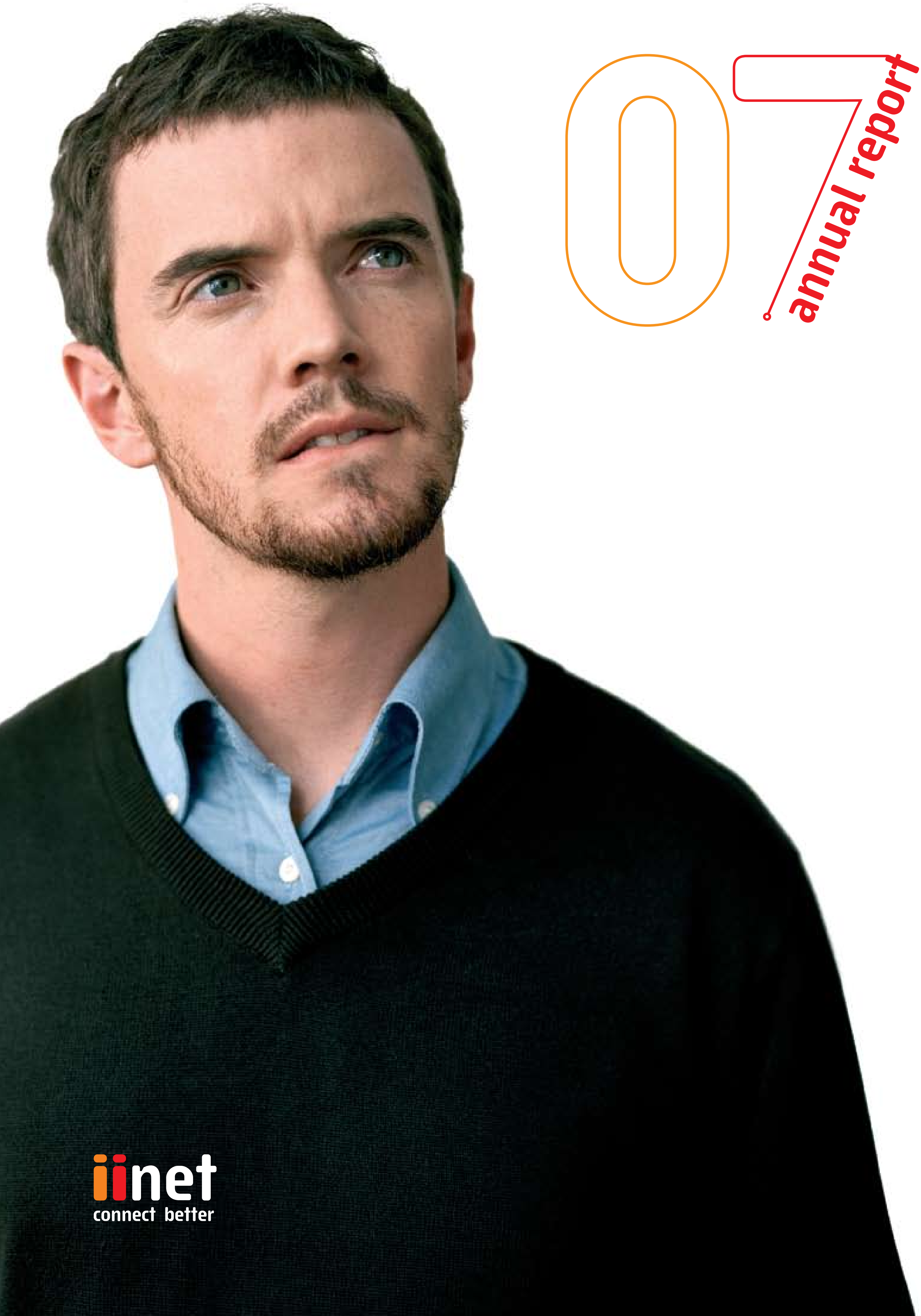
07 annual report



contents

07 annual report


iinet
connect better

highlights

07 annual report

August 2007
iiNet and Tomizone offer free Wi-Fi to iiNet Customers

iiNet signs an exclusive agreement with Tomizone, the global company offering innovative Wi-Fi Hotspot services for high-speed wireless Internet access. The agreement gives iiNet customers free Wi-Fi access to Tomizone Hotspots anywhere around the world.

July 2007
iiNet wins LSS dispute

Telstra is forced to hand over more than $16 million to iiNet in back pay after the ACCC ruled that the LSS pricing would be brought back to $2.50 instead of the $9.00 Telstra had been charging.

June 2007
iiNet/Apple cross promotion agreement

iiNet enters an exclusive arrangement with Apple to allow iiNet members to download music and video files purchased from iTunes without affecting their monthly download quota, an exciting prospect for any current or future iiNet member.

April 2007
iiNet goes public

iiNet launches its first large-scale brand campaign, bombarding Perth and Sydney with advertising featuring Finn. The campaign is designed to create awareness of iiNet as an innovative and passionate alternative to the big phone companies.

iiNet teams with 3 mobile to support 3's new X-Series service as the preferred broadband provider. X-Series offers a new suite of services that bring the best of the Internet to the mobile phone. It allows customers to make calls using Skype and get the best Internet and instant messaging services from Yahoo!7, ninemsn, Google and eBay – all on their X-Series mobile phone.

February 2007
iiNet ADSL at 200K+

iiNet reaches its milestone of servicing more than 200,000 ADSL customers. Primarily driven by growth on iiNet's own high speed broadband network, the target was reached after more than 55,000 customers had joined the ADSL2+ network since January 2006.

October 2006
NZ business ihug sold

iiNet sells off New Zealand arm ihug to Vodafone at an attractive price to enable it to focus on Australian operations.

September 2006
iiNet partners with Google

iiNet forms a partnership with world leading search engine provider Google to add Google search services to the iiNet website. As a first step in the partnership, iiNet adds the Google Web Search to the iiNet website to give iiNet members a single portal for iiNet account tools, webmail and Google search.

August 2006
Updated broadband plans launched

iiNet launches a wide ranging update to its residential and business broadband plans, improving features particularly for those on the iiNet ADSL2+ network including an increased entry level speed of 3000kbps, twice that offered by the industry incumbent.

July 2006
WA Contact Centre of the Year

iiNet wins the award for Contact Centre of the Year for its Virtual Contact Centre. The ATA Awards are recognised within the contact centre industry as being the pre-eminent awards, recognising achievement and excellence of the highest level.

The company also wins Telecommunications Project of the Year for its VoIP product, and the Service Providers Association (SPAN) award for Excellence in Competition and Growth for its ADSL2 product range.

2007

After a long running dispute with Telstra over LSS pricing, the ACCC determined in favour of iiNet that LSS pricing be reduced from $9.00 to $2.50. This resulted in a refund of $16.1 million.

In 2007, iiNet was awarded the Best Broadband Provider by PC User magazine for pioneering fast broadband in Australia and was one of only five international companies to receive the prestigious 4-star rating for outstanding innovation in customer service from Genesys.

During April, iiNet launched a major marketing campaign in the Perth and Sydney markets with the aim of lifting its brand awareness.

iiNet history

2006

After five years of rapid growth, iiNet changes its focus to consolidation, announcing its "protect the core" strategy, to improve the quality of service and tighten costs across the business

In September 2006, iiNet sold its New Zealand ISP ihug to Vodaphone for $36.0m.

2005

iiNet acquires OzEmail and becomes Australia's third largest ISP with over 600,000 services.

iiNet launches fast broadband2 products and full phone service, with attractive bundled options offering speeds of up to 12000kbps.

iiNet expands deployment of its DSL network to the Eastern States of Australia.

iiNet launches Australia's first large-scale Voice over Internet Protocol (VoIP) service.

2004

iiNet acquired Virtual Communities, to increase its subscriber base to over 400,000. iiNet acquired the FlowCom ISP, incorporating Froggy Internet.

iiNet announces the rollout of its own DSL broadband infrastructure (DSLAM) following the successful completion of a three month customer pilot and feasibility study.

iiNet releases bundled telephony service offering (iiphone).

2003

iiNet makes a series of acquisitions in Victoria, Tasmania, Northern Territory, Queensland, New South Wales and the Australian Capital Territory, making it a truly national company. bliink services are made available nationwide.

iiNet acquires ihug, a significant ISP boasting over 170,000 customers in both Australia and New Zealand.

2002

iiNet releases second generation DSL products for home and business under the bliink brand name. bliink provides flat rate broadband Internet access at an affordable price.

2001

iiNet launches Chime Communications, a wholly owned telecommunications carrier. Chime's focus is to provide wholesale telephony and data services to corporate clients and ISPs.

2000

iiNet launches broadband services: Cable Internet Access, Cityspan Wireless Internet Access and DSL Internet Access. The Australian Consumers Association again ranks iiNet number one in the country for customer service.

1999

iiNet acquired Wantree and listed on the ASX. Directly following listing, Networx and a number of other metropolitan and regional ISPs are acquired. The company starts 24 hours a day, 7 days a week support, as well as opening new services in Gingin, Margaret River and Toodyay in Western Australia.

1997 - 98

iiNet increases its market position and acquires fourteen ISPs.

1993

iiNet commences business in Padbury, Western Australia.

our company values

awesome customer service

- We are passionate about delivering customer service and excellence in every action and decision for both internal and external customers
- We search for ways to improve customer service
- We seek feedback from customers and display an overriding commitment to customer satisfaction

share ideas and work together for a better result

- We collaborate and value each other's ideas
- Our people are what sets us apart
- Ensure that all staff enjoy a safe, supportive and rewarding work environment

Initiate and embrace positive change

- Change is the only constant in our industry
- We adapt and make the most of the unexpected
- We make changes based on customer needs and feedback
- Our innovation impacts on the direction of our industry
- We turn obstacles into opportunities

passion for what we do

- We live for the Internet and offer world class Internet and telecommunications solutions
- We are full of ideas and enthusiasm for what we do

imagine a better way

- We are creative, imaginative and curious
- We love solving puzzles
- We are resourceful and enterprising
- We think BIG

iinet connect better

financial calendar

Annual General Meeting

The Annual General Meeting of iiNet Limited will be held at the Sheraton Hotel, 207 Adelaide Terrace, Perth, Western Australia, on Monday 19 November, 2007 at 10.30am.

- **Annual General Meeting 19 November 2007**
- **Half-year results February 2008**
- **Half-year Shareholder brochure February 2008**
- **Full-year results August 2008**
- **Annual report and Notice of Annual General Meeting mailed to shareholders October 2008**
- **Annual General Meeting November 2008**

corporate information

Directors

Peter Harley (Chairman)
Michael Malone (Managing Director)
Andrew Milner (Non-executive director)
Peter James (Non-executive director)
Paul Broad (Non-executive director)
Tony Grist (Non-executive director)
David Grant (Non-executive director)
Michael Smith (Non-executive director)

Company Secretary

Stephen Fewster

Registered office and principal place of business

Level 6, Durack House, 263 Adelaide Terrace, Perth, WA 6000

Share registry

Computershare Investor Services Pty Ltd
Level 2 Reserve Bank Building
45 St.Georges Terrace, Perth, WA 6000
iiNet Limited's shares are listed on the Australian Stock Exchange (ASX: IIN)

Auditors

Ernst & Young, The Ernst & Young Building, 11 Mounts Bay Road, Perth, WA 6000


ISP-PER-

chairman's review

"The 2007 year represents a significant milestone in iiNet's history. The issues and challenges of 2006 have been addressed and we have emerged a stronger and more resilient company. Our achievements over the 2007 year in terms of profit performance, balance sheet strength, market position and regulatory outcomes, leave the company well positioned for future growth. iiNet's long term commitment to building a high speed network complemented by superior customer service and brand development is delivering significant competitive advantage. As a result the company today is regarded as a major player in the ISP sector.

It gives me great pleasure to present this 2007 annual report to shareholders and I look forward to your ongoing support."

Profitability

The 2007 net profit on an all inclusive basis was $23.3 million versus a $62.6 million loss in 2006. This year-on-year NPAT increase reflects a number of one-off impacts including the impairment charges booked in 2006 as well as the profits from the Ihug disposal and the LSS determination booked in 2007. To provide greater insight into the underlying improvement in the business, we have compared year-on-year EBITDA on a normalised, continuing business basis.

This analysis shows EBITDA of $39.1 million for 2007 being more than double the comparable result of $18.1 million for 2006. This increase in underlying earnings was driven primarily by reductions in line sharing costs, plan re-pricing, cost reduction initiatives, and the migration of customers to higher margin "on-net" service offerings.

Regulatory outcomes

iiNet has always been a vocal advocate for competition in the telecommunications sector. In particular, iiNet had taken an active and public role in lobbying for access to regulated telecommunications infrastructure at reasonable cost. To this end, 2007 saw a landmark determination from the ACCC which set line sharing costs at $2.50 (per month, per line) versus the $9.00 previously charged by Telstra. This determination resulted in a $16.1 million amount being refundable to iiNet for excess back-charges. More importantly, this determination has provided increased certainty in terms of cost structures for growing our business into the future.

Debt profile

Improved profitability and active balance sheet management has seen net debt reduce from $50.5 million at 30 June 2006 to $7.7 million as at June 2007. Subsequent to year end, $15.9 million recognised as a receivable as at balance date in relation to the ACCC determination has been remitted by Telstra. This receipt has served to virtually eliminate iiNet's debt in its entirety. Accordingly, the company is now well positioned in terms of balance sheet capacity to pursue both organic and inorganic growth opportunities as appropriate.

Shareholder returns

2007 has seen the iiNet share price increase 188% from $0.66 at 30 June 2006 to $1.90 at 30 June 2007 driven largely by the business improvements described above. The 2007 year also saw dividends return to historical levels with fully franked total dividends of 6c per share (interim plus final) declared out of 2007 profits.

Investing for the future

The iiNet proprietary network is a key factor which differentiates us from the proliferation of competitor ISP's who merely re-sell services acquired on a wholesale basis. The importance of our proprietary network was reflected in the substantial 2007 investment in ADSL2+ infrastructure with over $11 million spent on adding new exchanges and upgrading capacity at existing exchanges.

Whilst ongoing investment in the iiNet network remains fundamental to our business model, we also recognise that the broadband market is evolving and maturing. We recognise that branding and customer service will be increasingly important in attracting and retaining the broadband consumer. In April of this year, iiNet launched an aggressive advertising campaign targeting the Sydney and Perth markets. Early market research has shown significant increases in brand awareness to date. The campaign is now poised to evolve from the "awareness" phase to the "sales conversion" phase. In terms of customer service, 2007 saw significant investment in state-of-the-art call centre technologies as well as the inculcation of processes and cultures focused on best practice service metrics and the enhancement of the holistic customer experience.

Board and Management

I would like to thank our Managing Director, Michael Malone for his leadership over the past year and the tireless efforts of his executive team. I also wish to thank my fellow Directors for their contribution, with particular recognition of our New Zealand based director, Mr Keith Goodall, who retired after a three year term, following the sale of the ihug business, in October 2006.

This will be my last Chairman's Report as I will be stepping down in coming months once a new Chairman is in place. After almost nine years with iiNet, I am proud of the company's achievements and confident of its future prospects. It has been a privilege to be involved with such an iconic Western Australian Company and I wish our staff, shareholders and customers all the best for the future.

Peter Harley
Chairman, 25 September 2007

managing director's review

"We are pleased to be delivering on our commitment to awesome customer service."

At a Glance

- **Record reported net profit of $23.3M**
- **Normalised, continuing business EBITDA up from $18.1M to $39.1M**
- **Net debt reduced from $50.5M to $7.7M**
- **Regulated rate for line sharing reduced from $9.00 to $2.50 under ACCC determination**
- **49 additional DSLAM activated**
- **Network capacity increased by 43,200 additional ports**
- **Sydney and Perth marketing plan launched**
- **Customer advocacy metrics reflect world class customer service performance**
- **Key strategic alliances formed with Apple, Google, 3 and Anytime**
- **6c per share fully franked dividends declared out of 2007 profits**
- **Share price up from 66 cents to $1.90**

Introduction

Following a difficult 2006 we embarked on 2007 determined to deliver a turnaround performance that would restore profitability, rebuild investor confidence and lay the foundations for future growth. Our success in delivering on these goals is a source of great pride for the whole team. The achievements of 2007 are testament to the strength of the iiNet business model, the quality of its infrastructure and the talent and commitment of our people. I'm delighted with the achievements of 2007 and excited by the prospects that lie ahead.

Financial Performance

Reported net profit for 2007 was $23.3million, up from a $62.6 million loss last year. This dramatic improvement does include a number of material items of a non-recurring nature:

- $5.0 million representing the post tax profit recognised in 2007 on the disposal of the New Zealand based ihug business;
- $4.8 million representing the post tax impact recognised in 2007 for the clawback of prior period overcharging by Telstra as a result of the backdating of the ACCC determination on line sharing; and
- $57.8 million being the post tax impact of impairment charges booked in 2006.

The underlying performance of the business improved very significantly in 2007. On a normalised, continuing business basis, underlying EBITDA increased from $18.1 million in 2006 to $39.1 million in 2007. The key drivers of this increase were:

- the migration of customers to higher margin "on-net" broadband products;
- margin improvements from re-pricing of "off-net" products;
- reduced line sharing costs; and
- initiatives to contain and reduce costs across the business.

The balance sheet strength and financial capacity of the company increased substantially over 2007. Net debt reduced from $50.5 million at 30 June 2006 to only $7.7 million at 30 June 2007. This reduction reflects the combined impact of the proceeds on the disposal of ihug and the increased profitability of the underlying business. Not reflected in this debt reduction are the cash proceeds of the line sharing back charge refund which was remitted by Telstra after balance date on 24 August 2007. The crystalisation of that receipt virtually makes iiNet debt free.

The sustainable profitability and favourable debt position has enabled the Company to resume dividend distributions with total dividends of 6 cents per share, fully franked, being declared out of 2007 profits.

Regulatory Environment

Notwithstanding the significant broadband infrastructure which iiNet owns independently, delivery of Broadband services to the end consumer necessarily requires access to certain infrastructure currently owned by Telstra. iiNet has been contesting access prices and conditions imposed by Telstra for several years. In July 2007, the ACCC issued their final determination on pricing for line sharing services ("LSS"), which is a basic input required to deliver broadband access to the home. This determination prescribed a LSS price of $2.50 per month for each service compared to $9.00 in 2006. This gives rise to a saving for iiNet of approximately $900,000 per month (based on June 2007 customer numbers). Telstra have indicated that they will explore avenues for challenge of this determination, but we consider the chances of a successful appeal to be minimal. This and other regulatory outcomes of 2007 deliver a high level of security in terms of the regulatory environment going forward.

Network & Infrastructure

A key feature of the iiNet business model is its commitment to fast broadband, supported by a proprietary ADSL network. This proprietary network differentiates iiNet from those service providers who simply resell wholesale services acquired from Telstra, by giving iiNet a lower cost base than competitors, while also allowing high speed ADSL2+ to be delivered. The network comprises DSLAM equipment in more than 280 exchanges across Australia. During the 2007 year, iiNet invested over $11 million in expanding the capacity and coverage of its network. In January 2007 iiNet received external recognition for its contribution to the rollout of Australian high speed broadband services when it won "Best Broadband Provider" award from PC User magazine.

In addition to our DSLAM expansion, iiNet also continues to make strategic investments in other key areas of broadband infrastructure. The rollout of "dark fibre" cable between our exchanges represents an investment in highly scalable, state of the art connectivity which will increasingly be a source of competitive advantage as Internet content and volume expands. Similarly iiNet continues to explore strategic options surrounding international fibre optic cabling.

Customer Service

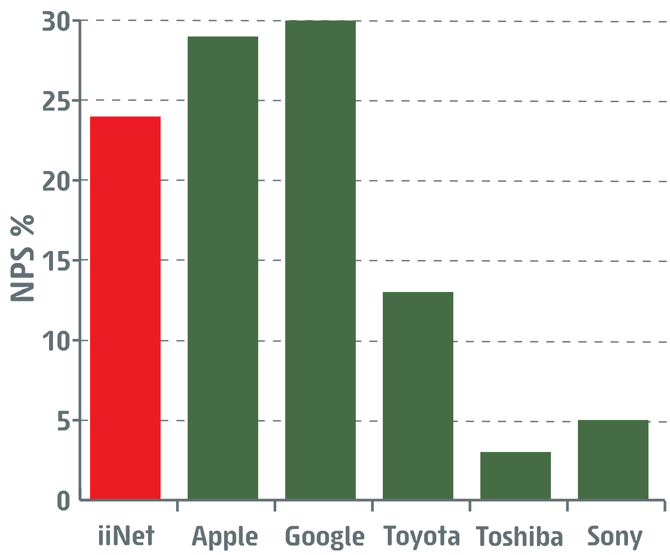
iiNet's business model is all about innovative products and awesome customer service. While our products can be easily copied in the long run, our genuine service focused culture cannot be replicated by our competitors. High standards of customer service give us industry leading customer retention and promotes advocacy amongst the broadband user community.

Over the past year, the company has invested in improving call centre technologies, creating a "virtual contact centre" model that blends calls and emails across our three centres in Perth, Sydney and Auckland, allowing them to function as a single, seamless centre. This is further enhanced by the four to five hour time zone differences across the three locations. This "follow the sun" approach means that 24 hour customer support can be provided without having a "graveyard shift".

But in the end, great service is not about equipment or statistics. It's about underlying culture and the quality of the people employed in front line positions. iiNet has a pervasive service focused culture, that is led from the front, with customer service endorsed by the board as the number one priority for the business.

The clearest evidence that iiNet's service levels are meeting or exceeding customer expectations is the Company's net promoter score ("NPS"). NPS is a well regarded service metric which shows the proportion of customers who are strong advocates, less those who are simply satisfied. There is strong evidence of a high correlation between NPS and advocacy.

