ii) *Share-based Payment*

Equity settled share based payments in respect of equity instruments issued after 7 November 2002 that were unvested as at 1 January 2005 would be measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments would be expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest. Share-based payment expenses are not recognised under AGAAP. This would result in a decrease in profit from AGAAP to A-IFRS.

(iii) *Provision for Redundancy*

The adjustment relates to provision for redundancy recognised as part of the acquisition of Ozemail and Virtual Communities under AGAAP which is not allowable under A-IFRS and hence is a period cost rather than goodwill adjustment.

(iv) *Equipment Commissioning Costs*

The Group is currently reviewing the capitalization of switching costs under A-IFRS, relating to the deployment of its new DSLAM equipment.

20. Information on Audit or Review

ASX Appdx
4E.15

This preliminary final report is based on accounts to which one of the following applies.

- | | |
|---|---|
| <p><input type="checkbox"/> The accounts have been audited.</p> | <p><input type="checkbox"/> The accounts have been subject to review.</p> |
| <p><input checked="" type="checkbox"/> The accounts are in the process of being audited or subject to review.</p> | <p><input type="checkbox"/> The accounts have not yet been audited or reviewed.</p> |

**Notes to the Financial Statements
For the Financial Year Ended 30 June 2005**

ASX Appdx
4E.16

Description of likely dispute or qualification if the accounts have not yet been audited or subject to review or are in the process of being audited or subjected to review.

None noted

ASX Appdx
4E.17

Description of dispute or qualification if the accounts have been audited or subjected to review.

N/A