NET PROMOTER SCORE



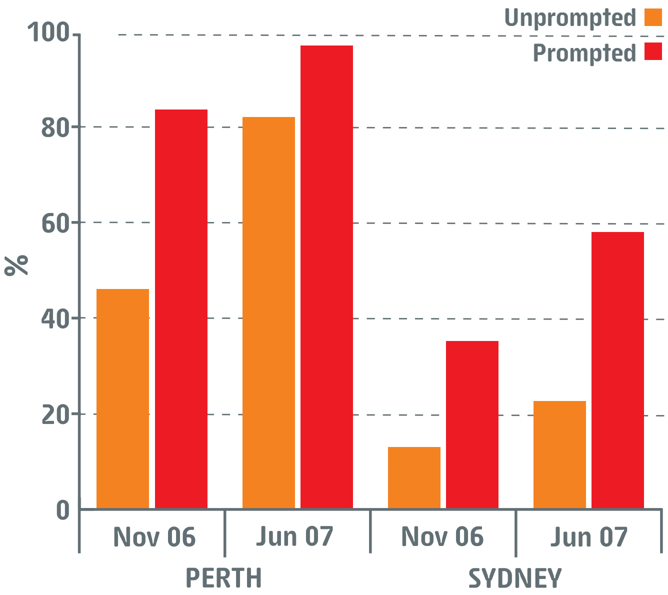
The results of research conducted by the Melbourne Business School show other major Australian carriers have a negative NPS. The above chart shows iiNet's NPS from its customer surveys relative to a number of internationally recognised brands.

iiNet's customer service performance was externally recognised when we received the Call Centre of the Year award from the Australian Telecentre Association and the international 4 star rating by Genesys for outstanding innovation in customer service, the highest rating awarded. iiNet was 1 of only 4 companies to receive this award from 240 companies globally that were nominated.

Brand

In April 2007 we commenced a major marketing campaign to lift awareness of our brand in the Perth and Sydney markets. The first phase of the campaign has been targeted at brand awareness. Whilst the campaign is still relatively new, we are encouraged by the early results of our research as depicted in the chart below.

IINET BRAND AWARENESS



The next phase of the marketing campaign involves a "call to action" whereby we promote specific product offerings and ask the customer to buy our service. This will be focused on customers that live around telephone exchanges that contain our ADSL2+ broadband.

Outlook

Broadband penetration into Australian households is expected to reach effective saturation within the next two years. In that environment, customer retention is incredibly important, as our competitors become increasingly desperate to woo new customers. We will continue to focus on "service, brand and content", to ensure that our customer received an unmatchable experience.

In our June 2007 full year results, we also note that we expect consolidation of the sector to continue in the coming two years, as the market reaches saturation. The company's financial strength will allow us to participate in that consolidation.

As penetration increases, the move to higher speeds is also gaining pace. In particular, the increasing "richness" of Internet content, such as video, online gaming and streaming music, is making the difference between "slow" and "fast" broadband obvious to consumers. This trend enhances the competitive advantage of the iiNet offering.

We will also continue to support niches, where we can offer a genuine advantage. For instance, iiNet has a disproportionately large number of Apple Macintosh users. While we have always supported Macs, the company recently created a dedicated team of Mac specialists, who have all received specialised training from Apple. We have also created a specialised support team to assist Small-Office/ Home-Office (SOHO) customers.

Behind all of this is our sincere belief that the customer comes first. This service focus and innovative culture is supplemented by improving brand strength, financial capacity and an incredible team. We've had a great year and the business is very well positioned for the future.

Michael Malone
Managing Director

25 September 2007

directors' report

Your directors submit their report for the year ended 30 June 2007.

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

Peter Harley B.Comm., CPA, FAICD
Non-executive Chairman, appointed director 6 August 1999, appointed chairman 2002

Peter has significant and wide-ranging commercial experience, particularly in relation to growth focused companies, with which he has worked closely over the past 27 years. For several years, Peter has been a senior consultant to a number of organisations providing advice on areas including business planning, strategic marketing and acquisitions and investments. Peter was re-appointed to the Company's audit & risk committee on 27 November 2006, and has held the following board positions with listed companies over the past three years:

- Gunson Resources Limited (January 2000 to present)
- Perilya Limited (November 2003 to present)
- Blaze International Limited (September 2005 to May 2007)

Michael Malone B.Sc., DipEd.
Managing Director, appointed 14 March 1995

Michael founded iiNet in 1993, leading the rapid growth and innovation which has seen iiNet grow from a small WA based Internet pioneer, into the third largest Internet Service Provider (ISP) in Australia. Michael has been pivotal in the establishment of industry bodies such as the .au Domain Administration (auDA), Electronic Frontiers Australia (EFA) and the WA Internet Association (WAIA). Michael was awarded an industry lifetime Achiever award in the WA Information Technology and Telecommunications Awards in 2005. He was the winner of the Business News Award in 2006 for the most outstanding business leader in WA under the age of 40, and the Young Leader of the Year in the JML Australia Human Capital Leadership Awards in the same year. Michael was appointed to the Company's remuneration committee on 30 January 2007.

Andrew Milner B.Bus.
Non-executive director, appointed 6 August 1999

Andrew has 15 years experience in the IT sector, having founded and managed a number of successful high-growth businesses. Prior to his appointment to the iiNet board, Andrew was the managing director and principal shareholder of Western Australia's second largest ISP, Wantree Internet. Andrew served as general manager of iiNet's carrier business Chime Communications until his appointment to the board as a non-executive director. Andrew also serves as chairman of L7 Solutions, one of Western Australia's largest and fastest growing IT systems integrators. Andrew was a member of the remuneration committee until 30 January 2007.

Paul Broad B.Comm (Hons), M.Comm (Econ)
Non-executive director appointed 6 June 2006

Paul Broad was appointed Chief Executive Officer of Australian telecommunications company, AAPT in May 2007. He assumed this key position after Telecom New Zealand acquired 100% of PowerTel in January 2007. Paul had been Managing Director of PowerTel since November 2004 and was the former managing director of Energy Australia from 1997 to 2004. Prior to this he was managing director of Sydney Water from 1993 to 1997 where he introduced significant changes in business principals and values, leading to its corporatisation in 1995. Previously he had implemented similar reform as managing director of the Hunter Water Corporation. Paul was appointed to the Company's audit & risk committee on 28 August 2006 and resigned on 27 November 2006, the Company's remuneration committee on 30 January 2007, and has held the following board position with listed companies over the past three years:

- PowerTel Limited (November 2004 to Jan 2007)

David Grant B.Comm., ACA
Non-executive director, appointed 12 October 2006

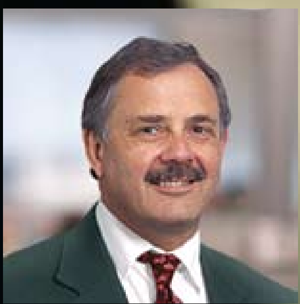
David is a Chartered Accountant with significant public company experience gained through senior finance roles with Goodman Fielder Limited and, more recently, Iluka Resources Limited, where he was Chief Financial Officer until February 2007. As chairman of iiNet's audit and risk committee, David brings expertise in financial process and discipline as well as corporate governance and risk management. David is also currently involved in a number of early stage business opportunities. David has held the following board position with listed companies over the past three years:

- Consolidated Rutile Limited (February 2006 to February 2007)

Tony Grist B.Comm., FINSIA, FAIC
Non-executive director, appointed 26 July 2006

Tony is chairman of Amcom Telecommunications Limited, an ASX listed company. Tony established a Western Australian based private investment group in 1991, and brings to the board significant international public company management expertise. Tony was appointed to the Company's audit & risk committee on 28 August 2006 and has held the following board positions with listed companies over the past three years:

- Amcom Telecommunications Limited (October 1997 to present)
- Alto Energy International Limited (January 2006 to August 2007)
- Hillgrove Resources Limited (November 2002 to April 2005)



Peter James BA, FAICD
Non-executive director, appointed 28 November 2003

Peter is the managing director of Adcorp Australia Limited, an ASX listed advertising and communications company. Based in Sydney, Peter has a successful track record across a range of complex businesses including technology, outsourcing, services, recruitment, education and manufacturing. Peter has over 15 years experience as a board member of public companies and 10 years in chief executive officer roles. Peter is the chairman of the Company's remuneration committee and has held the following board position with listed companies over the past three years:

- Adcorp Australia Limited (January 2004 to present)

Michael Smith FAMI, CMC, FAIM, GAICD,
Non-executive director, appointed 19 September 2007

Michael is currently chairman of Synergy, Scotch College and the Perth International Arts Festival. He is a director of 7-Eleven Stores; a chain of 350 convenience stores on Australia's east coast and of Home Building Society Limited, listed on the ASX. Michael is also a council member for the Australian Institute of Company Directors. He is a fellow of the Australian Marketing Institute and Australian Institute of Management, an executive member of the American Marketing Association, a chartered management consultant and member of the Institute of Management Consultants. Michael was formerly the chairman and director of the West Coast Eagles and a director of Indian Pacific Ltd. He was also the state president of the Australian Marketing Institute and a member on the Federal Board.

Keith Goodall CA (PP), CMA, FCIS, Non-executive director, resigned 27 October 2006.

Steve Dalby
Chief Regulatory Officer

Steve joined iiNet in 2003 and has over 35 years experience in the Telecommunications industry, including a long stint with Telstra in various senior roles.

Steve's responsibilities as Chief Regulatory Officer include regulatory issues such as formal arbitrations and legal disputes with other carriers and managing the company's relationships with various regulatory authorities. His Corporate Affairs duties include government and media relations and the management of iiNet's Corporate Social Responsibility program as well as Quality Assurance. He is currently a member of the G9 steering committee and has been a board member of the Telecommunications Industry Ombudsman since late 2006.

Greg Bader M.Sc TM
Chief Technology Officer

Greg has worked in the ICT industry for over 20 years, he has a masters degree in Telecommunications Management and has worked for both operators and vendors in Asia, Middle East and Europe.

Since joining iiNet as the Chief Technology Officer (CTO) over four years ago, Greg has led the deployment of Australia's largest independent ADSL2+ and VoIP networks. iiNet is now the 3rd largest ISP in Australia and operates one of the largest Telecommunications networks in the country.

Maryna Pienaar
General Manager
Corporate Services

Maryna oversees the corporate services team which includes human resources, training, administration, IT support, business process improvement and work force planning. Maryna is responsible for developing HR strategies for attracting and retaining employees, providing training and development, improving the efficiency of customer service and other business processes.

Maryna has been involved in the Internet industry since 1998 and joined iiNet in October 2003, as a result of iiNet's acquisition of ihug.

Andy McIntyre
General Manager Business

Andy joined iiNet as a project manager in March 2004 and was involved in the implementation of iiNet's ADSL2+ network, VoIP network and the Virtual Call Centre technology.

Andy has 14 years experience in the telecommunications sector and prior to him joining iiNet, he worked in London for companies such as Cable & Wireless and Easynet Limited servicing the business sector as a program manager.

As GM Business, Andy has the responsibility for business product development, sales and customer support.

Mark White B.Bus, MBA, GAICD
Chief Operating Officer

Mark is responsible for the retail aspects of the business including brand, marketing, and customer service.

Before iiNet, Mark was General Manager Strategy and Membership for the RAC for 8 years. Mark completed his undergraduate degree at the Queensland University of Technology with a double major in Economics and Marketing. He has also completed his MBA at UWA and undertaken further post-graduate studies through the Australian Institute of Company Directors.

After his 6 year term, Mark has recently stepped down as Chairman of the Barking Gecko Theatre Company and has taken up a role on the WA State Advisory Board of the Starlight Foundation.

Roy Barnett B.Com, MBA, MAICD
Chief Information Officer

Roy joined iiNet as the Chief Information Officer in August 2007.

Roy was previously in the United Kingdom where he held CIO and COO roles at various publicly listed companies. He has deep experience in customer centric technology development and deployment, particularly within the banking and property sectors.

Roy leads the application development and maintenance function at iiNet.

Roy is a member of the Australian Institute of Company Directors and an overseas member of the Institute of Directors UK.

Stephen Fewster B.Bus, CA, ASIA
Chief Financial Officer/
Company Secretary

Stephen joined iiNet as the business development manager in February 2004 and was appointed Chief Financial Officer in November 2005. Stephen was previously with Ernst & Young predominantly in the corporate finance group and has extensive mergers and acquisition experience.

Stephen oversees the preparation of the Company's statutory reports, business development and analysis, credit management and company secretarial services.

Stephen is a member of the Consultative Committee for the School of Accounting at Edith Cowan University and was an assessor for the Securities Institute of Australia.

executive committee

Interests in the shares and options of the Company and related bodies corporate

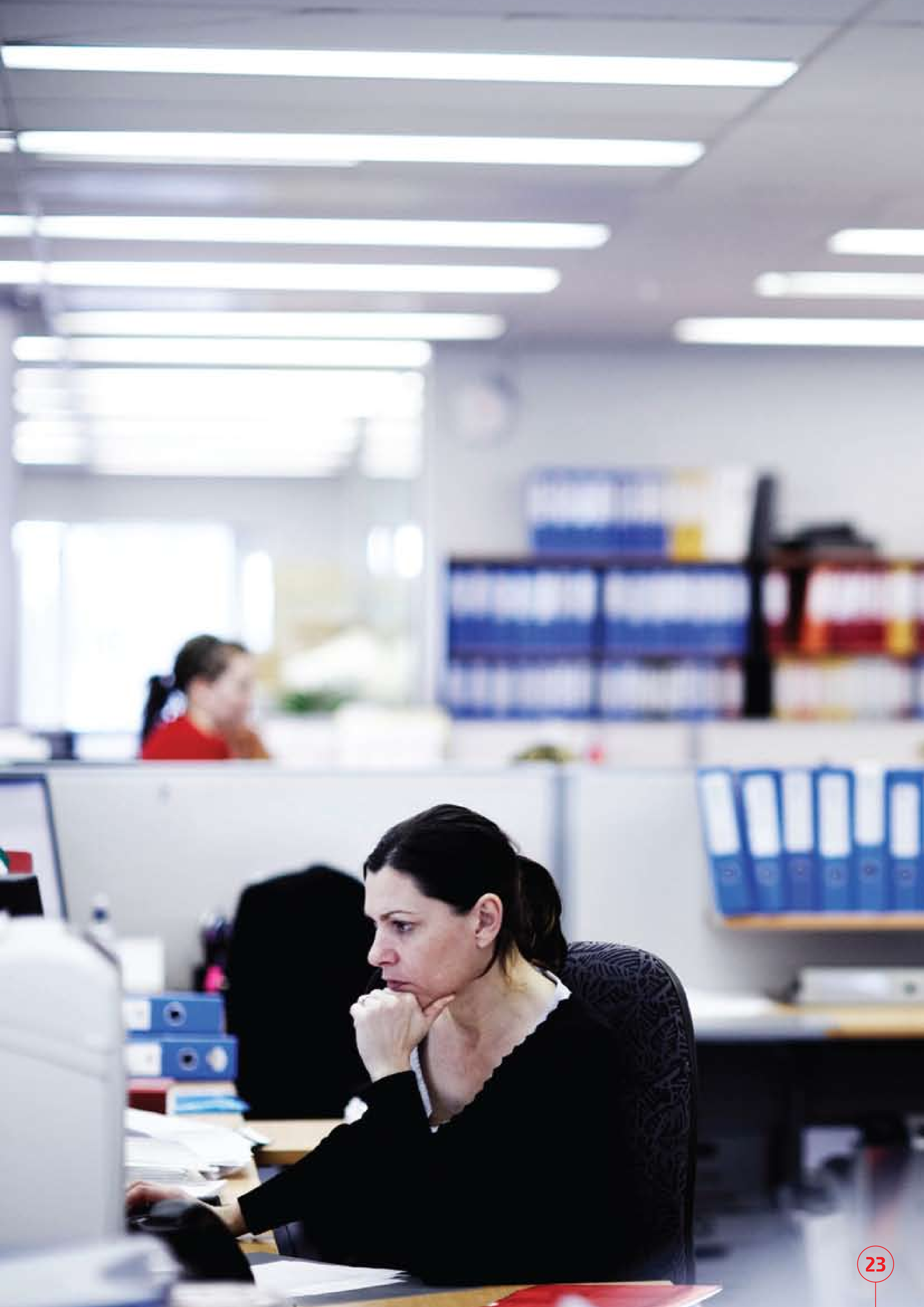
As at the date of this report, the interests of the directors in the shares and options of iiNet Limited were:

Director	Number of ordinary shares	Number of options over ordinary shares
Peter Harley	190,000	-
Michael Malone	24,328,167	-
Andrew Milner	1,700,000	50,000
Peter James	15,000	50,000
Paul Broad	-	-
Tony Grist	-	-
David Grant	30,000	-
Michael Smith	-	-

	Cents	$
Final dividend declared:		
On ordinary shares	5.0	6,280,370
Dividends paid in the year:		
Interim for the current year		
On ordinary shares	1.0	1,256,077
Final for the 2006 year		
On ordinary shares	-	-

Principal activities

The principal activities during the year of the entities within the consolidated entity were the provision of Internet and telephony services in Australia and New Zealand (until the sale of the ihug New Zealand business).



Operating and financial review

Operating result for the year

Operating revenue from continuing operations of $229.6 million was 7% above that reported for the previous year. Earnings before interest, tax, depreciation and amortisation, from continuing operations were $45.9 million, up 153% on the previous year. The net profit for the Group after tax was $23.3 million, a significant reversal of the $62.6 million loss reported at 30 June 2006.

Dividend

A fully franked interim dividend of one cent per share was declared on February 19, 2007 with a record date of March 9, 2007.

A fully franked final dividend of five cents per share was declared on August 20, 2007 with a record date of September 14, 2007.

Review of operations

A detailed review of the operations of the Group is contained in the Chairman's review and Managing Director's report appearing on pages 12 to 17 of this report.

Performance indicators

Management and the Board monitor the Group's overall performance, from implementation of the strategic plan through to the performance of the Company against operating plans and financial budgets. The Board, together with management, have identified key performance indicators (KPI's) used to measure and monitor performance.

Review of financial condition

The Group produced net cash flows from operating activities of $27.8 million. As with the 2006 financial year, there was significant investment in the network, with $13.7 million spent on plant and equipment (2006: $34.7 million).

With improved trading conditions, renewed focus on strategic initiatives including the repricing of off-net plans, increasing the number of "on-net" customers and tightening cost control across the business, and with the sale of the ihug business, the Group was able to reduce debt significantly.

Net debt has reduced from $50.5 million at 30 June 2006 to $7.7 million at 30 June 2007. Subsequent to 30 June 2007, iiNet received the LSS settlement payment from Telstra which places the business in net cash position.

Normalised EBITDA from continuing operations improved $21.0 million to $39.1 million to 30 June 2007. Net profit after tax ("NPAT") of $23.3 million included $5.0 million profit on the sale of ihug, and $4.5 million current year savings from the settlement of the LSS dispute with Telstra.

Risk management

Please refer to the Corporate Governance Statement.

Significant changes in the state of affairs

During 2007 iiNet had a significant regulatory win with the ACCC issuing its draft determination for the price Telstra can charge for the use of LSS. This determination reduced the monthly cost from $9.00 per month for each service to $2.50 per month for each service. Based on the 30 June 2007 customer base that represents a saving of nearly $900,000 per month.

In late April 2007, the Company launched a major marketing campaign in Perth and Sydney aimed at increasing brand awareness in those markets. Brand awareness will be a major ingredient of success in the next two years as the broadband market becomes increasingly competitive.

The Company has also been pursuing a strategy of moving its backhaul, metropolitan transmission, to dark fibre. Additionally, the costs of using dark fibre transmission are fixed, compared to the costs of traditional backhaul solutions, which increase with usage.

During the year, the Company was awarded the prestigious international 4 star rating for outstanding innovation in customer service from Genesys for the 'virtualisation' of its 3 call centres in Perth, Sydney and Auckland. Virtualisation enables calls to be answered by the first available customer service representative irrespective of the caller's location. Improved customer satisfaction and call response times are a direct result of this initiative.

Significant events after balance date

On 12 July 2007, the Company announced details of ACCC's final determination on Telstra's LSS charges. The new rate for this service has been set at $2.50, compared to the interim rate of $3.20 and the previous rate charged by Telstra of $9.00.

On 24 August 2007, iiNet received the $16.1 million LSS settlement from Telstra.

Telstra has subsequently applied to the Federal Court for a judicial review into the processes used by the ACCC to make their final determination. Telstra have indicated that they will explore avenues for challenge of this determination. iiNet consider the chances of a successful appeal to be minimal.

On 20 August 2007, the Company's chairman, Peter Harley, announced his decision to stand down as a director of the Company once a suitable replacement has been found.

Likely developments and expected results

A detailed review of the Company's activities and prospects is contained in the Chairman's review and Managing Director's report contained at pages 12 to 17.

Environmental Regulation and Performance

There have been no significant known breaches of environmental regulations.

Share options

Unissued shares

As at the date of this report and the reporting date, there were 3,909,500 unissued ordinary shares under options. Refer to note 27 and 28 of the financial statements for further details of the options outstanding.

Option holders do not have any rights by virtue of the options they hold to vote or participate in any share issue of the Company or any related body corporate.

Shares issued as a result of the exercise of options

During the financial year, employees and executives have exercised options to acquire 2,400 fully paid ordinary shares in the Company at a weighted average exercise price of $1.42 per share.

Indemnification and insurance of directors and officers

The Company has, during the year, paid a premium in respect of a contract insuring the directors and secretary of the Company and all related body corporates, against liabilities incurred in acting in such capacities, to the extent permitted under the Corporations Act 2001. The contract prohibits the disclosure of the nature of the liability and/or the amount of the premium.

Remuneration report (audited)

The Company has applied the exemption under Corporations Amendments Regulation 2006 which exempts listed companies from providing remuneration disclosures in relation to their key management personnel in their annual financial reports by Accounting Standard AASB 124 "Related Party Disclosures".

Remuneration committee

The Remuneration Committee is primarily responsible to the board of directors in fulfilling the board's oversight responsibility to shareholders by ensuring that iiNet Limited has remuneration policies and practices that fairly and responsibly reward directors and executives having regard to performance, the law and corporate governance.

While the board retains responsibility for Employee Health and Safety, the Remuneration Committee regularly investigates and reviews the safety policies of the organisation and any reported workplace incidents.

Remuneration philosophy

The Board recognises that iiNet's performance depends upon the quality of its people. To achieve its financial and operating objectives, iiNet must attract, motivate and retain highly skilled directors and executives. To this end, the Company embraces the following principles in its remuneration framework:

- Provide competitive rewards to attract, retain and motivate high calibre executives;
- Align incentive rewards with the Company's short term and long term objectives by placing a significant portion of executive remuneration "at risk" as short term and long term incentives;
- Set demanding performance hurdles which are clearly linked to an executive's remuneration;
- Structure remuneration at a level that reflects the executive's duties and accountabilities and is competitive within the sector; and
- Complies with applicable legal requirements and appropriate standards of governance.

Remuneration structure

In accordance with best practice corporate governance, the structure of directors and executive managers' remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The remuneration of the non-executive directors is determined by the board on recommendation from the Remuneration Committee within a maximum aggregate amount. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 27 November 2006 when shareholders approved an aggregate remuneration of $600,000 per year.

Effective 1 July 2007, each director will receive a fee of $60,000 for being a director of the company. An additional fee may also be paid for each board committee on which a director sits. Currently, the only additional fees paid are $40,000 to the chair of the board, $20,000 to the chair of the Audit & Risk Committee and $10,000 to the chair of the Remuneration and Nominations Committee. An additional fee of $5,000 is paid to the directors who serve on the Audit & Risk Committee

Non-executive directors have long been encouraged by the board to hold shares in the company (purchased by the director on the market). It is considered good governance for directors to have a stake in the company upon whose board they sit. Subject to shareholder approval the non-executive directors of the company can participate in specified issues of discretionary options, which provide incentives where specified criteria are met.

The remuneration of non-executive directors for the period ending 30 June 2007 is detailed on page 30 of this report.

Executive director and executive manager remuneration

Objective

The company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company, and to ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the remuneration committee reviews comparative Australian listed companies with similar market capitalisation, as well as referencing independent research on executive remuneration.

The Company has entered into Australian Workplace Agreements with the specified executives. Details of these contracts contain the following key elements:

- Fixed remuneration;
- At risk compensation;
  - Short term incentive (STI); and
  - Long term incentive (LTI).

The proportion of fixed remuneration and variable remuneration (short term and long term incentives) for each executive is set out in table 1 and 2.

Fixed remuneration

Structure

This component of executive remuneration comprises base salary, superannuation contributions at the minimum legislated rate and other allowances such as motor vehicle and voluntary pre-tax contributions to superannuation. It is determined by the scope of each executive's role, level of knowledge, skill and experience along with their individual performance.

There are no guaranteed base pay increases for any executive manager.

Variable remuneration – short term incentive (STI)

Objective

The purpose of the STI is to align the achievement of the Company's short term objectives with remuneration received by executives charged with meeting those objectives. The total potential STI available is set at a level so as to provide sufficient incentive to the executive manager to achieve the short term objectives.

Structure

Actual STI payments granted to each executive manager depend on the extent to which specific performance hurdles set at the beginning of the financial year are met. The performance hurdles consist of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance.

Typical performance measures include contribution to net profit after tax, customer service and retention, and profitable product growth and diversification. These metrics are considered to be the most appropriate to assess the performance of iiNet's executive managers because they are the drivers of shareholder value.

The aggregate of STI payments available for executive managers is subject to the approval of the Remuneration Committee. STI payments are usually delivered as a cash bonus.

The total combined cash bonus pool available to the executive team listed on page 28 for the year was $295,000. For the 2007 financial year, 73% of the STI bonus was paid to executives.

Variable remuneration – long term incentive (LTI)

Objective

The long term incentive component of the remuneration package is to reward executive directors and executive managers in a manner which aligns a proportion of their remuneration package with long term objectives consisting of both financial and non-financial measures of performance over a longer period than the short term incentives.

The long term incentive benefits are delivered in the form of options to acquire ordinary shares in the Company. The use of options that are issued with an exercise price at market price ensures that the executive director or executive manager only receives a benefit where shareholder wealth has increased through an increase in the market value of the Company's shares.

Structure

- 2002 iiNet Employee Share Option Plan

The options issued under the 2002 Employee Share Option Plan are issued on the basis that 50 percent of the total number issued will vest on the 18 month and 36 month anniversary dates following their issue. The options have a 5 year life and can be exercised at any time after they have vested. The exercise price is set at the prevailing market price of the Company's ordinary shares at the time of the issue of

the options.
The options do not entitle the holder to voting or dividend rights.

Options that have not vested are cancelled if the executive director or executive manager ceases to be an employee of the Company.

The options are allocated to executive management on the basis of the incumbent's position and responsibilities on the recommendation of the managing director and by approval of the board.

- 2005 iiNet Employee Option Plan

Two tranches of options have been issued under the 2005 iiNet Employee Share Option Plan.

Under tranche 1, the options were issued on the basis that 50 percent of the total number issued vest on the 18 month and 36 month anniversary dates following their issue. The options have a 5 year life and can be exercised at any time after they have vested. The exercise price is set at the prevailing market price of the Company's ordinary shares at the time of the issue of the options.

Under tranche 2, the options are issued on the basis that 100 percent of the total number issued will vest on the 12 month anniversary of their issue. The options have a 5 year life and can be exercised at any time after they have vested. The exercise price is set at the prevailing market price of the Company's ordinary shares at the time of the issue of the options.

The options do not entitle the holder to voting or dividend rights.

Options that have not vested are cancelled if the executive director or executive manager ceases to be an employee of the Company.

The options are allocated to executive management on the basis of the incumbent's position and responsibilities on the recommendation of the managing director and by approval of the board.

Employment contracts

The following executives (all Australian based) are permanently employed under Australian Workplace Agreements (AWA's):

Name	Commence	Expire
Michael Malone	28 June 2007	28 June 2012
Stephen Fewster	28 June 2007	28 June 2012
Greg Bader	28 June 2007	28 June 2012
Steve Dalby	28 June 2007	28 June 2012
Maryna Pienaar	28 June 2007	28 June 2012
Mark White	18 September 2006	30 June 2009
Andy McIntyre	28 June 2007	30 June 2012

If no new agreements are made prior to the expiry of the agreements, the agreements will continue under the same terms and conditions that existed under the expired agreements until the parties sign a new AWA.

Under the terms of the AWA's:

The Executive Director and executive managers may resign from their positions and thus terminate their contracts by giving 12 weeks notice. On resignation any options not vested will be forfeited.

The company may terminate their employment agreement by providing the 12 weeks notice or provide payment in lieu of the notice period.

The period of notice is increased by 1 week if the Employee is over 45 years of age and has completed at least 2 years continuous service with the Company.

The Company may dismiss the Employee at any time without notice for refusal of duty, neglect of duty or misconduct which contravenes rules and regulations as set out in the Company's Policies and Procedures, or misconduct which at law would justify summary dismissal. If the Employee is dismissed on this basis, the Employee will be entitled to be paid for work up to the time of the Employee's dismissal only.

In the event the Company terminates the employee's services, any options that have vested or will vest during the notice period will be released. Options that have not yet vested will be forfeited.

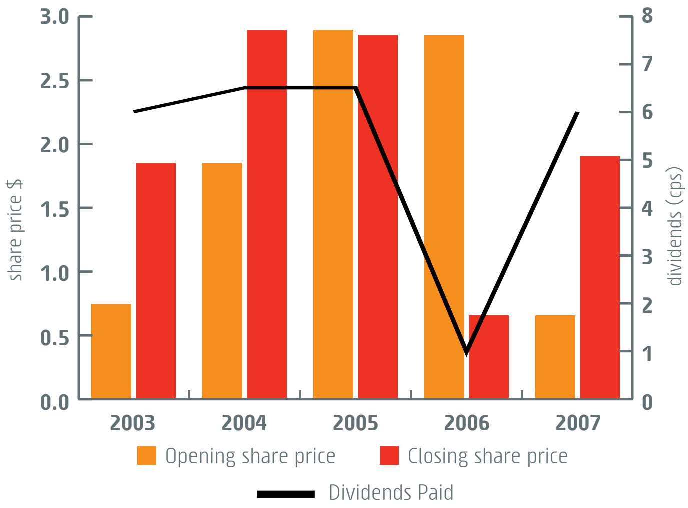
Relationship between remuneration policy and the performance of iiNet

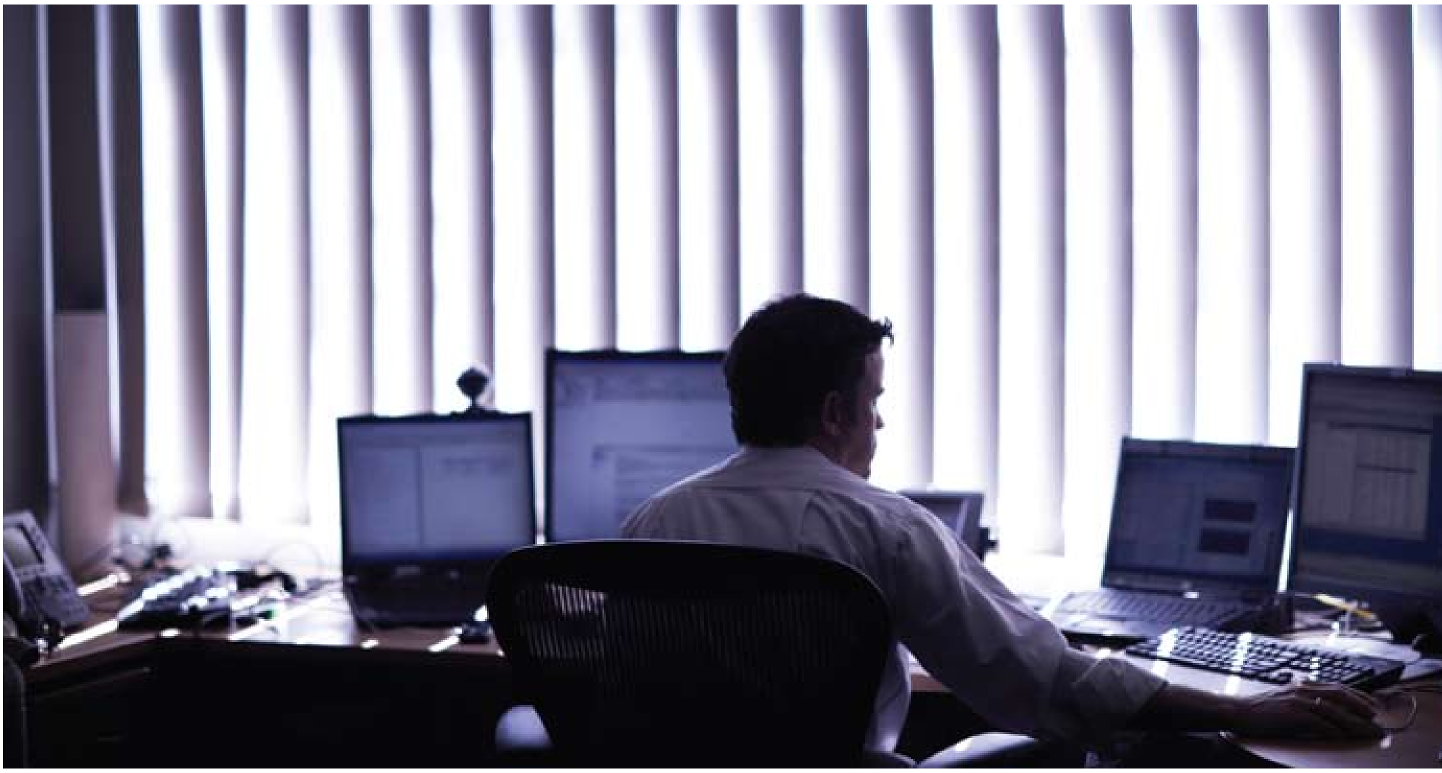
iiNet's remuneration policy aims to achieve a link between the remuneration received by executives, increased earnings and the creation of shareholder wealth.

Company performance and shareholder wealth

iiNet's performance as measured by dividends paid during the year and the opening and closing prices at which the company's ordinary shares are traded on Australian Stock Exchange for the past four years is as follows:

ANNUAL SHARE PRICE MOVEMENT AND DIVIDENDS PAID





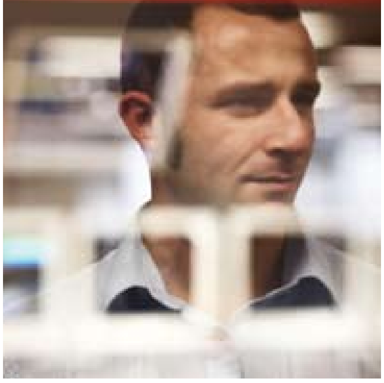
Remuneration of key management personnel

Table 1: Remuneration for the year ended 30 June 2007

Non-executive directors 2007	Short-term				Post Employment		Long-term	Share-based payment		
	Salary & fees	Cash bonus	Non-monetary benefits	Other	Superannuation	Retirements benefits [1]	Incentive plans	Options	Total	Total performance related (%)
Peter Harley [1,5]	123,000	-	47,500		8,098	-	-		178,598	-
Andrew Milner	55,000	-	-		4,950	-	-	6,825	66,775	10.2%
Peter James	55,000	-	-		4,950	-	-	6,825	66,775	10.2%
Paul Broad	44,725	-	-		4,025	-	-	-	48,750	-
Tony Grist [2]	25,976	-	-		2,338	-	-	-	28,314	-
David Grant [3]	30,856	-	-		2,777	-	-	-	33,633	-
Keith Goodall [4]	55,780	-	-		18,038	-	-	-	73,818	-
Sub-total non-executive directors	**390,337**	**-**	**47,500**		**45,176**	**-**	**-**	**13,650**	**496,663**	**3.3%**

1. Retirement benefits were previously paid to directors upon retirement, being one third of the maximum prescribed benefit by s200G of the Corporations Act 2001. The board resolved in November 2003 that no additional benefits were to accrue under this arrangement. The benefit payable at that time of $74,790 to Peter Harley on retirement has been fully provided for, and will be payable on his retirement from the board, but is not reflected in the above remuneration tables.
2. Tony Grist was appointed to the board on 26 July 2006.
3. David Grant was appointed to the board on 12 October 2006.
4. Keith Goodall resigned from the board on 27 October 2006.
5. Peter Harley assumed an executive role from May 2006 to October 2006 and was paid a total per diem of $75,500 between July 2006 and October 2006

Executive directors 2007	Short-term				Post Employment		Long-term	Share-based payment		
	Salary & fees	Cash bonus	Non-monetary benefits	Other	Superannuation	Retirements benefits	Incentive plans	Options	Total	Total performance related (%)
Michael Malone	270,095	-	41,443	-	12,686	-	-	-	324,224	-
Sub-total executive directors	**270,095**	**-**	**41,443**	**-**	**12,686**	**-**	**-**	**-**	**324,224**	**-**



Other key management personnel 2007	Short-term				Post Employment		Long-term	Share-based payment		
	Salary & fees	Cash bonus	Non-monetary benefits	Other	Super	Retirements benefits	Incentive plans	Options	Total	Total performance related (%)
Stephen Fewster	149,864	35,000	15,136	-	12,686	-	-	47,219	259,905	31.6%
Greg Bader	162,807	47,500	12,077	-	12,686	-	-	83,422	318,492	41.1%
David Dans	144,865	40,000	-	-	12,526	-	-	37,558	234,949	33.0%
Steve Dalby	110,318	27,500	4,643	-	11,130	-	-	32,395	185,986	32.2%
Maryna Pienaar	110,000	39,912	-	-	9,022	-	-	41,263	200,197	36.7%
Mark White [1]	187,990	11,250	-	-	10,193	-	-	17,668	227,101	12.7%
Andy McIntyre [2]	98,177	13,000	11,207	-	11,014	-	-	13,482	146,880	18.0%
Sub-total other KMP	**964,021**	**214,162**	**43,063**	**-**	**79,257**	**-**	**-**	**273,007**	**1,573,510**	**30.6%**
Total KMP	**1,624,453**	**214,162**	**132,006**	**-**	**137,119**	**-**	**-**	**286,657**	**2,394,397**	**20.8%**

1. Mark White was appointed 18 September 2006.
2. Andy McIntyre was appointed in March 2007.

Table 2: Remuneration for the year ended 30 June 2006

Non-executive directors 2006	Short-term				Post Employment		Long-term	Share-based payment		
	Salary & fees	Cash bonus	Non-monetary benefits	Other	Super	Retirements benefits[1]	Incentive plans	Options	Total	Total performance related (%)
Peter Harley [3]	134,750	-	-	-	8,550	-	-	-	143,300	-
Andrew Milner	70,000	-	288	-	4,950	-	-	15,925	91,163	-
Peter James	50,962	-	426	-	4,587	-	-	15,925	71,900	-
Paul Broad [2]	-	-	-	-	-	-	-	-	-	-
Keith Goodall	63,920	-	-	-	-	-	-	15,925	79,845	-
Sub-total non-executive directors	**319,632**	**-**	**714**	**-**	**18,087**	**-**	**-**	**47,775**	**386,208**	**-**

1. Retirement benefits were previously paid to directors upon retirement, being one third of the maximum benefit prescribed by s200G of the Corporations Act 2001. The board resolved in November 2003 that no additional benefits were to accrue under this arrangement. The benefit payable to that time of $74,790 to Peter Harley on retirement has been fully provided for, and will be payable on his retirement from the board, but is not reflected in the above remuneration tables.
2. Paul Broad was appointed to the board on 6 June 2006.
3. Peter Harley assumed an executive role during May 2006 to October 2006 and was paid a total per diem of $39,750 to 30 June 2006.

Remuneration of key management personnel (continued)

Executive directors 2006	Short-term				Post Employment		Long-term	Share-based payment		
	Salary & fees	Cash bonus	Non-monetary benefits	Other	Super	Retirements benefits	Incentive plans	Options	Total	Total performance related (%)
Michael Malone	300,000	-	5,486	-	12,139	-	-	-	317,625	-
Sub-total executive directors	**300,000**	**-**	**5,486**	**-**	**12,139**	**-**	**-**	**-**	**317,625**	**-**

Other key management personnel 2006	Short-term				Post Employment		Long-term	Share-based payment		
	Salary & fees	Cash bonus	Non-monetary benefits	Other	Super	Retirements benefits	Incentive plans	Options	Total	Total performance related (%)
Stephen Fewster[1]	105,705	-	8,702	-	9,104	-	-	27,981	151,492	-
Greg Bader	160,000	37,500	11,164	-	12,139	-	-	140,754	361,557	75
David Dans	77,000	-	-	-	6,572	-	-	8,390	91,962	-
Steve Dalby	110,000	10,000	426	-	10,269	-	-	15,888	146,583	50
Maryna Pienaar	103,603	29,478	-	-	-	-	-	20,583	153,664	78
C. Hollingsworth [2]	150,944	-	1,624	-	5,371	-	-	8,528	166,467	-
Linda French [3]	159,942	25,000	854	-	12,139	-	-	39,735	237,670	42
Mark Rushworth [4]	132,084	54,745	-	-	-	-	-	8,390	195,219	100
Sub-total KMP	**999,278**	**156,723**	**22,770**	**-**	**55,594**	**-**	**-**	**270,249**	**1,504,614**	**28.4%**
Totals	**1,618,910**	**156,723**	**28,970**	**-**	**85,820**	**-**	**-**	**318,024**	**2,208,447**	**21.5%**

1. Stephen Fewster was appointed Chief Financial Officer on 2 November 2005.
2. Clayton Hollingsworth resigned on 2 November 2005.
3. Linda French resigned on 3 November 2006.
4. Mark Rushworth resigned on 28 September 2006.

Table 3: Options granted as part of remuneration 30 June 2007

Executives	Grant date	Granted (number)	Vested (number)	Fair value per option at grant date (Note 27)	Exercise price (Note 28)	Expiry date	First exercise date	Last exercise date
Stephen Fewster	8 Dec 2006	70,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011
Greg Bader	8 Dec 2006	70,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011
David Dans	8 Dec 2006	70,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011
Steve Dalby	8 Dec 2006	70,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011
Maryna Pienaar	8 Dec 2006	70,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011
Mark White	8 Dec 2006	70,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011
Andy McIntyre	8 Dec 2006	30,000	-	0.4494	0.80	31 August 2011	31 August 2007	31 August 2011

Table 4: Options granted as part of remuneration 30 June 2006

Executives	Grant date	Granted (number)	Vested (number)	Fair value per option at grant date (Note 27)	Exercise price (Note 27)	Expiry date	First exercise date	Last exercise date
Stephen Fewster	31 Jan 2006	75,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011
Greg Bader	31 Jan 2006	75,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011
David Dans	31 Jan 2006	75,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011
Linda French	31 Jan 2006	75,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011
Steve Dalby	31 Jan 2006	45,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011
Maryna Pienaar	31 Jan 2006	75,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011
Mark Rushworth	31 Jan 2006	75,000	-	0.5140 & 0.5830	1.74	31 Jan 2011	31 July 2008	31 Jan 2011

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Table 5: Options granted as part of remuneration 30 June 2007

	Value of options granted during the year	Value of options exercsied during the year	Value of options lapsed during the year	Total value of options granted, exercised and lapsed during the year	% Remuneration consisting of options for the year
Stephen Fewster	31,458	-	-	31,458	12.1
Greg Bader	31,458	-	-	31,458	9.9
David Dans	31,458	-	-	31,458	13.4
Steve Dalby	31,458	-	-	31,458	16.9
Maryna Pienaar	31,458	-	-	31,458	19.6
Mark White	31,458	-	-	31,458	13.9
Andy McIntyre	13,482	-	-	13,482	9.2

Directors meetings

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director were as follows

	Directors' meetings	Audit & risk committee meetings	Remuneration committee meetings
Number of meetings held:	20	7	1
Number of meetings attended:			
Peter Harley	19	2	1
Michael Malone	20	n/a	-
Andrew Milner	19	7	1
Peter James	19	4	1
Paul Broad	14	2	-
Tony Grist	18	5	n/a
David Grant	9	3	n/a
Keith Goodall	12	4	-

n/a denotes director is not and was not a member of the committe during the year.

All directors were eligible to attend all meetings held, except for:

- Peter Harley who was eligible to attend 3 audit & risk committee meetings;
- Michael Malone who was ineligible to attend any remuneration committee meetings;
- Peter James who was eligible to attend 4 audit & risk committee meetings;
- Paul Broad who was eligible to attend 3 audit & risk committee meetings;
- Tony Grist who was eligible to attend 18 directors' meetings and 6 audit & risk committee meetings;
- David Grant who was eligible to attend 9 directors' meetings and 3 audit & risk committee meetings; and
- Keith Goodall who was eligible to attend 12 directors' meetings, 4 audit & risk committee meetings and 0 remuneration committee meetings.

As at the date of this report, the Company has an audit & risk committee and a remuneration committee.
Members acting on the committees of the board during the year were:

	Audit & risk committee	Remuneration committee
Peter Harley	a,b	a,b
Michael Malone	n/a	a,b
Andrew Milner	a,b	b
Peter James	b	a,b,c
Paul Broad	b	b,a
Tony Grist	a,b	n/a
David Grant	a,b,c	n/a
Keith Goodall	b	b

a. denotes ongoing membership of the committee

b. denotes was a member of the committee

c. denotes chairman of the committee,

n/a. denotes director is not and was not a member of the committee during the year

Auditor independence and non-audit services

The directors received the following declaration from the auditor of iiNet Limited (refer to page 36).

Non-audit services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.
Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Tax compliance services	281,529
Assurance related and due diligence services	125,997
Other services	8,283
Total	415,809

Signed in accordance with a resolution of the directors.

Peter Harley
Chairman
Perth, Western Australia, 25 September 2007

ERNST & YOUNG

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Australia

GPO Box M939
Perth WA 6843

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Auditor's Independence Declaration to the Directors of iiNet Limited

In relation to our audit of the financial report of iiNet Limited for the financial year ended 30 June 2007, 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
Perth

25 September 2007

GHM:NR:iiNet:070

corporate governance statement

07 annual report

The board of directors of iiNet is responsible for and committed to ensuring that the company complies with the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

Through the continual pursuit of the highest standards of corporate governance, iiNet is able to respect the following values to which it publicly subscribes.

- We will endeavour to provide staff with a challenging, rewarding and safe working environment;
- We will deliver quality products, excellent service and value for money to customers;
- We will take a responsible and ethical approach to the conduct of our business; and
- We will maximise the value of shareholders' investment in the Company.

The board of directors

Role of the board and board charter

The board has adopted a formal charter that details the functions and responsibilities of the board. The board charter can be viewed on the Company's website. The board of iiNet is charged with the following overall responsibilities:

(a) Charting the direction, strategies and financial objectives for the Company and monitoring the implementation of those policies, strategies and financial objectives; and

(b) Monitoring compliance with regulatory requirements and ethical standards.

In addition, the following more prescriptive tasks have been assigned to the board:

(a) Appointing and monitoring the performance of directors, including the managing director, chief financial officer and company secretary;

(b) Providing input to and approving strategic plans and objectives, and approving the annual operating and capital budgets;

(c) Monitoring systems that assess performance against the above; and

(d) Approving and monitoring processes that provide financial control and accountability and ensure accurate and timely financial reporting.

Structure of the board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of iiNet are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, materiality is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether the relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it.

In accordance with the established criteria for assessing independence above, and the materiality thresholds set, the following directors of iiNet Limited, shown together with their respective terms in office, are considered to be independent:

Name & Position	Term in Office (at 30 June 2007)
Peter Harley Chairman	7 years 10 months
Peter James Non-executive director	4 years 7 months
David Grant Non-executive director	8 months

Whilst Mr Peter Harley assumed an executive role for the six months between May and October 2006 the Board believes he is still independent.

Audit & Risk committee

The board has established an Audit & Risk committee, which operates under a charter approved by the board. It is the board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as benchmarking of operational key performance indicators. The board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports.

The members of committee during the year were:

David Grant (Chairman) Independent non-executive director	Appointed 12 October 2006
Peter Harley Independent non-executive director	Resigned 3 July 2006, re-appointed 27 November 2006
Peter James Independent non-executive director	Resigned 27 November 2006
Andrew Milner Non-executive director	Member of the committee for the full year
Paul Broad Non-executive director	Appointed 28 August 2006, resigned 27 November 2006
Tony Grist Non-executive director	Appointed 28 August 2006

Qualifications of the Audit & Risk committee members continuing at the date of this report

David Grant (committee chairman), a chartered accountant, has significant commercial and financial experience having held senior financial roles within several ASX listed companies.

Peter Harley has extensive commercial experience particularly in enterprise merger and acquisition and rapid growth businesses. Peter also serves as a non-executive director of 2 other ASX listed entities.

Andrew Milner has over 16 years experience in the IT sector, and has served as the general manager of the Company's carrier business, Chime Communications.

Tony Grist has extensive experience in international public company management and holds a number of board positions.

For details on the number of meetings of the Audit & Risk committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Remuneration and Nomination Committee

The board has established a remuneration committee, which operates under a charter approved by the board. The committee's main responsibilities are delegated to it by the board and include reviewing remuneration policies and practices of employees, executives and directors. Further information regarding iiNet's remuneration committee charter can be found on the Company's website, www.iinet.net.au.

Subsequent to 30 June 2007 the charter for the Remuneration Committee was expanded to include nomination.

During the year ended 30 June 2007 this role was performed by The Board.

The members of remuneration committee during the year were:

Peter James (Chairman) Independent non-executive director	Member of the committee for the full year
Keith Goodall Independent non-executive director	Resigned 27 October 2006
Peter Harley Independent non-executive director	Member of the committee for the full year
Michael Malone Managing Director	Appointed 30 January 2007
Paul Broad Non-executive director	Appointed 30 January 2007
Andrew Milner Non-executive director	Resigned 30 January 2007

The following are reference notes to the Principle & Recommendation table on page 40

a. Following the placement of shares to Powertel Ltd and on market acquisition of shares by Amcom Ltd, Mr Paul Broad and Mr Tony Grist were appointed to the board of iiNet. Both directors are officers of a substantial shareholder and are therefore not considered independent

b. For the six months between May 2006 and October 2006 Mr Peter Harley adopted an executive role to assist management during an operationally difficult phase of the business.

c. The Audit & Risk committee is comprised of directors that the board believe are the most qualified to perform the duties of the Audit & Risk Committee.

	Principle & Recommendation	Compliance
1	**Lay solid foundations for management and oversight**	
	1.1 Formalise and disclose the functions reserved to the Board and those delegated to management.	✓
2	**Structure the board to add value**	
	2.1 A majority of the Board should be independent directors.	a
	2.2 The chairperson should be an independent director.	b
	2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	✓
	2.4 The Board should establish a nomination committee.	✓
	2.5 Provide related disclosures.	✓
3	**Promote ethical and responsible decision making**	
	3.1 Establish a code of conduct to guide directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:	✓
	3.1.1 the practices necessary to maintain confidence in the company's integrity.	✓
	3.1.2 the responsibility and accountability of reports of unethical practices.	✓
	3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	✓
	3.3 Provide related disclosures.	✓
4	**Safeguard integrity in financial reporting**	
	4.1 Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	✓
	4.2 The Board should establish an audit committee.	✓
	4.3 Structure the audit committee so that it consists of:	
	• only non-executive directors; • a majority of independent directors; • an independent chairperson, who is not chairperson of the Board; and • at least three members	c
	4.4 The audit committee should have a formal charter.	✓
	4.5 Provide relevant disclosures.	✓
5	**Make timely and balanced disclosure**	
	5.1 Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	✓
	5.2 Provide relevant disclosures.	✓
6	**Respect the rights of shareholders**	
	6.1 Design and disclose a communications strategy to promote effective communications with shareholders and encourage effective participation at general meetings.	✓
	6.2 Request the external auditor to attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.	✓
7	**7 Recognise and manage risk**	
	7.1 The Board or appropriate Board committee should establish policies on risk oversight and management.	✓
	7.2 The chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that:	✓
	7.2.1 the statement given in accordance with best practice recommendations 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.	✓
	7.2.2 The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	✓
	7.3 Provide relevant disclosures.	✓
8	**Encourage enhanced performance**	
	8.1 Disclose the process for performance evaluation of the Board, its committees and individual directors and key executives.	✓
9	**Remunerate fairly and responsibly**	
	9.1 Provide disclosure in relation to the company's remuneration policies to enable investors to understand: (i) the costs and benefits of those policies; and (ii) the link between remuneration paid to directors and key executives and corporate performance.	✓
	9.2 The Board should establish a remuneration committee.	✓
	9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	✓
	9.4 Ensure that payment of equity based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	✓
	9.5 Provide relevant disclosures.	✓
10	Recognise the legitimate interests of stakeholders	
	10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	✓

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Independent auditor's report to members of iiNet Limited

We have audited the accompanying financial report of iiNet Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 Related Party Disclosures ("remuneration disclosures"), under the heading "Remuneration Report" on pages 26 to 33 of the Directors' Report, as permitted by Corporations Regulation 2M.6.04.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards. The directors are also responsible for the remuneration disclosures contained in the Directors' Report.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 Related Party Disclosures.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met 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. In addition to our audit of the financial report and the remuneration disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of iiNet Limited is in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the financial position of iiNet Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2; and

3. the remuneration disclosures that are contained on pages 26 to 33 of the directors' report comply with Accounting Standard AASB 124 Related Party Disclosures.

Ernst & Young

G H Meyerowitz
Partner
Perth

25 September 2007

Directors' Declaration

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

1. In the opinion of the directors:

a. The financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

i. giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and

ii. complying with Accounting Standards and Corporations Regulations 2001; and

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2007.

On behalf of the board

Peter Harley
Chairman
Perth, Western Australia, 25 September 2007

Income Statement

For the year ended 30 June 2007	Note	Consolidated 2007	Consolidated 2006 $	Company 2007 $	Company 2006 $
Continuing operations					
Revenue					
Rendering of services		222,522,751	206,263,665	169,046,227	143,487,264
Sale of goods		4,629,290	7,544,590	4,629,290	7,544,590
Intercompany dividends		-	-	28,200,000	11,485,381
Other revenue	3(a)	2,476,436	577,041	2,471,243	545,029
Total revenue		229,628,477	214,385,296	204,346,760	163,062,264
Direct Service Expenses					
Cost of sales and services rendered		(135,203,961)	(135,404,163)	(128,678,431)	(123,938,540)
Gross profit		94,424,516	78,981,133	47,468,329	39,123,724
Other income	3(b)	7,109,371	586,056	6,994,338	228,054
Employee expenses		(33,366,557)	(39,453,028)	(31,199,678)	(33,861,578)
Marketing expenses		(5,879,581)	(3,948,201)	(5,888,463)	(2,300,674)
Office costs		(7,589,130)	(9,880,995)	(5,775,706)	(6,065,756)
Administrative expenses		(6,279,889)	(7,577,660)	(6,001,694)	(7,269,260)
Depreciation and amortisation expense	3(c)	(19,290,741)	(19,994,414)	(16,779,322)	(12,575,202)
Impairment losses	3(f)	-	(47,405,731)	-	(51,672,709)
Profit/(Loss) from continuing operations before tax and finance costs		29,127,989	(48,692,840)	17,017,805	(74,393,401)
Financing costs	3(e)	(4,065,739)	(4,955,884)	(4,034,908)	(4,830,028)
Profit/(Loss) from continuing operations before income tax		25,062,250	(53,648,724)	12,982,896	(79,223,429)
Income tax (expense)/benefit	5	(7,248,293)	8,300,221	4,756,343	9,158,943
Profit/(Loss) from continuing operations after income tax		17,813,957	(45,348,503)	17,739,239	(70,064,486)
Discontinued operations					
Profit/(Loss) after tax from discontinued operations		5,439,415	(17,202,408)	-	-
Profit/(Loss) attributable to members of iiNet Limited		23,253,372	(62,550,911)	17,739,239	(70,064,486)
Earnings per share for profit/(loss) from continuing operations attributable to the ordinary equity holders	22	cents	cents		
Basic earnings per share		14.3	(41.2)		
Diluted earnings per share		14.2	(41.2)		
Earnings per share for profit/(loss) attributable to the ordinary equity holders					
Basic earnings per share		18.6	(56.9)		
Diluted earnings per share		18.5	(56.9)		

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

Balance Sheet

As at 30 June 2007	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Current Assets					
Cash and cash equivalents	24	15,370,925	7,390,535	15,013,559	4,824,355
Trade receivables	6	15,411,174	19,237,121	14,326,662	9,103,304
Other receivables	6	15,913,219	-	15,913,219	-
Inventories	7	344,179	480,351	354,303	435,145
Prepayments	8	8,352,464	5,351,628	8,159,584	3,538,930
Derivative financial instruments	31	55,473	-	55,473	-
Other	9	-	306,751	-	336,328
Total Current Assets		55,447,434	32,766,386	53,822,800	18,238,062
Non Current Assets					
Receivables	10	-	-	107,603,624	140,202,103
Other financial assets	11	-	-	10,000	10,004
Property, plant and equipment	12	45,052,136	50,724,026	38,088,697	41,086,559
Intangible assets and goodwill	13	114,354,771	144,510,028	4,645,051	8,290,254
Deferred income tax asset	5	-	1,661,935	-	951,429
Total Non Current Assets		159,406,907	196,895,989	150,347,372	190,540,349
Total Assets		214,854,341	229,662,375	204,170,172	208,778,411
Current Liabilities					
Trade and other payables	14	29,204,878	41,395,735	24,703,114	30,046,128
Unearned revenue	15	17,849,803	14,649,011	17,849,803	6,657,213
Interest bearing loans and borrowings	16	3,870,168	13,536,323	3,870,168	13,533,699
Provisions	17	2,482,382	3,577,586	2,372,293	2,535,856
Total Current Liabilities		53,407,231	73,158,655	48,795,378	52,772,896
Non Current Liabilities					
Interest bearing loans and borrowings	18	19,158,608	44,372,016	19,158,608	44,372,016
Deferred income tax liabilities	5	4,973,612	498,206	4,715,545	-
Provisions	19	40,065	35,818	40,065	35,818
Total Non Current Liabilities		24,172,285	44,906,040	23,914,218	44,407,834
Total Liabilities		77,579,516	118,064,695	72,709,596	97,180,730
Net Assets		**137,274,825**	**111,597,680**	**131,460,576**	**111,597,681**
Equity					
Issued capital	20	183,371,195	180,800,726	183,371,195	180,800,726
Accumulated Losses	21	(48,931,511)	(70,928,805)	(54,851,105)	(71,334,267)
Other reserves	21	2,835,141	1,725,759	2,940,486	2,131,222
Total Equity		**137,274,825**	**111,597,680**	**131,460,576**	**111,597,681**

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statements of Changes in Equity

Consolidated	Issued Capital $	Retained Earnings / (Accumulated Losses) $	Employee Equity Benefits Reserve $	Foreign Currency Translation Reserve $	Total $
Balance as at 1 July 2005	170,195,672	(2,917,300)	1,436,248	530,738	169,245,358
Loss for the period	-	(62,550,911)	-	-	(62,550,911)
Currency translation differences	-	-	-	(936,201)	(936,201)
Total recognised income & expenses	170,195,672	(65,468,211)	1,436,248	(405,463)	105,758,246
Issue of share capital	10,819,254	-	-	-	10,819,254
Transaction costs on share issue	(214,200)	-	-	-	(214,200)
Cost of share-based payment	-	-	694,974	-	694,974
Equity dividends	-	(5,460,594)	-	-	(5,460,594)
Balance as at 1 July 2006	180,800,726	(70,928,805)	2,131,222	(405,463)	111,597,680
Profit for the period	-	23,253,372	-	-	23,253,372
Currency translation differences	-	-	-	405,463	405,463
Total recognised income & expenses	-	23,253,372	-	405,463	23,658,835
Issue of share capital	2,623,142	-	-	-	2,623,142
Transaction costs on share issue	(52,673)	-	-	-	(52,673)
Cost of share-based payment	-	-	703,919	-	703,919
Equity dividends	-	(1,256,078)	-	-	(1,256,078)
Balance as at 30 June 2007	183,371,195	(48,931,511)	2,835,141	-	137,274,825

Company	Issued Capital $	Retained Earnings / (Accumulated Losses) $	Employee Equity Benefits Reserve $	Foreign Currency Translation Reserve $	Total $
Balance as at 1 July 2005	170,195,672	4,190,813	1,436,248	-	175,822,733
Loss for the period	-	(70,064,486)	-	-	(70,064,486)
Currency translation differences	-	-	-	-	-
Total recognised income & expenses	170,195,672	(65,873,673)	1,436,248	-	105,758,247
Issue of share capital	10,819,254	-	-	-	10,819,254
Transaction costs on share issue	(214,200)	-	-	-	(214,200)
Cost of share-based payment	-	-	694,974	-	694,974
Equity dividends	-	(5,460,594)	-	-	(5,460,594)
Balance as at 1 July 2006	180,800,726	(71,334,267)	2,131,222	-	111,597,681
Profit for the period	-	17,739,239	-	-	17,739,239
Currency translation differences	-	-	-	-	-
Total recognised income & expenses	-	17,739,239	-	-	17,739,239
Issue of share capital	2,623,142	-	-	-	2,623,142
Transaction costs on share issue	(52,673)	-	-	-	(52,673)
Cost of share-based payment	-	-	809,264	-	809,264
Equity dividends	-	(1,256,077)	-	-	(1,256,077)
Balance as at 30 June 2007	183,371,195	(54,851,105)	2,940,486	-	131,460,576

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

Cash Flow Statement

For the year ended 30 June 2007	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Cash flows from operating activities					
Receipts from customers		230,911,813	248,621,271	192,971,670	152,030,763
Payments to suppliers and employees		(199,204,443)	(224,116,947)	(163,372,018)	(143,080,647)
Interest received		788,410	784,029	783,218	(1,034,518)
Interest and other costs of finance paid		(3,627,079)	(5,055,800)	(3,596,248)	(5,345,542)
Income tax received/(paid)		(1,093,257)	663,169	(1,093,257)	6,723,543
Net cash flows from operating activities	24(c)	27,775,444	20,895,722	25,693,365	9,293,599
Cash flows from investing activities					
Payment for establishment of exchange space		(98,676)	(4,796,106)	(98,676)	-
Payment for subscriber acquisition costs		(1,621,912)	(6,220,341)	(1,531,139)	-
Purchase of plant and equipment		(14,511,675)	(23,376,594)	(11,796,047)	(17,553,603)
Proceeds from sale of plant and equipment		17,000	-	17,000	-
Proceeds from sale of intangibles		-	586,056	-	-
Acquisition of business, net of cash acquired		-	(815,417)	-	-
Proceeds from sale of business	4	31,113,991	-	-	-
Payment of other development costs		(1,115,880)	(2,045,663)	(1,115,880)	(17,000,474)
Net cash flows used in investing activities		13,782,848	(36,668,065)	(14,524,742)	(34,554,077)
Cash flows from financing activities					
Proceeds from issue of shares		2,623,142	10,819,254	2,623,142	10,819,254
Payments for capital raising costs		(52,673)	(214,200)	(52,673)	(214,200)
Net loans and dividends (received from)/advanced to related parties		-	-	32,598,480	12,482,285
Proceeds from borrowings		5,000,000	5,867,187	5,000,000	(7,842,521)
Repayment of borrowings		(39,879,563)	(13,757,732)	(39,879,563)	-
Equity dividends paid		(1,256,078)	(5,460,594)	(1,256,078)	(5,460,594)
Net cash flows (used in)/from financing activities		(33,565,171)	(2,746,085)	(966,692)	9,784,224
Net (decrease)/increase in cash		7,993,121	(18,518,428)	10,201,931	(15,476,254)
Net foreign exchange difference		(12,729)	-	(12,729)	-
Cash and cash equivalents at beginning of period		8,266,833	26,785,261	5,256,644	20,732,898
Cash and cash equivalents at end of period	24(a)	16,247,225	8,266,833	15,445,846	5,256,644

The above Cash Flow Statement should be read in conjunction with the accompanying notes.

1. Corporate information

The financial report of iiNet Limited (the Company) for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 21 September 2007.

iiNet Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described on page 24 of the Directors' Report.

2. Summary of significant accounting policies

a. *Basis of preparation*
b. *Statement of compliance*
c. *Basis of consolidation*
d. *Significant accounting judgements, estimates and assumptions*
e. *Foreign currency translation*
f. *Cash and cash equivalents*
g. *Trade and other receivables*
h. *Inventories*
i. *Non-current assets and disposal groups held for sale and discontinued operations*
j. *Investments and other financial assets*
k. *Property, plant and equipment*
l. *Leases*
m. *Impairment of non-financial assets other than goodwill*
n. *Goodwill*
o. *Intangibles*
p. *Pension plans*
q. *Trade and other payables*
r. *Interest bearing loans and borrowings*
s. *Provisions*
t. *Employee leave benefits*
u. *Share based payment transactions*
v. *Contributed equity*
w. *Prepayments*
x. *Revenue recognition*
y. *Derivative financial instruments and hedging*
z. *Income tax and other taxes*
aa. *Earnings per share*

a. Basis of preparation

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board ('the AASB') that are relevant to the operations of the Group and effective for reporting periods beginning on or after 1 July 2006. The adoption of these standards gives rise to additional disclosure however did not have material effect on the financial statements of the Group.

The financial report is presented in Australian dollars.

b. Statement of compliance

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the group for the annual reporting period ended 30 June 2007. These are outlined in the following tables.

b. Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2005-10	Amendments to Australian Accounting Standards [AASB132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 Financial Instruments: Disclosures.	1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1 July 2007
AASB 2007-1	Amendments to Australian Accounting Standards arising from AASB Interpretation 11 [AASB 2]	Amending standard issued as a consequence of AASB Interpretation 11 Group and Treasury Share Transactions.	1 March 2007	This is consistent with the Group's existing accounting policies for share-based payments so will have no impact.	1 July 2007
AASB 2007-2	Amendments to Australian Accounting Standards arising from AASB Interpretation 12 [AASB 1, AASB 117, AASB 118, AASB 120, AASB 121, AASB127, AASB 131 & AASB 139]	Amending standard issued as a consequence of AASB Interpretation 12 Service Concession Arrangements.	1 January 2008	As the Group currently has no service concession arrangements or public-private partnerships (PPP), it is expected that this Interpretation will have no impact on its financial report.	1 July 2008
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 Operating Segments.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However the new standard may have an impact on the segment disclosures included in the Group's financial report.	1 July 2009
AASB 2007-4	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments	The standard is a result of the AASB decision that, in principle, all accounting policy options currently existing in IFRS should be included in the Australian equivalents to IFRS and the additional Australian disclosures should be eliminated, other than those considered particularly relevant in the Australian reporting environment.	1 July 2007	As the Group does not anticipate changing any of its accounting policy choices as a result of the issue of AASB 2007-4 this standard will have no impact on the amounts included in the Group's financial statements. Changes to disclosure requirements will have no direct impact on the amounts included in the Group's financial statements. However the new standard may have an impact on the disclosures included in the Group's financial report.	1 July 2007

b. Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB 2007-6	Amendments to Australian Accounting Standards arising from AASB 123 [AASB1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	Amending standard issued as a consequence of AASB 123 (revised) Borrowing Costs.	1 January 2009	As the Group does not currently construct or produce any qualifying assets which are financed by borrowings the revised standard will have no impact.	1 July 2009
AASB 2007-7	Amendments to Australian Accounting Standards [AASB 1, AASB 2, AASB 4, AASB 5, AASB 107 & AASB 128]	Amending standard issued as a consequence of AASB 2007-4.	1 July 2007	Refer to AASB 2007-4 above.	1 July 2007
AASB 7	Financial Instruments: Disclosures:	New standard replacing disclosure requirements of AASB 132.	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	Operating Segments	This new standard will replace AASB 114 Segment Reporting and adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009
AASB 101 (revised October 2006)	Presentation of Financial Statements	Many of the disclosures from previous GAAP and all of the guidance from previous GAAP are not carried forward in the October 2006 version of AASB 101. The revised standard includes some text from IAS 1 that is not in the existing AASB 101 and has fewer additional Australian disclosure requirements than the existing AASB 101.	1 January 2007	AASB 101 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the revised standard may result in changes to the disclosures included in the Group's financial report.	1 July 2007
AASB 123 (revised June 2007)	Borrowing Costs	AASB 123 previously permitted entities to choose between expensing all borrowing costs and capitalising those that were attributable to the acquisition, construction or production of qualifying asset. The revised version of AASB 123 requires borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of qualifying asset.	1 January 2009	Refer to AASB 2007-6 above.	1 July 2009

b. Statement of compliance (continued)

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for Group
AASB Interpretation 10	Interim Financial Reporting and Impairment	Addresses an inconsistency between AASB 134 Interim Financial Reporting and the impairment requirements relating to goodwill in AASB 136 Impairment of Assets and equity instruments classified as available for sale in AASB 139 Financial Instruments: Recognition and Measurement	1 November 2006	The prohibitions on reversing impairment losses in AASB 136 and AASB 139 to take precedence over the more general statement in AASB 134 that interim reporting is not expected to have any impact on the Group's financial report.	1 July 2007
AASB Interpretation 11	Group and Treasury Share Transactions	Specifies that a share-based payment transaction in which an entity receives services as consideration for its own equity instruments shall be accounted for as equity-settled.	1 March 2007	Refer to AASB 2007-1 above.	1 July 2007
AASB Interpretation 12	Service Concession Arrangements	Clarifies how operators recognise the infrastructure as a financial asset and/or an intangible asset – not as property, plant and equipment.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
AASB Interpretation 129 (revised June 2007)	Service Concession Arrangements: Disclosures	The revised interpretation was issued as a result of the issue of Interpretation 12 and requires specific disclosures about service concession arrangements entered into by an entity, whether as a concession provider or concession operator.	1 January 2008	Refer to AASB 2007-2 above.	1 July 2008
IFRIC Interpretation 13	Customer Loyalty Programmes	Deals with the accounting for customer loyalty programmes, which are used by companies to provide incentives to their customer to buy their products or use their services.	1 July 2008	The Group does not have any such loyalty programmes and as such this interpretation is not expected to have any impact on the Group's financial report.	1 July 2008
IFRIC Interpretation 14	IAS 19 – The Asset Ceiling: Availability of Economic Benefits and Minimum Funding Requirements	Aims to clarify how to determine in normal circumstances the limit on the asset that an employer's balance sheet may contain in respect of its defined benefit pension plan.	1 January 2008	The Group does have a defined benefit pension plan and as such this interpretation may have an impact on the Group's financial report. The Group has not yet determined the extent of the impact, if any.	1 July 2008

The financial report complies with Australian Accounting Standards, which include Australian equivalent to International Financial Reporting Standards (AIFRS). The financial report also complies with International Financial Reporting Standards (IFRS).

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of iiNet Limited and its subsidiaries ('the group') as at 30 June each year.

Subsidiaries are those entities over which the group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full. Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the group.

Acquisitions have been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

d. Significant accounting judgements, estimates and assumptions

The Group's accounting policies apply judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made in the preparation of these financial statements are outlined below:

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the amount of goodwill and intangibles with indefinite useful lives are discussed in note 13.

Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, using the assumptions detailed in note 28.

The Group measures the cost of cash-settled share-based payments at fair value at the grant date using the Black-Scholes formula taking into account the terms and conditions upon which the instruments were granted, as discussed in note 28.

Amortisation of deferred customer expenditures

In relation to the amortisation of deferred customer expenditures, management judgement is used to determine the estimated contract life. Based on management's review of historical information and customer trends, the average estimated customer life has been determined to be 5 years (2006: 5 years).

e. Foreign currency translation

The functional and presentation currency of iiNet Limited and its Australian subsidiaries is Australian dollars (A$). The functional currency of iiNet New Zealand Limited and iiNet New Zealand AKL Ltd is New Zealand Dollars. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the

e. Foreign currency translation (continued)

balance sheet date. All exchange differences arising from the above procedures are taken to the income statement.

As at the reporting date the assets and liabilities of the New Zealand entities are translated into the presentation currency of the group at the rate of exchange ruling at the balance sheet date and the income statements are translated at the average exchange rate for the period. The exchange differences arising on the translation are taken directly to a separate component of equity.
On disposal of a foreign entity, the deferred cumulative amount recognised as equity relating to that particular foreign operation is recognised in profit or loss.

f. Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within the interest-bearing loans and borrowing in current liabilities on the balance sheet.

g. Trade and other receivables

Trade receivables, which generally have 30 to 90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the group will not be able to collect the debts. Bad debts are written off when identified.

h. Inventories

Inventories are initially measured and recorded at cost on a first-in, first-out basis and are valued at the lower of cost and net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

i. Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale and measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area or operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of such discontinued operations are presented separately on the face of the income statement.

j. Investments and other financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, or available for sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transactions costs. The group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place.

j. Investments and other financial assets (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

k. Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

- Plant and equipment over 2 - 5 years
- Equipment under finance lease over 3 - 15 years or the lease term
- Leasehold improvements over 3 - 15 years or the lease term

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

i. Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amounts being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the assets.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to recoverable amount.

For plant and equipment, impairment losses are recognised in the income statement in the impairment losses line item.

ii. Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the profit or loss in the year the asset is derecognised.

l. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

l. Leases (continued)

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the group will obtain ownership by the end of the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

m. Impairment of non-financial assets other than goodwill

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing fair value less cost to sell, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

n. Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the group interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the group are assigned to those units or group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the group's primary or the group's secondary reporting format determined in accordance with AASB 114 Segment Reporting.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash generating unit to which the goodwill relates. Recoverable amount is the greater of fair value less costs to sell and value in use.

Where the recoverable amount of the cash-generating unit is less than the carrying amount an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

n. Goodwill (continued)

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash generating unit retained.

o. Intangibles

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Intangible assets, excluding capitalised development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

i. Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future economic benefits from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during a reporting period indicating that the carrying amount may not be recoverable.

o. Intangibles (continued)

ii. A summary of the policies applied to the Group's intangible assets is as follows:

	SUBSCRIBER BASES	PATENTS & TRADEMARKS	DEVELOPMENT COSTS
Useful lives	Finite	Finite	Finite
Amortisation method used	Amortised on a straight-line basis over the period of expected future benefit	Amortised on a straight-line basis over the period of expected future benefit	Amortised on a straight-line basis over the period of expected future benefit
	Generally, 5 years	Generally, 20 years	From 18 months to 5 years
Acquired (A) of internally generated (IG)	A	A	IG
Impairment testing	At least annually or more often when an indicator of impairment exists	At least annually or more often when an indicator of impairment exists	At least annually or more often when an indicator of impairment exists

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

p. Pension plans

The group's commitment to pension plans is limited to making contributions in accordance with the minimum statutory requirements. There are no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to current and past employee services.

Contributions to defined contribution plans are recorded as an expense in the income statement as the contributions become payable.

q. Trade and other payables

Trade payables and other payables are carried at amortised cost and represent liabilities for goods and services provided to the group prior to the end of the financial year that are unpaid and arise when the group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

r. Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after balance sheet date.

Borrowing costs are recognised as an expense when incurred.

s. Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

s. Provisions (continued)

When the group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(i) Surplus lease space

Provision for surplus lease space represents the future lease payments that the group is presently obliged to make in respect of surplus lease space under non-cancellable operating leases, less estimated future sub-lease revenue where applicable. The estimate may vary as a result of changes in utilisaton of the leased premises and the sub lease arrangements where applicable.

t. Employee leave benefits

(i) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

u. Share based payment transactions

The group provides benefits to employees (including directors) in the form of share-based payments, whereby employees render services in exchange for share options or rights over shares ("equity settled transactions"). The 2002 iiNet Employee Share Option Plan (ESOP) and the 2005 iiNet Employee Option Plan provide benefits to directors, executives and eligible employees.

The cost of these equity settled transactions for employees (for awards granted after 7 November 2002 that were unvested at 1 January 2005) is measured by reference to the fair value of the equity instrument at the date they were granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of iiNet ('market conditions'). The cost of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity settled transactions at each reporting date until vesting date reflects:

- The extent to which the vesting period has expired; and
- The number of awards that, in the opinion of the directors, will ultimately vest. The opinion is formed based on the best available information at balance date.

No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

u. Share based payment transactions (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

v. Contributed equity

Ordinary shares are classified as equity, and recognised in such at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received, net of tax.

w. Prepayments

Prepayments are recognised when payment for the delivery of goods or services has been made in advance of the delivery of goods or the rendering of services.

x. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

i. Rendering of services

Revenue from the provision of telecommunications services includes the provision of Internet and data services and other services, such as telephone calls.

iiNet records revenue earned from:

- Internet and data services over the period of service provided; and
- telephone calls on completion of the call.

ii. Unearned income

Unearned revenue represents the component of cash received from the customer for the period from balance date to the expiry date of the customer's subscription. Unearned revenue also represents the amounts received from customers in advance of their subscription period.

iii. Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

iv. Interest Income

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

y. Derivative financial instruments

The Group uses derivative financial instruments such as interest rate swaps to manage risks associated with interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. These derivatives do not qualify for hedge accounting and changes in fair value are recognised immediately in profit or loss in other revenue and expenses. Derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss for the year.

z. Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary difference associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it's probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences and carry forward of unused tax assets and tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.
Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

i. Tax consolidation

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation method. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

z. Income tax and other taxes (continued)

Members of the tax consolidated group have entered into a tax sharing agreement. Amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with this agreement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the distribution is recognised as a contribution from (or distribution to) equity participants.

ii. Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

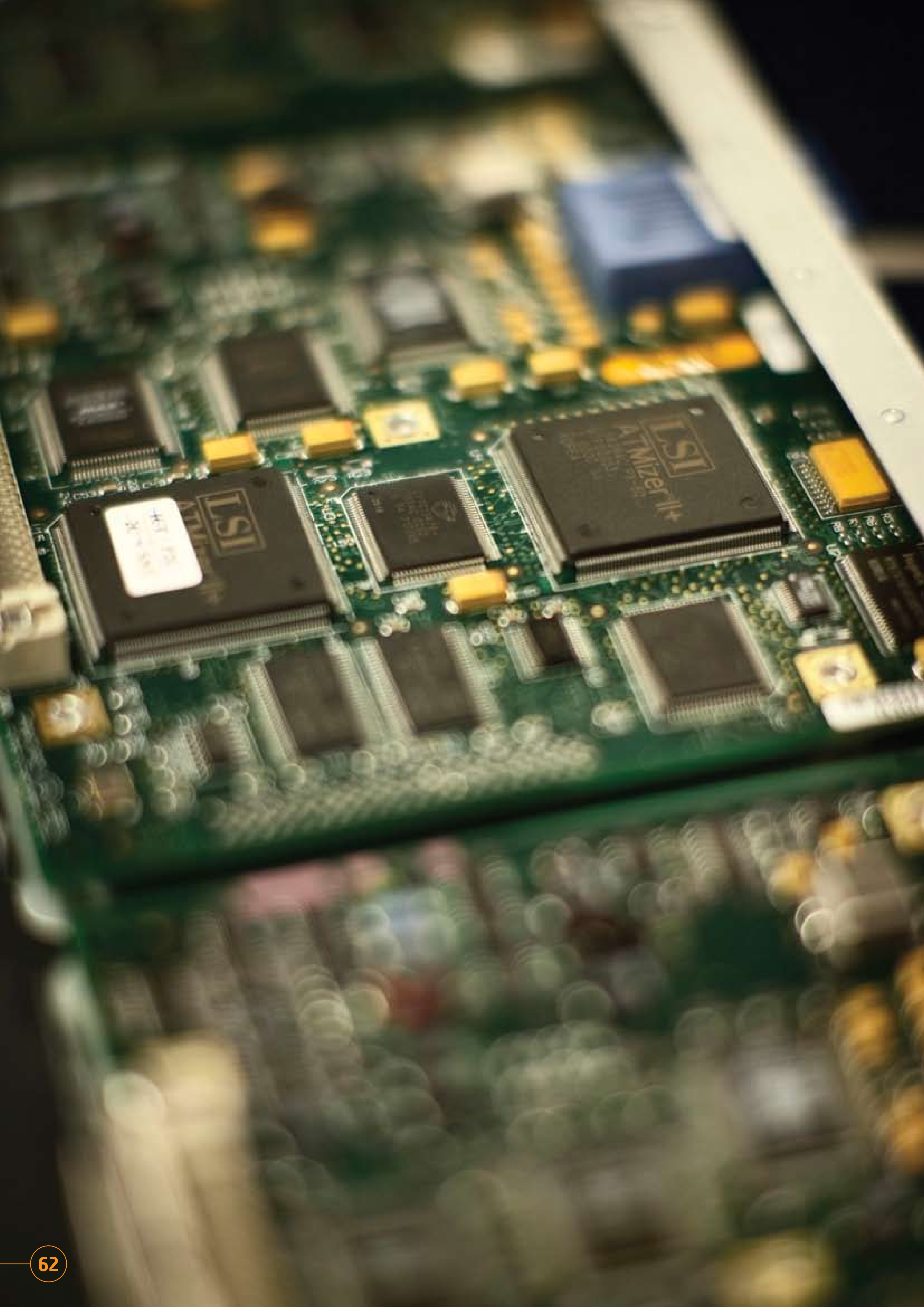
aa. Earnings per share

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity;

- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus element.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3. Revenue and expenses

Revenue and Expenses from Continuing Operations	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(a) Other Revenue					
Finance revenue - interest received					
- other entities		788,410	577,041	783,217	545,029
- Telstra LSS settlement		1,688,026	-	1,688,026	-
		2,476,436	577,041	2,471,243	545,029
(b) Other Income					
Telstra LSS settlement		6,887,940	-	6,887,940	-
Gain on disposal of non-current assets		17,000	586,056	17,000	228,054
Net gain on interest rate swap derivative		55,473	-	55,473	-
Other		148,958	-	33,925	-
		7,109,371	586,056	6,994,338	228,054
(c) Depreciation and Amortisation					
Depreciation of plant and equipment		11,568,390	8,874,347	9,407,902	6,541,113
Amortisation of:					
Subscriber bases		-	5,752,079	-	836,694
Equipment under finance lease		1,842,073	1,944,321	1,614,720	1,615,872
Leasehold improvements		351,216	212,089	343,038	108,087
Capitalised development costs		1,682,688	1,142,646	1,567,497	1,057,674
Subscriber Acquisition costs		3,840,838	2,064,206	3,840,838	2,411,160
Patents and trademarks		5,536	4,726	5,327	4,602
		19,290,741	19,994,414	16,779,322	12,575,202
(d) Lease payments and other expenses included in the Income Statement					
Operating lease rentals - minimum lease payments		1,661,130	3,888,881	815,487	1,297,804
Net bad and doubtful debts arising from other entities		1,781,793	2,597,506	1,623,950	1,634,447
Share based payments expense		703,919	694,974	809,264	694,974
(e) Finance Costs					
Interest - other entities		3,064,751	3,940,594	3,034,051	3,878,071
Finance lease interest charges		569,553	619,882	569,422	619,882
Other borrowing costs		431,435	395,408	431,435	332,075
		4,065,739	4,955,884	4,034,908	4,830,028
(f) Impairment					
Impairment of property, plant and equipment	12	-	1,054,640	-	-
Impairment of goodwill	13	-	41,504,866	-	21,811
Writeoff of intangibles	13	-	4,846,225	-	1,598,298
Write down of intercompany loans		-	-	-	50,052,600
		-	47,405,731	-	51,672,709

4. Discontinued operations

On 9 October 2006, the Company announced to the ASX that it had agreed to the sale of 100% of the shares in its New Zealand subsidiary ihug Limited to Vodafone New Zealand. The sale was completed on 24 October 2006 at which time control of the business passed to the acquirer. Under the terms of the sale agreement, all profits arising from the operation of the business from 30 September 2006 were to the account of the purchaser. ihug Limited operated in the New Zealand geographic segment of the business.

The results of the discontinued operations for the year until disposal are presented below:

	Year Ended 30 June 2007 $	Year Ended 30 June 2006 $
Revenue	8,740,198	34,160,265
Cost of sales and services rendered	(4,938,885)	(17,217,088)
Gross profit	3,801,313	16,943,177
Expenses	(3,162,205)	(34,218,636)
Profit/(Loss) before tax from discontinued operations	639,108	(17,275,459)
Gain on disposal	5,016,282	-
Tax (expense)/benefit:		
Related to pre-tax profit	(215,975)	73,051
Profit/(Loss) after tax from discontinued operations	5,439,415	(17,202,408)

Details of the disposal of ihug Limited are as follows:

	24 October 2006 $
Assets	
Intangibles	27,117,667
Property, plant and equipment	1,809,849
Trade and other receivables	2,018,918
Cash and cash equivalents	2,373,994
Inventory	95,388
Prepayments	1,596,894
Deferred tax asset	1,034,512
	36,047,222
Liabilities	
Trade and other payables	(5,567,379)
Unearned revenue	(705,797)
Provisions	(196,110)
Deferred tax liability	(776,817)
	(7,246,103)
Net assets attributable to discontinued operations	28,801,119
Consideration received or receivable net of working capital adjustment	35,966,627
Less: cash transaction costs	(1,360,597)
Net disposal consideration	34,606,030
Less: net assets disposed of	(28,801,119)
Less: repayment of subsidiary loans	(1,118,045)
Add: write-back of share based payments reserve	105,345
Add: write-back of foreign exchange gains and losses reserve	224,071
Income tax expense	-
Gain on disposal after income tax	5,016,282

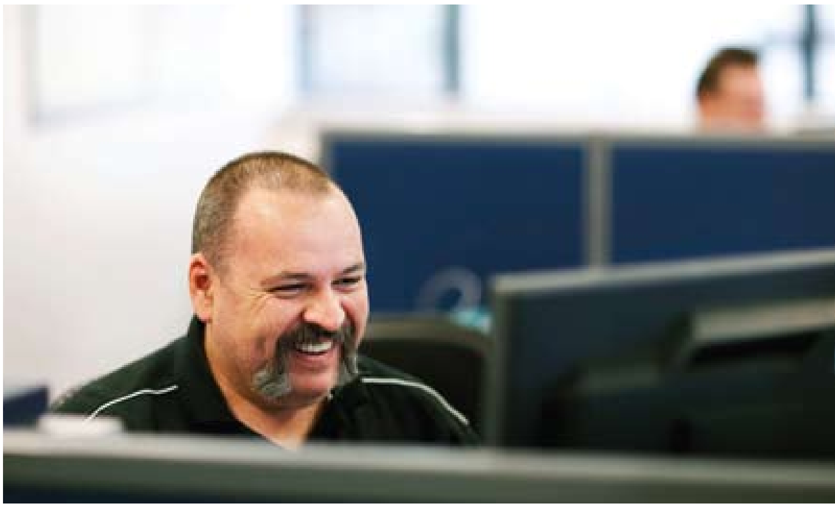
4. Discontinued operations (continued)

The proceeds on disposal exceeded the book value of the related net assets and accordingly no impairment losses were recognised on the reclassification of these operations as held for sale.

The net cash flows on disposal of ihug Limited were as follows:

	24 October 2007 $
Net cash inflow on disposal	
Consideration received or receivable net of working capital adjustment	35,966,627
Less: repayment of subsidiary loans	(1,118,045)
Less: payment of transaction costs	(1,360,597)
Less: cash and cash equivalents balance disposed of	(2,373,994)
Reflected in the cash flow statement	31,113,991

	2007	2006
Earnings per share for profit/(loss) from discontinued operations attributable to the ordinary equity holders		
Earnings per share from discontinued operations	**cents**	**cents**
Basic from discontinued operations	4.3	(15.6)
Diluted from discontinued operations	4.3	(15.6)



5. Income Tax

The major components of income tax are:	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Income statement					
Current income tax					
Current income tax (benefit)/charge		4,252,059	(2,921,968)	(7,309,292)	(10,357,096)
Adjustments in respect of current income tax of previous years		(342,802)	(1,939,147)	(342,802)	(1,939,147)
Deferred income tax					
Relating to origination and reversal of temporary differences		3,339,036	(3,439,106)	2,895,751	3,137,300
Income tax (benefit)/expense reported in the income statement		7,248,293	(8,300,221)	(4,756,343)	(9,158,943)
A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:					
Accounting profit before tax from continuing operations		25,062,250	(53,648,724)	12,982,896	(79,223,428)
Profit/(loss) before tax from discontinued operations		5,655,390	(17,275,459)	-	-
Total accounting profit/(loss) before income tax		**30,717,640**	**(70,924,183)**	**12,982,896**	**(79,223,428)**
At the Group's statutory income tax rate of 30% (2006: 30%)		9,215,292	(21,277,255)	3,894,869	(23,767,028)
- Adjustments in respect of previous years		(342,802)	(434,776)	(342,802)	(702,548)
- Impairment of goodwill/intercompany writedown		-	12,581,206	-	15,015,780
- Expenditure not allowable for income tax purposes		310,918	830,604	311,838	205,134
- Other		(173,704)	(73,051)	(160,248)	89,719
- Income not assessable for income tax purposes		(1,545,436)	-	(8,460,000)	-
Aggregate income tax expense/(benefit)		7,464,268	(8,373,272)	(4,756,343)	(9,158,943)
Aggregate income tax expense/(benefit) is attributable to:					
Continuing operations		7,248,293	(8,300,221)	(4,756,343)	(9,158,943)
Discontinued operations		215,975	(73,051)	-	-
		7,464,268	(8,373,272)	(4,756,343)	(9,158,943)

5. Income Tax (continued)

Deferred income tax at 30 June relates to the following:	Balance Sheet		Income Statement	
	2007 $	2006 $	2007 $	2006 $
Consolidated				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	(4,328,597)	(6,422,074)	(1,730,920)	3,199,220
Accelerated amortisation of subscriber bases for tax purposes	-	(438,529)	-	(6,490,909)
Provisions	(14,602)	-	14,602	-
Receivables	(4,773,966)	-	4,773,966	-
Other	(29,720)	(240,423)	(242,241)	(422,997)
Gross deferred income tax liabilities	(9,146,885)	(7,101,026)		
Deferred tax assets				
Depreciation rate less for tax purposes	258,960	(650,157)	65,862	2,922,868
Provisions	1,479,319	3,008,566	(359,733)	(1,114,698)
Leases	734,442	1,455,390	720,948	(1,455,390)
Share issue expenses recognised directly in equity	476,801	654,602	143,781	168,935
Other	330,716	376,762	(47,229)	(246,135)
Tax losses	893,035	3,419,592	-	-
Gross deferred income tax assets	4,173,273	8,264,755		
Deferred tax income/(expense)			3,339,036	(3,439,106)
Deferred tax as represented on the balance sheet				
Net deferred tax (liability)/asset	(4,973,612)	1,661,935		
Net deferred tax liability in foreign jurisdiction	-	(498,206)		
	(4,973,612)	1,163,729		
Company				
Deferred tax liabilities				
Accelerated depreciation for tax purposes	(3,962,291)	(6,199,997)	(1,939,568)	5,614,976
Accelerated amortisation of subscriber bases for tax purposes	-	-	-	(730,498)
Provisions	(14,602)	-	14,602	-
Receivables	(4,773,966)	-	4,773,966	-
Other	(26,977)	(217,858)	(214,933)	217,858
Gross deferred income tax liabilities	(8,777,836)	(6,417,855)		
Deferred tax assets				
Depreciation rate less for tax purposes	223,849	307,166	83,318	(200,134)
Provisions	1,399,749	760,757	(638,993)	(506,265)
Leases	734,442	1,455,390	720,948	(1,245,625)
Share issue expenses recognised directly in equity	476,801	620,858	143,781	198,666
Other	327,596	282,971	(47,369)	(211,678)
Tax losses	899,854	3,942,142	-	-
Gross deferred income tax assets	4,062,291	7,369,284		
Deferred tax income/(expense)			2,895,752	3,137,300
Deferred tax as represented on the balance sheet				
Net deferred tax (liability)/asset	(4,715,545)	951,429		

5. Income Tax (continued)

Tax consolidation

Effective July 1 2003, for the purpose of income taxation, iiNet Limited and its 100% Australian owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. The head entity of the tax consolidation group is iiNet Limited. The agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance sheet date, the possibility of default is remote.

Tax effect accounting by members of the tax consolidated group

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the separate financial statements of the members of the tax consolidated group using the group allocation method. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the Company (as head entity in the tax consolidated group).

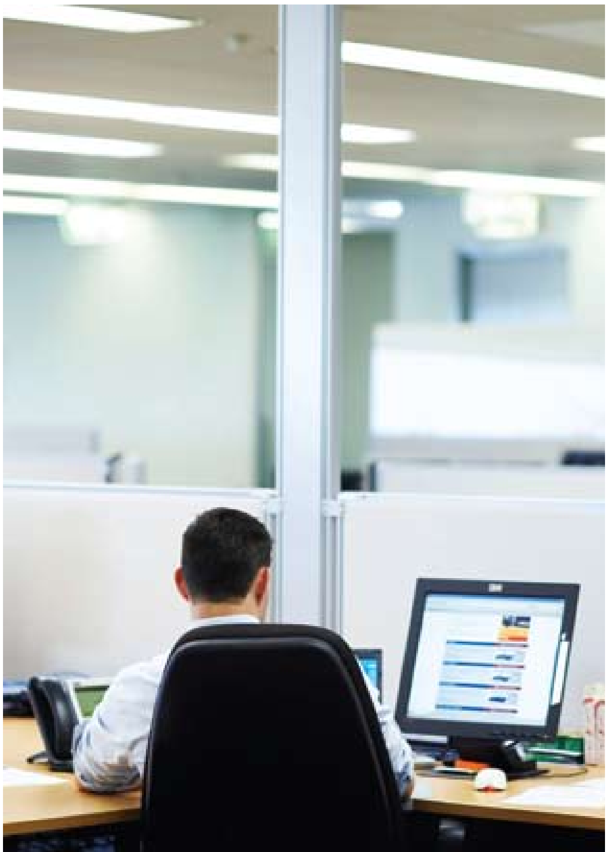
Members of the tax consolidated group have entered into a tax funding agreement. Amounts are recognised as payable to or receivable by the Company and each member of the tax consolidated group in relation to the tax contribution amounts paid or payable between the parent entity and the other members of the tax-consolidated group in accordance with this agreement. Where the tax contribution amount recognised by each member of the tax consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the distribution is recognised as a contribution from (or distribution to) equity participants.

iiNet Limited has recognised the following amounts as tax - consolidation contribution adjustments:

	Parent	
Tax effect accounting by members of the tax consolidated group	2007	2006
Total increase to tax benefit of iiNet Ltd	11,561,350	6,414,954
Total reduction to intercompany assets of iiNet Ltd	(11,561,350)	(6,414,954)
Total increase/(reduction) to equity accounts of iiNet Ltd	-	-

Tax losses

iiNet has recognised a deferred tax asset of $893,035 (2006: $3,419,592) which relates to the tax losses for the year ended 30 June 2006.



6. Trade and other receivables

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Trade receivables (i)	14,530,439	20,399,094	14,411,510	9,812,875
Allowance for doubtful debts	(507,542)	(3,807,316)	(471,324)	(2,357,985)
Other debtors (ii)	1,388,277	2,645,343	386,476	1,648,414
	15,411,174	19,237,121	14,326,662	9,103,304

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Other receivables - Telstra LSS Settlement (iii)	15,913,219	-	15,913,219	-
	15,913,219	-	15,913,219	-

The Telstra LSS settlement relates to the amount overcharged by Telstra for LSS services between June 2004 and June 2006.

Terms and conditions:

(i) Trade receivables are generally non-interest bearing and generally on 30 day terms.
(ii) Other debtors are non-interest bearing and have collection terms between 30 - 90 days.
(iii) Interest is payable on the Telstra LSS Settlement receivable compounded daily at the Large Business Variable Indicator Rate published by the Reserve Bank of Australia. This payment was received on 24 August 2007.

7. Inventories - current

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Finished goods at the lower of cost and net realisable value	344,179	480,351	354,303	435,145

The cost of inventories expensed for the year was $3,289,206 (2006: $5,254,190).

8. Prepayments

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Prepayments (i)	8,352,464	5,351,628	8,159,584	3,538,930

(i) Prepayments relate primarily to domestic transmission and insurance contracts.

9. Other current assets

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
GST Receivable	-	306,751	-	336,328
	-	306,751	-	336,328

10. Receivables - non-current

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Loans advanced to entities in the wholly owned group (i)	-	-	107,603,624	140,202,103
	-	-	107,603,624	140,202,103

Terms and conditions:

(i) Loans receivable from related entities are payable on demand but will not be called within the next 12 months.

11. Other financial assets - non-current

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Investments - at cost				
Shares in controlled entities - unlisted	-	-	10,000	10,004

	Country of Incorporation	Ownership Interest %	
		2007	2006
Parent Entity			
iiNet Limited			
Controlled Entities			
Entities held by iiNet Limited			
Chime Communications Pty Limited	Australia	100	100
ihug Pty Limited	Australia	100	100
Connect West Pty Limited	Australia	100	100
Netscapade Pty Limited	Australia	100	100
iiNet (OzEmail) Pty Limited	Australia	100	100
iiNet New Zealand Limited	New Zealand	100	100
iiNet New Zealand AKL Limited	New Zealand	100	-
Entity held by iiNet New Zealand Limited			
ihug Limited	New Zealand	-	100

Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to Chime Communications Pty Ltd, ihug Pty Ltd, Netscapade Pty Ltd, Connect West Pty Ltd and iiNet (OzEmail) Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, iiNet Limited, Chime Communications Pty Ltd, ihug Pty Ltd, Connect West Pty Ltd and iiNet (OzEmail) Pty Ltd (the Closed Group) entered into a Deed of Cross Guarantee on 29 June 2005. The effect of the deed is that iiNet Limited has guaranteed to pay any deficiency in the event of the winding up of either controlled entity. The controlled entities have also given a similar guarantee in the event that iiNet Limited is wound up.

The consolidated statement of financial performance and statement of financial position of the entities which are members of the closed group are as follows:

11. Other financial assets - non-current (continued)

	Closed Group 2007 $	Closed Group 2006 $
(i) Consolidated Income Statement		
Profit/(loss) before income tax	27,677,297	(49,239,714)
Income tax expense/(benefit)	(8,111,260)	(8,300,222)
Net profit/(loss)	19,566,037	(57,539,936)
Retained profits at the beginning of the financial year	(64,808,136)	(1,807,606)
Dividends provided for or paid	(1,256,077)	(5,460,594)
Retained profits/(accumulated losses) at the end of the financial year	(46,498,176)	(64,808,136)
(ii) Consolidated Balance Sheet		
Current Assets		
Cash and cash equivalents	14,994,449	5,110,113
Trade receivables	14,022,657	21,783,772
Other receivables	17,407,489	-
Inventories	344,179	426,925
Prepayments	8,352,028	3,966,484
Derivative financial instruments	55,473	-
Total Current Assets	55,176,275	31,287,294
Non-Current Assets		
Receivables	2,179,421	34,453,036
Property, plant and equipment	44,682,263	54,204,324
Intangible assets	114,354,771	112,730,589
Deferred income tax asset	-	3,806,886
Other	772,270	-
Total Non Current Assets	161,988,725	205,194,835
Total Assets	217,165,000	236,482,129
Current Liabilities		
Trade and other payables	29,046,682	36,397,782
Unearned revenue	17,849,803	18,163,788
Interest bearing loans and borrowings	3,870,168	4,102,353
Income tax payable	-	(3,935,324)
Provisions	2,374,885	3,185,094
Total Current Liabilities	53,141,538	57,913,693
Non-Current Liabilities		
Interest bearing loans and borrowings	19,158,608	53,805,986
Deferred income tax liabilities	5,011,283	6,602,820
Provisions	40,065	35,818
Total Non Current Liabilities	24,209,956	60,444,624
Total Liabilities	77,351,494	118,358,317
Net Assets	139,813,506	118,123,812
Equity		
Issued capital	183,371,196	180,800,726
Accumulated losses	(46,498,176)	(64,808,136)
Other reserves	2,940,486	2,131,222
Total Equity	139,813,506	118,123,812

12. Plant and equipment

Reconciliation of carrying amounts at the beginning and end of the period

Consolidated	Equipment under Finance Leases $	Plant and Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at 1 July 2006	12,461,391	76,028,592	2,459,418	90,949,401
Additions	1,038,038	11,545,323	1,121,220	13,704,581
Disposals	(999,911)	(16,974,377)	(404,934)	(18,379,222)
Balance at 30 June 2007	12,499,518	70,599,538	3,175,704	86,274,760
Accumulated Depreciation				
Balance at 1 July 2006	(6,079,361)	(32,550,365)	(1,595,649)	(40,225,375)
Depreciation expense	(1,842,073)	(11,568,390)	(351,216)	(13,761,679)
Disposals	-	12,359,496	404,934	12,764,430
Balance at 30 June 2007	(7,921,434)	(31,759,259)	(1,541,931)	(41,222,624)
Net Book Value				
At 30 June 2006	6,382,030	43,478,227	863,769	50,724,026
At 30 June 2007	4,578,084	38,840,279	1,633,773	45,052,136

Company	Equipment under Finance Leases $	Plant and Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at 1 July 2006	9,298,450	54,187,699	2,491,315	65,977,464
Additions	-	10,241,526	747,427	10,988,953
Disposals	(999,911)	(5,833,469)	(168,679)	(7,002,059)
Balance at 30 June 2007	8,298,539	58,595,756	3,070,063	69,964,358
Accumulated Depreciation				
Balance at 1 July 2006	(2,953,971)	(20,598,040)	(1,338,894)	(24,890,905)
Depreciation expense	(1,614,720)	(9,407,902)	(343,038)	(11,365,660)
Disposals	-	4,212,225	168,679	4,380,904
Balance at 30 June 2007	(4,568,691)	(25,793,717)	(1,513,253)	(31,875,661)
Net Book Value				
At 30 June 2006	6,344,479	33,589,659	1,152,421	41,086,559
At 30 June 2007	3,729,848	32,802,039	1,556,810	38,088,697

Assets pledged as security

Assets under lease are pledged as security for the associated lease liabilities.
Under the terms of the debt facility (Note 16 & 18), the Westpac Banking Corporation has a fixed and floating charge over the plant and equipment of the iiNet Group.

12. Plant and equipment (continued)

Reconciliation of carrying amounts at the beginning and end of the period (continued)

Consolidated	Equipment under Finance Leases $	Plant and Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at 1 July 2005	11,005,051	42,838,601	2,390,410	56,234,062
Additions	1,456,340	33,189,991	69,008	34,715,339
Balance at 30 June 2006	12,461,391	76,028,592	2,459,418	90,949,401
Accumulated Depreciation				
Balance at 1 July 2005	(4,135,040)	(21,018,257)	(1,375,107)	(26,528,404)
Depreciation expense	(1,944,321)	(10,477,468)	(220,542)	(12,642,331)
Impairment	-	(1,054,640)	-	(1,054,640)
Balance at 30 June 2006	(6,079,361)	(32,550,365)	(1,595,649)	(40,225,375)
Net Book Value				
At 30 June 2005	6,870,011	21,820,344	1,015,303	29,705,658
At 30 June 2006	6,382,030	43,478,227	863,769	50,724,026

Company	Equipment under Finance Leases $	Plant and Equipment $	Leasehold Improvements $	Total $
Cost				
Balance at 1 July 2005	7,842,110	28,786,745	2,414,068	39,042,923
Additions	1,456,340	25,400,954	77,247	26,934,541
Disposals	-	-	-	-
Balance at 30 June 2006	9,298,450	54,187,699	2,491,315	65,977,464
Accumulated Depreciation				
Balance at 1 July 2005	(1,338,099)	(14,056,927)	(1,230,807)	(16,625,833)
Depreciation expense	(1,615,872)	(6,541,113)	(108,087)	(8,265,072)
Disposals	-	-	-	-
Balance at 30 June 2006	(2,953,971)	(20,598,040)	(1,338,894)	(24,890,905)
Net Book Value				
At 30 June 2005	6,504,011	14,729,818	1,183,261	22,417,090
At 30 June 2006	6,344,479	33,589,659	1,152,421	41,086,559

13. Intangible assets and goodwill

(a) Reconciliation of carrying amounts at the beginning and end of the period

Consolidated	Subscriber Acquisition Costs ^ $	Development Costs ^ $	Subscriber Bases # $	Goodwill # $	Patents and Trademarks # $	Total $
Cost						
Balance at 1 July 2006	9,292,736	6,344,087	54,620,924	175,770,854	103,019	246,131,620
Additions	1,621,912	1,115,880	-	405,887	9,356	3,153,035
Disposals	(1,599,598)	(2,329,513)	(1,328,876)	(25,103,441)	-	(30,361,428)
Balance at 30 June 2007	9,315,050	5,130,454	53,292,048	151,073,300	112,375	218,923,227
Accumulated Depreciation						
Balance at 1 July 2006	(3,945,616)	(2,723,516)	(53,292,048)	(41,649,052)	(11,360)	(101,621,592)
Depreciation expense	(3,840,838)	(1,682,688)	-	-	(5,536)	(5,529,062)
Disposals	1,131,184	1,451,014	-	-	-	2,582,198
Balance at 30 June 2007	(6,655,270)	(2,955,190)	(53,292,048)	(41,649,052)	(16,896)	(104,568,456)
Net Book Value						
At 30 June 2006	5,347,120	3,620,571	1,328,876	134,121,802	91,659	144,510,028
At 30 June 2007	2,659,780	2,175,264	-	109,424,248	95,479	114,354,771

Company	Subscriber Acquisition Costs ^ $	Development Costs ^ $	Subscriber Bases # $	Goodwill # $	Patents and Trademarks # $	Total $
Cost						
Balance at 1 July 2006	7,783,912	5,001,279	12,685,212	21,811	100,565	25,592,779
Additions	1,432,402	1,115,880	-	89,320	9,356	2,646,958
Disposals	-	(1,561,052)	-	-	-	(1,561,052)
Balance at 30 June 2007	9,216,314	4,556,107	12,685,212	111,131	109,921	26,678,685
Accumulated Depreciation						
Balance at 1 July 2006	(2,715,695)	(1,868,683)	(12,685,212)	(21,811)	(11,124)	(17,302,525)
Depreciation expense	(3,840,838)	(1,567,497)	-	-	(5,327)	(5,413,662)
Disposals	-	682,553	-	-	-	682,553
Balance at 30 June 2007	(6,556,533)	(2,753,627)	(12,685,212)	(21,811)	(16,451)	(22,033,634)
Net Book Value						
At 30 June 2006	5,068,217	3,132,596	-	-	89,441	8,290,254
At 30 June 2007	2,659,781	1,802,480	-	89,320	93,470	4,645,051

^ Internally generated
# Purchased as part of a business combination

13. Intangible assets and goodwill (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period (continued)

Consolidated	Subscriber Acquisition Costs ^ $	Development Costs ^ $	Subscriber Bases # $	Goodwill # $	Patents and Trademarks # $	Total $
Cost						
Balance at 1 July 2005	3,305,305	4,169,493	53,864,146	175,770,854	77,633	237,187,431
Additions - external	5,987,431	-	756,778	-	-	6,744,209
Additions - internal	-	2,174,594	-	-	25,386	2,199,980
Balance at 30 June 2006	9,292,736	6,344,087	54,620,924	175,770,854	103,019	246,131,620
Accumulated Amortisation						
Balance at 1 July 2005	(786,940)	(1,580,870)	(21,509,447)	-	(6,634)	(23,883,891)
Amortisation expense	(3,158,676)	(1,142,646)	(9,423,292)	-	(4,726)	(13,729,340)
Impairment	-	-	(22,463,611)	(41,504,866)	-	(63,968,477)
Foreign currency translation difference	-	-	104,302	(144,186)	-	(39,884)
Balance at 30 June 2006	(3,945,616)	(2,723,516)	(53,292,048)	(41,649,052)	(11,360)	(101,621,592)
Net Book Value						
At 30 June 2005	2,518,365	2,588,623	32,354,699	175,770,854	70,999	213,303,540
At 30 June 2006	5,347,120	3,620,571	1,328,876	134,121,802	91,659	144,510,028

Company	Subscriber Acquisition Costs ^ $	Development Costs ^ $	Subscriber Bases # $	Goodwill # $	Patents and Trademarks # $	Total $
Cost						
Balance at 1 July 2005	1,884,325	3,091,374	12,685,212	-	75,179	17,736,090
Additions - external	5,899,587	-	-	21,811	-	5,921,398
Additions - internal	-	1,909,905	-		25,386	1,935,291
Balance at 30 June 2006	7,783,912	5,001,279	12,685,212	21,811	100,565	25,592,779
Accumulated Depreciation						
Balance at 1 July 2005	(304,535)	(811,009)	(10,250,220)	-	(6,522)	(11,372,286)
Amortisation expense	(2,411,160)	(1,057,674)	(836,694)	-	(4,602)	(4,310,130)
Impairment	-	-	(1,598,298)	(21,811)	-	(1,620,109)
Balance at 30 June 2006	(2,715,695)	(1,868,683)	(12,685,212)	(21,811)	(11,124)	(17,302,525)
Net Book Value						
At 30 June 2005	1,579,790	2,280,365	2,434,992	-	68,657	6,363,804
At 30 June 2006	5,068,217	3,132,596	-	-	89,441	8,290,254

^ Internally generated

Purchased as part of a business combination

13. Intangible assets and goodwill (continued)

(b) Description of the Group's intangible assets and goodwill

Development costs, subscriber bases and patents and trademarks have been capitalised at cost. These intangible assets have been assessed as having a finite life and are amortised using the straight-line method over the periods disclosed in Note 2. If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount. As from 1 July 2005 goodwill is no longer amortised but is now subject to annual impairment testing.

For the years ended 30 June 2007 and 30 June 2006:

- Developments costs have been amortised over their useful life of 2 to 5 years.
- Subscriber bases have been amortised over their useful life of 5 years.
- Patents and trademarks have been amortised over their useful life of 20 years.

(c) Impairment Testing of Goodwill

Goodwill acquired through business combinations has been allocated to Australia as a single cash generating units ("CGU") for impairment testing.

Australian CGU

(i) Description of the cash generating units
The recoverable amount of the Australian CGU has been determined based on the fair value less cost to sell methodology using cash flow projections based on financial budgets approved by senior management covering a five year period. The pre-tax discount rate applied to the cash flow projections is 14.6% (2006: 15.0%). The model did not incorporate a growth rate beyond the five year period.

(ii) Key assumptions used in impairment test for goodwill
The calculation of fair value less cost to sell is most sensitive to the following assumptions:

- Subscriber count;
- gross margins; and
- discount rates.

Gross margins - gross margins are based on the customer mix at the start of the budget period. These are budgeted to decline over the five year period due to an anticipated decline in the average revenue per user. An average annual decrease of 1.0% in gross margins has been applied.

Subscriber count – management uses industry research on growth rates in the market and how the CGU's relative position to its competitors might change over the budget period. Management expects the Australian CGU's market share to be stable over the budget period.

Discount rates – discount rates reflect management's estimate of the time value of money and risks specific to the Australian CGU. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals. In determining the appropriate discount rate, regard has been given to the yield on a ten year government bond at the beginning of the budgeted year.

The carrying amount of goodwill at 30 June 2007 was $109,424,248.

(iii) Sensitivity to changes
Management consider that any reasonable changes in the key assumptions to the cash flow projections would not result in the carrying value of the Australian CGU exceeding it's recoverable amount.

14. Trade and other payables - current

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Trade creditors (i)	28,633,523	41,044,448	23,387,650	29,735,782
Other creditors (ii)	348,259	351,287	303,506	310,346
GST payable	223,096	-	11,958	-
	29,204,878	41,395,735	24,703,114	30,046,128

Terms and Conditions:

(i) Trade creditors and GST payable are non-interest bearing and generally on 30 day terms.
(ii) Other creditors are non-interest bearing and have repayment terms between 30 and 180 days

15. Unearned revenue - current

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Unearned revenue	17,849,803	14,649,011	17,849,803	6,657,213

16. Interest bearing loans and borrowings - current

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Bank facility	18	-	10,000,000	-	10,000,000
Finance lease liabilities	31	3,870,168	3,536,323	3,870,168	3,533,699
		3,870,168	13,536,323	3,870,168	13,533,699

Refer to note 18 for terms and conditions.

17. Provisions - current

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Employee entitlements	28	2,251,487	2,536,545	2,168,711	2,175,620
Surplus leased space	(a)	25,638	548,049	23,046	210,236
Make Good	(b)	150,000	449,998	150,000	150,000
Other	(c)	55,257	42,994	30,536	-
		2,482,382	3,577,586	2,372,293	2,535,856
Movements in provisions:					
(a) Surplus Leased Space					
Balance as at beginning of the year		548,049	65,428	210,236	-
Additional provisions		-	503,958	-	210,236
Reductions arising from payments / other sacrifices					
of future economic benefits		(522,411)	(21,337)	(187,190)	-
Balance at year end		25,638	548,049	23,046	210,236

The provision for surplus leased space represents the future lease payments that the consolidated entity is presently obliged to make in respect of surplus lease space under non-cancellable operating lease operations, less estimated future sub-lease revenue where applicable. The estimate may vary as a result of changes in utilisation of the leased premises and the sub lease arrangements where applicable.

(b) Make Good				
Balance as at beginning of the year	449,998	400,000	150,000	-
Arising during the year	-	449,998	-	150,000
Reductions arising from payments / other sacrifices				
of future economic benefits	(299,998)	(400,000)	-	-
Balance at year end	150,000	449,998	150,000	150,000

The provision for make good is a fair value adjustment identified as part of the acquisition of businesses.

(c) Other				
Balance as at beginning of the year	42,994	395,649	-	40,086
Additional provisions	-	42,994	-	-
Increase/(reduction) arising from payments / other sacrifices				
of future economic benefits	12,263	(395,649)	30,536	(40,086)
Balance at year end	55,257	42,994	30,536	-

Other provisions raised include provisions for lease incentives & dial utilisation.

18. Interest bearing loans and borrowings - non-current

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Bank facility (i)	31	16,800,000	38,000,000	16,800,000	38,000,000
Finance lease liabilities (ii)	31	2,358,608	6,372,016	2,358,608	6,372,016
		19,158,608	44,372,016	19,158,608	44,372,016

18. Interest bearing loans and borrowings - non-current (continued)

Terms and Conditions

(i) The bank facility is a $30,000,000 cash advance facility which expires on 28 February 2010 and may be drawn at any time. The facility is secured by a fixed and floating charge over the assets of the iiNet Group. Interest is recognised at an average rate of 8.08% (2006: 7.29%).

(ii) Finance leases have lease terms of between 1 and 5 years with the option to purchase the assets at the completion of the leases. The average discount rate implicit in the leases is 6.33% (2006: 6.33%). Lease liabilities are secured by a charge over the leased assets. A restriction also exists requiring notification to the lessor of any further finance leases entered into.

Fair Values

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

19. Provisions - non-current

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Employee entitlements	28	40,065	35,818	40,065	35,818

20. Issued capital

	Consolidated and Company			
	2007		2006	
	Number	$	Number	$
Ordinary shares				
Issued and fully paid	125,607,402	183,371,195	121,841,016	180,800,726
Movements in shares on issue				
Balance at beginning of financial year	121,841,016	180,800,726	109,126,616	170,195,672
Shares issued as part capital raising	3,766,386	2,623,142	12,600,000	10,710,000
Cost of capital raising	-	(52,673)	-	(214,200)
Other costs	-	-	-	-
Issues of shares under the employee share options plans	-	-	114,400	109,254
	125,607,402	183,371,195	121,841,016	180,800,726

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value shares. Accordingly the Company does not have authorised capital nor par value in respect of its issued capital.

Fully paid ordinary share carry one vote per share and carry the right to dividends.

Consideration received on the exercise of options is recognised in contributed equity. During the financial year $2,400 (2006: $109,254) was recognised in contributed equity arising from the exercise of director, executive and employee options.

Further details of the director and specified director options are provided in Note 27, and further details of employee share option plans are contained in Note 28.

21. Reserves and retained profits/(accumulated losses)

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Retained Profits / (Accumulated Losses)				
Balance as at beginning of the year	(70,928,805)	(2,917,300)	(71,334,267)	4,190,813
Net profit/(loss) attributable to members of the parent entity	23,253,372	(62,550,911)	17,739,239	(70,064,486)
Dividends provided for or paid from available profits	(1,256,078)	(5,460,594)	(1,256,077)	(5,460,594)
Balance at year end	(48,931,511)	(70,928,805)	(54,851,105)	(71,334,267)
Other Reserves				
(i) Employee Equity Benefits Reserve				
Balance as at beginning of the year	2,131,222	1,436,248	2,131,222	1,436,248
Cost of share based payment	703,919	694,974	809,264	694,974
Balance at year end	2,835,141	2,131,222	2,940,486	2,131,222
(ii) Foreign Currency Translation Reserve				
Balance as at beginning of the year	(405,463)	530,738	-	-
Loss on transactions of overseas controlled entities	-	(936,201)	-	-
Currency translation differences	405,463	-	-	-
Balance at year end	-	(405,463)	-	-
Total Other Reserves	2,835,141	1,725,759	2,940,486	2,131,222

22. Earnings per share

	Consolidated 2007 $	Consolidated 2006 $
Profit/(loss) per Income Statement	23,253,372	(62,550,911)
	Number	**Number**
Weighted average number of ordinary shares used to calculate basic earnings per share	124,996,722	110,010,998
Add effect of dilutive securities - employee options^	502,194	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	125,498,916	110,010,998

^ The Group had 3,909,500 non dilutive potential ordinary shares at 30 June 2007 (30 June 2006: 3,907,900)

23. Dividends provided for or paid

	2007		2006	
	Cents per share	Total $	Cents per share	Total $
(a) Dividends paid during the year				
Current year interim dividend - fully franked	1.0	1,256,078	1.0	1,093,703
Previous year interim dividend - fully franked	-	-	4.0	4,366,891
	1.0	1,256,078	5.0	5,460,594
(b) Dividends declared and not recognised as a liability				
Final dividend - fully franked [1]	5.0	6,280,370	-	-

1. After the balance sheet date these dividends were declared. These amounts have not been recognised as a liability in 2007 but will be brought into account in 2008

	2007 $	2006 $
(c) Franking credit balance		
Financial credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30 percent (2006: 30 percent)	4,303,785	4,303,785
Franking debits arose from the payment of the interim dividends in April 2007	(538,319)	-
Franking credits that arose from the payment of income tax payable in May 2007	351,417	-
The amount of franking credits available for future reporting periods:	4,116,883	4,303,785
Franking debits that will arise from the payment of recommended final dividends for the end of the financial year	(2,691,587)	-
	1,425,296	4,303,785

The tax rate at which paid dividends have been franked is 30% (2006: 30%). Dividends proposed will be franked at the rate of 30% (2006: 30%)

24. Notes to the statement of cash flows

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(a) Reconciliation of cash				
Cash balance comprises				
- cash at bank	15,264,932	7,219,326	14,473,401	4,383,468
- short term deposits - at call	105,993	171,209	540,158	440,887
	15,370,925	7,390,535	15,013,559	4,824,355
- short term deposits included in receivables	876,298	876,298	432,287	432,289
	16,247,225	8,266,833	15,445,846	5,256,644

(b) Cash balances not available for use

As at the end of the financial year $876,298 of the consolidated entity's cash was held in term deposits as security for bank guarantees and is not available for use (2006: $876,298)

(c) Reconciliation of net profit/(loss) after tax to net cash flows from operations

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Net profit/(loss) after income tax	23,253,372	(62,550,911)	17,739,239	(70,064,486)
Depreciation and amortisation	19,290,741	26,371,672	16,779,322	12,575,202
Net gain on sale of non current assets	(17,000)	(586,056)	(17,000)	(228,054)
Net gain on sale of ihug	(5,016,282)	-	-	-
Share-based payment	703,919	694,974	809,264	694,974
Customer refunds & credits	2,314,565	3,321,907	2,314,565	3,321,907
Net Gain on Interest rate Swap Derivative	(55,473)	-	(55,473)	-
Impairment of non-current assets	-	65,023,117	-	-
Impairment of intercompany investment	-	-	-	51,672,709
(Increase)/decrease in assets:				
- Receivables	(12,087,272)	196,469	(21,136,577)	(817,872)
- Inventory	136,172	16,736	80,842	(249,167)
- Prepayments	(3,000,836)	(2,168,349)	(4,620,654)	(2,003,074)
- Other	306,751	-	336,332	9,183
Increase/(decrease) in liabilities:				
- Payables	(6,300,390)	1,674,667	(3,236,743)	20,336,947
- Unearned Revenue	3,200,792	(1,880,845)	11,192,590	(4,646,332)
- Provisions	(1,090,956)	(1,507,561)	(159,316)	1,127,060
- Income tax payable	(893,035)	851,406	(899,854)	(282,676)
- Deferred tax balances	7,030,376	(8,561,504)	6,566,828	(2,152,722)
Net cash flow from operating activities	27,775,444	20,895,722	25,693,365	9,293,599

(d) Non-Cash Financing and Investing Activities

(i) During the year, the Group acquired plant and equipment with an aggregate fair value of $892,266 (2006: $1,456,340) by means of finance leases

(e) Financing Facilities

During the 2007 financial year the consolidated entity renewed it's debt facility with Westpac Banking Corporation. The new facility will expire on 28 February 2010.

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
- Facility used as at year end	16,800,000	48,000,000	16,800,000	48,000,000
- Facility unused as at year end	13,200,000	-	13,200,000	-
Total Facility	30,000,000	48,000,000	30,000,000	48,000,000

25. Expenditure commitments

(a) Capital expenditure commitments

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Plant and Equipment					
Not later than 1 year		3,598,290	4,132,443	2,992,809	304,003
Later than 1 year and not later than 5		-	-	-	-
Later than 5 years		-	-	-	-
		3,598,290	4,132,443	2,992,809	304,003

(b) Lease Commitments

The Group has finance leases for various items of plant and equipment. These contracts have options to purchase the leased assets at a nominal amount at the conclusion of the lease agreements. There are no renewal or escalation clauses. Future minimum lease payments under the purchase contracts together with the present value of the net minimum lease payments are as follows:

	Note	2007 Minimum Lease Payments $	2006 Minimum Lease Payments $
Consolidated			
Not Later than 1 year		4,157,700	4,121,056
Later than 1 year and not later than 5 years		2,422,973	6,724,033
Later than 5 years		-	-
Minimum lease payments		6,580,673	10,845,089
Less: Future finance charges		(351,897)	(936,631)
		6,228,776	9,908,458
Parent			
Not Later than 1 year		4,157,700	4,118,313
Later than 1 year and not later than 5 years		2,422,973	6,724,033
Later than 5 years		-	-
Minimum lease payments		6,580,673	10,842,346
Less: Future finance charges		(351,897)	(936,631)
		6,228,776	9,905,715

	Note	2007	2006
The weighted average interest rate impact on the finance leases for both the Group and the Parent is		6.33%	6.33%

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
(ii) Non cancellable operating leases					
Not later than 1 year		1,812,581	2,976,408	925,149	893,573
Later than 1 year and not later than 5 years		11,112,084	2,150,260	8,768,858	1,727,951
Later than 5 years		30,573,027	597,093	30,298,486	-
		43,497,692	5,723,761	39,992,493	2,621,524

Operating leases relate to premises with lease terms remaining between 1 and 12 years. The consolidated entity does not have an option to purchase the leased asset at the expiry of the leased term.

25. Expenditure commitments (continued)

(c) Other Expenditure

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Other Committed Operating Expenditure					
Not later than 1 year		7,520,704	24,586,577	-	-
Later than 1 year and not later than 5 years		237,600	25,800,357	-	-
Later than 5 years		-	155,139	-	-
		7,758,304	50,542,073		

Other committed operating expenditure predominately relates to Telstra Exchange Building Access costs and Telehousing Peering costs.

26. Auditor's remuneration

	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Amounts received or due and receivable by Ernst & Young for:				
Auditing the financial report	362,407	375,000	362,407	315,000
Other services - tax compliance, assurance related and due diligence services	415,809	994,899	249,478	944,451
Total auditor's remuneration	778,216	1,369,899	611,885	1,259,451

27. Key management personnel

(a) Details of key management personnel

i. Directors	
Peter Harley	Chairman (non-executive)
Michael Malone	Managing Director
Andrew Milner	Director (non-executive)
Peter James	Director (non-executive)
Paul Broad	Director (non-executive)
Tony Grist	Director (non-executive), appointed 26 July 2006
David Grant	Director (non-executive), appointed 12 October 2006
Keith Goodall	Director (non-executive), resigned 27 October 2006
ii. Executives	
Stephen Fewster	Chief Financial Officer & Company Secretary
Greg Bader	Chief Technology Officer
David Dans	Chief Information Officer, resigned 20 July 2007
Mark White	Chief Operating Officer
Steve Dalby	Chief Regulatory Officer
Maryna Pienaar	General Manager – Corporate Services
Andy McIntyre	General Manager - Business

(b) Remuneration of key management personnel

	Consolidated		Parent	
	2007	2006	2007	2006
Short-term employee benefits	1,970,621	1,804,603	1,721,287	1,484,693
Post employment benefits	137,119	85,820	123,897	85,820
Other long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share based payments	286,657	318,024	273,175	289,051
	2,394,397	**2,208,447**	**2,118,359**	**1,859,564**

iiNet Limited has applied the option under Corporations Amendments Regulation 2006 to transfer key management personnel remuneration disclosures required by AASB124 Related Party Disclosures paragraphs Aus 25.4 to Aus 25.7.2 to the Remuneration Report section of the Directors' report. These disclosures have been audited.

27. Key management personnel (continued)

(c) Option holdings of key management personnel (consolidated)

30 June 2007	Opening balance 1 July 2006	Granted as remuneration	Options Exercised	Net change other	Closing balance 30 June 2007	Vested at 30 June 2007	
						Exercisable	Not exercisable
Directors							
Retired or resigned KMP	244,700	-	-	(244,700)	-	-	-
Peter Harley	-	-	-	-	-	-	-
Michael Malone	-	-	-	-	-	-	-
Andrew Milner	50,000	-	-	-	50,000	50,000	-
Peter James	50,000	-	-	-	50,000	50,000	-
Paul Broad	-	-	-	-	-	-	-
Tony Grist	-	-	-	-	-	-	-
David Grant	-	-	-	-	-	-	-
Keith Goodall	50,000	-	-	(50,000)	-	-	-
Executives							
Stephen Fewster	125,000	70,000	-	-	195,000	25,000	170,000
Greg Bader	525,000	70,000	-	-	595,000	250,000	345,000
David Dans	75,000	70,000	-	-	145,000	-	145,000
Steve Dalby	80,000	70,000	-	-	150,000	35,000	115,000
Maryna Pienaar	110,500	70,000	-	-	180,500	35,500	145,000
Mark White	-	70,000	-	-	70,000	-	70,000
Andy McIntyre	15,000	30,000	-	-	45,000	-	45,000
Total	**1,325,200**	**450,000**	**-**	**(294,700)**	**1,480,500**	**445,500**	**1,035,000**

30 June 2006	Opening balance 1 July 2005	Granted as remuneration	Options Exercised	Net change other	Closing balance 30 June 2006	Vested at 30 June 2006	
						Exercisable	Not exercisable
Directors							
Peter Harley	-	-	-	-	-	-	-
Michael Malone	-	-	-	-	-	-	-
Andrew Milner	100,000	-	-	(50,000)	50,000	-	50,000
Peter James	100,000	-	-	(50,000)	50,000	-	50,000
Paul Broad	-	-	-	-	-	-	-
Keith Goodall	100,000	-	-	(50,000)	50,000	-	50,000
Executives							
C. Hollingsworth	296,200	-	-	(281,500)	14,700	6,500	8,200
Stephen Fewster	50,000	75,000	-	-	125,000	25,000	100,000
Greg Bader	450,000	75,000	-	-	525,000	223,400	301,600
David Dans	-	75,000	-	-	75,000	-	75,000
Linda French	80,000	75,000	-	-	155,000	40,000	115,000
Steve Dalby	35,000	45,000	-	-	80,000	16,050	63,950
Maryna Pienaar	35,500	75,000	-	-	110,500	13,400	97,100
Mark Rushworth	-	75,000	-	-	75,000	-	75,000
Total	**1,246,700**	**495,000**	**-**	**(431,500)**	**1,310,200**	**324,350**	**985,850**

27. Key management personnel (continued)

(d) Shares held in iiNet Limited (numbers)

30 June 2007	Opening balance 1 July 2006	Granted as remuneration	On exercise of options	Net change other	Closing balance 30 June 2007
Directors					
Peter Harley	140,000	-	-	50,000	190,000
Michael Malone	24,328,167	-	-	-	24,328,167
Andrew Milner	2,300,000	-	-	(100,000)	2,200,000
Peter James	15,000	-	-	-	15,000
Paul Broad	-	-	-	-	-
Tony Grist	-	-	-	-	-
David Grant	-	-	-	30,000	30,000
Keith Goodall	40,000	-	-	(40,000)	-
Executives					
Stephen Fewster	-	-	-	-	-
Greg Bader	110,000	-	-	-	110,000
David Dans	-	-	-	-	-
Steve Dalby	10,000	-	-	-	10,000
Maryna Pienaar	-	-	-	-	-
Mark White	-	-	-	-	-
Andy McIntyre	2,670	-	-	-	2,670
Total	**26,945,837**	**-**	**-**	**(60,000)**	**26,885,837**

30 June 2006	Opening balance 1 July 2005	Granted as remuneration	On exercise of options	Net change other	Closing balance 30 June 2006
Directors					
Peter Harley	140,000	-	-	-	140,000
Michael Malone	18,078,167	-	-	6,250,000	24,328,167
Andrew Milner	2,300,000	-	-	-	2,300,000
Peter James	15,000	-	-	-	15,000
Paul Broad	-	-	-	-	-
Tony Grist	-	-	-	-	-
Keith Goodall	40,000	-	-	-	40,000
Executives					
Stephen Fewster	-	-	-	-	-
Greg Bader	-	-	-	110,000	110,000
David Dans	-	-	-	-	-
Steve Dalby	4,000	-	-	6,000	10,000
Maryna Pienaar	-	-	-	-	-
Mark White	-	-	-	-	-
Andy McIntyre	-	-	-	2,670	2,670
Total	**20,577,167**	**-**	**-**	**6,368,670**	**26,945,837**

As at the date of this report no loans had been entered into between the company and any of its key management personnel.

28. Employee benefits

	Note	Consolidated 2007 $	Consolidated 2006 $	Company 2007 $	Company 2006 $
Included in payables - accrued wages, salaries and on-costs		348,259	522,607	303,506	309,452
Provisions - current	(i)	2,251,487	2,536,545	2,168,711	2,175,620
Provisions - non-current	(i)	40,065	35,818	40,065	35,818
Aggregate employee benefit liability		2,639,811	3,094,970	2,512,282	2,520,890
(i) Employee entitlements					
Balance as at beginning of the year		2,572,363	2,327,321	2,211,438	1,404,527
Arising during the year		437,843	3,362,933	317,938	3,258,656
Reductions arising from payments / other sacrifices					
of future economic benefits		(357,729)	(3,117,891)	(320,600)	(2,451,745)
Reductions arising from disposal of subsidiary		(360,925)	-	-	-
Balance at year end		2,291,552	2,572,363	2,208,776	2,211,438

	Number	Number	Number	Number
Number of FTE employees at end of the financial year	546	767	467	632

The Company has issued options under three separate plans, to which there have been no cancellations or modifications during the years to 30 June 2006 or 2007.

iiNet Employee Share Option Plan pre 2002

Eligibility
Was determined by a committee of at least 3 directors, and included employees, executives and directors.

Conversion
Each option was convertible into one ordinary share.

Vestment and expiry
Half of the options issued vested and were exercisable 18 months after the date of issue, with the balance exercisable 36 months after the date of issue.

The options expired 5 years after the date of issue.

The options issued lapsed if the person to whom they were issued ceased to be an employee of the Company or any associated entity, or in the case of directors, ceased to be a director.

No new issues of options will be made under this plan as it has been superseded by the 2002 iiNet Employee Share Option Plan, which has been superseded by the 2005 iiNet Employee Option Plan.

28. Employee benefits (continued)

Balance of options outstanding

	2007	2006
Vested, unexercised	-	21,300
Unvested	-	-
Total	**-**	**21,300**

2002 iiNet Employee Share Option Plan

Eligibility
Was determined by directors, and included employees and executives but excluded directors.

Conversion
Each option was convertible into one ordinary share.

Vestment and expiry
The options were issued as either discretionary or non-discretionary.

Discretionary
Half of the options issued vested and were exercisable 18 months after the date of issue, with the balance exercisable 36 months after the date of issue.

The options expired 5 years after the date of issue.

The options issued lapsed if the person to whom they were issued ceased to be an employee of the Company or any associated entity.

Non-discretionary
The options issued vested and were exercisable 36 months after the date of issue.

The options expired 5 years after the date of issue.

The options issued did not lapse if the person to whom they were issued ceased to be an employee of the Company or any associated entity.

No new issues of options will be made under this plan as it has been superseded by the 2006 iiNet Employee Option Plan.

Balance of options outstanding

	2007	2006
Discretionary		
Vested, unexercised	364,200	169,450
Unvested	-	310,950
Non-discretionary		
Vested, unexercised	1,217,100	759,000
Unvested	-	460,500
Total	**1,581,300**	**1,699,900**

28. Employee benefits (continued)

2005 iiNet Employee Option Plan

Eligibility
Offered to employees utilising the exemptions available under ASIC Class Order 03/184 and the Securities Act 2002 (NZ).

Conversion
Each option was convertible into one ordinary share.

Vestment and expiry
Half of the options issued vest and are exercisable 18 months after the date of issue, with the balance exercisable 36 months after the date of issue. The options expire the day before the day that is 5 years after the date of issue.

The options issued lapse if the person to whom they were issued ceases to be an employee of the Company or any associated entity for any reason other than redundancy, retirement, permanent disability or death. The directors reserve the right to exercise their discretion with regards to the options held by employees who cease to be eligible people by virtue of redundancy, retirement, permanent disability or death, enabling such employees to exercise their options within 90 days of ceasing to be an eligible person.

Balance of options outstanding

	2007	2006
Vested, unexercised	-	-
Unvested	1,743,200	1,471,700
Total	1,743,200	1,471,700

Director Options

Eligibility
Offered to directors per shareholder agreement 28 November 2003.

Conversion
Each option was convertible into one ordinary share.

Vestment and expiry
Half of the options issued vest and are exercisable 18 months after the date of issue, with the balance exercisable 36 months after the date of issue.

The options expire 12 months after the date on which they vest.

The options issued lapse if the director to whom they were issued ceases to be a director of the Company.

Balance of options outstanding

	2007	2006
Vested, unexercised	100,000	-
Unvested	-	150,000
Total	100,000	150,000

Executive Options

Eligibility
Offered to specified executives under ASIC Class Order 03/184 relief from preparing a prospectus.

Conversion
Each option was convertible into one ordinary share.

28. Employee benefits (continued)

Vestment and expiry
Half of the options issued vest and are exercisable 18 months after the date of issue, with the balance exercisable 36 months after the date of issue.

The options expire the day before the day that is 5 years after the date of issue.

The options issued lapse if the executive to whom they were issued ceases to be an executive of the Company or any associated entity.

Balance of options outstanding

	2007	2006
Vested, unexercised	242,500	282,500
Unvested	242,500	282,500
Total	485,000	565,000

Summary of options on issue at reporting date
(a) Movements in, and vested and unvested, options on issue

	2007		2006	
	No. on issue	WAEP (cents)	No. on issue	WAEP (cents)
On issue at 1 July	3,907,900	252.4	3,050,900	288.5
Granted	945,000	80.0	1,471,700	174.0
Forfeited/expired	(941,000)	203.5	(500,300)	278.7
Exercised	(2,400)	142.0	(114,400)	76.0
On issue at 30 June	3,909,500	222.6	3,907,900	252.4
Vested	1,923,800	285.2	1,373,750	267.1
Unvested	1,985,700	161.9	2,534,150	244.4
On issue at 30 June	3,909,500	222.6	3,907,900	252.4

(b) Options outstanding at reporting date

Series	No. on issue	Exercise price (cents)	Expiry date
2002 ESOP Opt 8	296,100	142	3 May 2008
2002 ESOP Opt 9	141,500	142	3 May 2008
Director options Opt 11	100,000	400	1 December 2007
2002 ESOP Opt 12	921,000	301	13 February 2009
2002 ESOP Opt 13	222,700	301	13 February 2009
Executive options Opt 14	85,000	288	2 July 2009
Executive options Opt 15	200,000	400	2 July 2009
Executive options Opt 16	200,000	500	2 July 2009
2006 ESOP Opt 19	848,200	174	31 January 2011
2006 ESOP Opt 20	895,000	80	31 August 2011

(c) Option valuation parameters
The fair value of the equity-settled share options granted and outstanding at the reporting date was calculated at the grant date using a Black-Scholes model taking into account a 2% dividend yield and the terms and conditions upon which the options were issued, and included the following parameters:

28. Employee benefits (continued)

Series	Expected volatility	Risk free interest rate	Expected life of options	Exercise price (cents)	Share price at grant date ($)
2002 ESOP Opt 8	41.5	5.21	54	142	1.49
2002 ESOP Opt 9	41.5	5.21	60	142	1.49
Director options Opt 11	36.0	5.99	60	400	3.29
2002 ESOP Opt 12	50.0	5.55	60	301	3.05
2002 ESOP Opt 13	25.7	5.55	60	301	3.05
Executive options Opt 14	35.8	5.91	60	288	2.85
Executive options Opt 15	35.8	5.91	60	400	2.85
Executive options Opt 16	35.8	5.91	60	500	2.85
2006 ESOP Opt 19	45.0	5.29	60	174	1.54
2006 ESOP Opt 20	45.0	5.29	60	80	0.89

29. Related party disclosures

(a) Wholly owned group

The ultimate parent of the wholly owned group is iiNet Limited. The consolidated financial statements include the financial statements of iiNet Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	Equity interest (%)	
		2007	2006
Chime Communications Pty Limited	Australia	100	100
ihug Pty Limited	Australia	100	100
Connect West Pty Limited	Australia	100	100
Netscapade Pty Limited	Australia	100	100
iiNet (Ozemail) Pty Limited	Australia	100	100
iiNet New Zealand Limited	New Zealand	100	100
iiNet New Zealand AKL Limited	New Zealand	100	-
Entities held by iiNet New Zealand Limited			
ihug Limited	New Zealand	-	100

On 24 October 2006, iiNet New Zealand Limited sold its 100% equity interest in ihug Limited.

Wholly-owned group transactions

Loans

During the financial year, $107.6 million (2006: $137.9 million) of loans were on issue to wholly-owned controlled entities with nil interest charged (2006: 7.43 percent). These loans were specific transactions to facilitate the acquisition of subscriber bases and controlled entities. These loans are payable on demand.

During the year, iiNet Limited provided accounting and administrative services, at no cost, to entities in the wholly owned group. Other transactions that occurred during the financial year between entities in the wholly-owned group were sale and purchases of services at cost.

(b) Associates

The consolidated group provides Internet services to certain director related entities. These transactions are all executed on a commercial basis.

Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms.

Outstanding balances at year-end are unsecured, interest fee and settlement occurs in cash.

29. Related party disclosures (continued)

(c) Other Related Parties
The company provides Internet services to the directors and other related parties. These services are provided at commercial and arms length terms.

(d) Key management personnel
Details relating to key management personnel, including remuneration paid, are included in note 27.

(e) Transaction with related parties
The following table provides the total amount of transactions that were entered into with related parties:

Related party		Sales to related parties $	Purchases from related parties $	Other transactions with related parties $
PARENT Subsidiaries :				
Dividend Revenue	2007	-	-	28,200,000
	2006	-	-	11,485,381
Associates:				
Amcom	2007	-	159,470	-
	2006	-	238,509	-
Powertel	2007	448,362	-	-
	2006	-	-	-
Keith Goodall & Associates	2007	-	-	264,558
	2006	-	-	-

Associates
Powertel Limited owns 18.27% of the ordinary shares in iiNet Limited (2006: 17.4%).
Amcom Telecommunications Limited owns 19.96% of the ordinary shares in iiNet Limited (2006: 0.8%).
Keith Goodall and Associates is a corporate advisory firm owned and operated by Keith Goodall, who was a Non Executive Director of iiNet Limited (appointed 21 October 2003, resigned 27 October 2007). Keith was formerly Chairman of ihug which was acquired by iiNet Limited in Ocober 2003 & subsequently sold to Vodafone New Zealand in October 2006. Keith Goodall and Associates are based in New Zealand and were engaged by iiNet to provide transaction advisory services relating to the sale of ihug.

30. Segment reporting

The consolidated entity operates principally in one business segment being the telecommunications. Upon the sale of ihug Limited the consolidated entity operates only within Australia.

Segment accounting policies are the same as the consolidated entity's policies described in note 2. Unallocated revenue and expenses include foreign exchange gains and losses, and borrowing expenses. Unallocated assets and liabilities include tax assets, liabilities and borrowings.

Geographic segments	Australia		New Zealand	
- Primary reporting Consolidated	2007 $	2006 $	2007 $	2006 $
Revenue				
Segment revenue				
Rendering of services	222,522,751	206,263,665	-	-
Sale of goods	4,629,290	7,544,590	-	-
Rental revenue	-	-	-	-
Non-segment revenue				
Interest revenue	2,474,125	784,029	2,311	-
Total consolidated revenue				
Result				
Profit before finance charges and tax	24,111,707	(48,692,840)	5,016,282	-
Finance costs				
Net profit before tax				
Tax expense				
Net profit				
Assets and Liabilities:				
Segment assets	292,869,209	233,635,075	295,698	-
Segment liabilities	(153,770,648)	(115,511,263)	(2,047,805)	-
Other segment information:				
Capital expenditure	24,195,963	34,226,379	462,331	-
Impairment losses	-	(46,253,304)	-	-
Depreciation	(11,473,376)	(8,874,347)	(95,014)	-
Amortisation	(7,722,351)	(11,120,067)	-	-
Cash flow information:				
Net cash flow from operating activities	31,089,271	13,762,941	(2,378,938)	-
Net cash flow from investing activities	(17,331,143)	(34,283,169)	31,113,991	-
Net cash flow from financing activities	(33,565,171)	(3,416,506)	-	-

	Discontinued Operation		Eliminations		Consolidated	
	2007 $	2006 $	2007 $	2006 $	2007 $	2006 $
	8,691,742	33,860,676	-	-	231,214,493	240,124,341
	-	-	-	-	4,629,290	7,544,590
	-	92,601	-	-	-	92,601
	48,456	-	-	-	2,524,892	784,029
					238,368,675	248,545,561
	5,655,390	(17,275,459)	-	-	34,783,379	(65,968,299)
					(4,065,739)	(4,955,884)
					30,717,640	(70,924,183)
					(7,464,268)	8,373,272
					23,253,372	(62,550,911)
	-	34,575,058	(78,310,565)	(38,547,758)	214,854,342	229,662,375
	-	(40,698,384)	78,238,937	38,144,952	(77,579,516)	(118,064,695)
	-	2,235,367	-	-	24,658,294	36,461,746
	-	(18,769,813)	-	-	-	(65,023,117)
	(333,811)	(1,603,121)	-	-	(11,902,201)	(10,477,468)
	-	(4,774,136)	-	-	(7,722,351)	(15,894,203)
	(934,888)	7,132,778	-	-	27,775,444	20,895,719
	-	(2,384,896)	-	-	13,782,848	(36,668,065)
	-	670,421	-	-	(33,565,171)	(2,746,085)

31. Financial instruments and financial risk management objectives and policies

The Group's principal financial instruments are cash and short term deposits, loans and finance leases. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks.

The Group enters into interest rate swaps. The purpose of entering into this derivative transaction is to manage the interest rate risk from the Group's sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Cash flow interest rate risk

The Group's exposure to the changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate.

The Group's policy is to manage its interest rate cost using a mix of fixed and variable rate debt.

To manage this mix in a cost-efficient manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. As at 30 June 2007 the Group held a receive floating/pay fixed interest rate swap with a notional principal amount totalling $27,300,000 at a fixed rate of 6.28%.

Foreign currency risk

As a result of the Group's operations in New Zealand the Group's balance sheet can be affected by movements in the NZ$/A$ exchange rates. The Group does not seek to hedge this exposure. It is the Group's policy to not enter into forward currency contracts.

The Group also has transactional currency exposures. Such exposures arises from sales or purchases by an operating unit in currencies other than the unit's functional currency.

Approximately 0.8% (2006: 12.4%) of the Group's expenses are denominated in currencies other than the functional currency of the operating unit.

Credit risk

The consolidated entity does not have any significant credit risk exposure to any single counter-party or any group of counter-parties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represent the consolidated entity's maximum exposure to credit risk without taking into account the value of any collateral or other security obtained.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and hire purchase contracts.

Net fair value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values, determined in accordance with the accounting policies disclosed in note 2 to the financial statements.
As the Group's financial instruments are all entered at market rates and are readily transferable, the carrying values equate to the fair values.

31. Financial instruments and financial risk management objectives and policies (continued)

Interest rate risk

The consolidated entity's exposure to interest rate risk for classes of financial assets and financial liabilities is set out below:

2007 Consolidated	Maturing						Total	Weighted Average Effective Interest Rate %
	< 1 Year	>1 to <2 Years	>2 to <3 Years	>3 to <4 Years	>4 to <5 Years	>5 Years		
Fixed Assets								
Fixed Rate								
Term Deposits	876,298	-	-	-	-	-	876,298	5.16
Interest rate swap	55,473	-	-	-	-	-	55,473	-
Floating Rate								
Cash	15,370,925	-	-	-	-	-	15,370,925	3.38
Financial Liabilities								
Fixed Rate								
Finance lease liability	3,870,168	2,358,608	-	-	-	-	6,228,776	6.33
Floating Rate								
Bank Facility	-	-	16,800,000	-	-	-	16,800,000	8.08

2006 Consolidated	Maturing						Total	Weighted Average Effective Interest Rate %
	< 1 Year	>1 to <2 Years	>2 to <3 Years	>3 to <4 Years	>4 to <5 Years	>5 Years		
Fixed Assets								
Fixed Rate								
Term Deposits	876,298	-	-	-	-	-	876,298	5.14
Floating Rate								
Cash	7,390,535	-	-	-	-	-	7,390,535	1.38
Financial Liabilities								
Fixed Rate								
Bank facility	7,000,000	26,600,000	-	-	-	-	33,600,000	7.29
Finance lease liability	3,536,323	5,809,252	562,764	-	-	-	9,908,339	6.33
Floating Rate								
Bank Facility	3,000,000	11,400,000	-	-	-	-	14,400,000	8.08

2007 Company	Maturing						Total	Weighted Average Effective Interest Rate %
	< 1 Year	>1 to <2 Years	>2 to <3 Years	>3 to <4 Years	>4 to <5 Years	>5 Years		
Fixed Assets								
Fixed Rate								
Term Deposits	432,287	-	-	-	-	-	432,287	5.16
Interest rate swap	55,473	-	-	-	-	-	55,473	-
Floating Rate								
Cash	15,013,559	-	-	-	-	-	15,013,559	3.38
Financial Liabilities								
Fixed Rate								
Finance lease liability	3,870,168	2,358,608	-	-	-	-	6,228,776	6.33
Floating Rate								
Bank Facility	-	-	16,800,000	-	-	-	16,800,000	8.08

2006 Company	Maturing						Total	Weighted Average Effective Interest Rate %
	< 1 Year	>1 to <2 Years	>2 to <3 Years	>3 to <4 Years	>4 to <5 Years	>5 Years		
Fixed Assets								
Fixed Rate								
Term Deposits	432,289	-	-	-	-	-	432,289	5.14
Floating Rate								
Cash	4,824,355	-	-	-	-	-	4,824,355	1.38
Financial Liabilities								
Fixed Rate								
Bank facility	7,000,000	26,600,000	-	-	-	-	33,600,000	7.29
Finance lease liability	3,533,699	5,809,252	562,764	-	-	-	9,905,715	6.33
Floating Rate								
Bank Facility	3,000,000	11,400,000	-	-	-	-	14,400,000	8.08

32. Events after balance date

On 12 July 2007, the Company announced details of ACCC's final determination on Telstra's LSS charges. The new rate for this service has been set at $2.50, compared to the interim rate of $3.20 and the previous rate charged by Telstra of $9.00.

On 24 August 2007, iiNet received the $16.1 million LSS settlement from Telstra recognised as receivable at 30 June 2007.

Telstra has subsequently applied to the Federal Court for a judicial review into the processes used by the ACCC to make their final determination.

On 20 August 2007, the Company's chairman, Peter Harley, announced his decision to stand down as a director of the Company once a suitable replacement has been found.

Stock Exchange Information as of 18 September 2007

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows. This information is current as at 18 September 2007.

(a) Distribution of equity securities

i. Ordinary share capital

- 125,641,402 fully paid ordinary shares are held by 3,664 individual shareholders. All issued shares carry one vote per share and carry the rights to dividends.

ii. Options

- 3,909,500 options are held by 462 individual optionholders. Options do not carry the right to vote.

The number of shareholders by size of holding in each class is:

	Number of fully paid ordinary shares	Options
1 - 1,000	863	13
1,001 - 5,000	1,675	283
5,001 - 10,000	529	106
10,001 - 100,000	542	58
100,001 and over	55	2
	3,664	462
Holding less than a marketable parcel	119	-

(b) Substantial shareholders

	Number of fully paid ordinary shares	Percentage of total issued fully paid ordinary shares
Amcom Telecommunications Limited	26,857,482	21.38%
Perth Internet Pty Ltd	24,328,167	19.36%
Powertel Limited	22,950,901	18.27%
	74,136,550	59.01%

Stock Exchange Information as of 18 September 2007 (continued)

(c) Twenty largest shareholders

	Number of fully paid ordinary shares	Percentage of total issued fully paid ordinary shares
Amcom Telecommunications Limited	26,857,482	21.38%
Perth Internet Pty Ltd	24,328,167	19.36%
Powertel Limited	22,950,901	18.27%
Citicorp Nominees Pty Ltd	4,435,049	3.53%
J P Morgan Nominees Australia	4,133,273	3.29%
Zero Nominees Pty Ltd	3,520,190	2.80%
Alcotrack Pty Ltd	2,200,000	1.75%
HSBC Custody Nominees	2,079,916	1.66%
UBS Nominees Pty Ltd	1,876,996	1.49%
RBC Dexia Investor Services	1,159,678	0.92%
ANZ Nominees Limited	881,395	0.70%
Kembla No 20 Pty Ltd	600,000	0.48%
Nicholas John Wood & Timothy Scott Wood	581,250	0.46%
Morgan Stanley Australia	542,999	0.43%
Bell Potter Nominees Ltd	515,000	0.41%
Mr Dennis John Banks	500,000	0.40%
Caveo Communications Pty Ltd	500,000	0.40%
Timothy Scott Wood	447,798	0.36%
Tricom Nominees Pty Ltd	385,667	0.31%
Nash Investments (WA) Pty Ltd	350,000	0.28%
	98,845,761	78.67%

Company Secretary
Stephen Fewster

Principal Place of Business and Registered Office
iiNet Limited Level 6, Durack Centre 263 Adelaide Terrace Perth WA 6000
Telephone: 1300 722 545 Facsimile: 1300 785 632 Internet: www.iinet.net.au Email: iinet@iinet.net.au

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Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St George's Terrace Perth WA 6000
Telephone: +61 8 9323 2000 Internet: www.computershare.com.au

Stock Exchange Listings
iiNet Limited's ordinary shares are quoted by the Australian Stock Exchange Limited (ASX: IIN).


iiNet would like to thank all of its staff for contributing to a successful 2007