



IINET LIMITED

ABN 48 068 628 937

**HALF-YEAR FINANCIAL REPORT FOR THE PERIOD ENDED
31 DECEMBER 2006 AND ASX APPENDIX 4D**

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Current reporting period: Half-year ended 31 December 2006

Previous corresponding period: Half-year ended 31 December 2005

EARNINGS	Percentage change UP(+)/DOWN (-)	Amount \$'000
Revenues from continuing operations	+9.9%	113,717
Earnings from continuing operations before interest, taxation, depreciation and amortisation (EBITDA)	+4.8%	13,915
Profit from continuing operations from ordinary activities after tax attributable to members	-15.0%	1,702
Net profit for the period attributable to members	+447.4%	7,141
	Amount per share ¢	Franked amount per share ¢
DIVIDENDS		
Interim dividend for 2007	1.0	1.0
Record date for determining entitlements to the dividend	9 March 2007	n/a
Final dividend for 2006 paid	Nil	Nil
	31 December 2006 ¢	31 December 2005 ¢
NET TANGIBLE ASSET BACKING		
Net tangible asset backing per security	4.56	-47.57

For the half-year ended 31 December 2006, the consolidated entity generated a net profit after tax of \$7,141,308 (2005: \$1,304,629).

Against the same period last year, earnings before interest, tax, depreciation and amortisation from continuing operations increased by 4.8% to \$13,915,470.

Consolidated operating revenues of \$113,716,667 were 9.9% higher than the previous corresponding half.

As at 31 December 2006, the consolidated cash holdings stood at \$10.1 million.

On 24 October 2006, the group disposed of the New Zealand incorporated entity iHug Limited. The group did not gain or lose control of any other entities during the reporting period.

The group does not have any interests in associates outside the group, nor does it have any interest in joint ventures.

CORPORATE INFORMATION	3
DIRECTORS' REPORT	4
AUDITOR'S INDEPENDENCE DECLARATION	5
CONDENSED INCOME STATEMENT	7
CONDENSED BALANCE SHEET	8
CONDENSED STATEMENT OF CHANGES IN EQUITY	9
CONDENSED CASH FLOW STATEMENT	10
NOTES TO THE CONDENSED FINANCIAL STATEMENTS	11
DIRECTORS' DECLARATION	19
AUDITOR'S INDEPENDENT REVIEW REPORT	20

CORPORATE INFORMATION

DIRECTORS

Mr P.C. Harley (Chairman)
Mr M.M. Malone (Managing Director)
Mr A.L. Milner
Mr P.R. James
Mr P.A. Broad
Mr A.J. Grist
Mr D.C. Grant

COMPANY SECRETARY

Mr S.R. Fewster (Chief Financial Officer)

REGISTERED OFFICE

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SHARE REGISTRY

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

AUDITORS

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

DIRECTORS' REPORT

The directors of iiNet Limited submit the interim financial report for the half-year ended 31 December 2006.

DIRECTORS

The names of iiNet Limited's directors in office during the half-year and until the date of this report are:

Mr P.C. Harley (Chairman)
Mr M.M. Malone
Mr A.L. Milner
Mr P.R. James
Mr P.A. Broad
Mr A.J. Grist (appointed 26 July 2006)
Mr D.C. Grant (appointed 12 October 2006)
Mr K.N. Goodall (resigned 27 October 2006)

REVIEW AND RESULTS OF OPERATIONS

For the half-year ended 31 December 2006, the consolidated entity generated a net profit after tax of \$7,141,308 (2005: \$1,304,629).

Against the same period last year, earnings before interest, tax, depreciation and amortisation from continuing operations increased by 4.8% to \$13,915,470.

Consolidated operating revenues of \$113,716,667 were 9.9% higher than the previous corresponding half.

As at 31 December 2006, the consolidated cash holdings stood at \$10.1 million.

	Half-year ended 31 December 2006	Half-year ended 31 December 2005
	\$	\$
Profit from continuing operations		
Profit from continuing operations after income tax attributable to members	1,701,893	2,001,213
Profit from continuing operations before interest, tax, depreciation and amortisation (EBITDA)	13,915,470	13,272,745

AUDITOR'S INDEPENDENCE DECLARATION

We have included an independence declaration from our auditors, Ernst & Young, on page 6 of this report.

Signed in accordance with a resolution of the directors.

On behalf of the Directors



M.M. Malone
Managing Director
Perth, WA
19 February 2007



P.C. Harley
Chairman
Perth, WA
19 February 2007

Auditor's Independence Declaration to the Directors of iiNet Limited

In relation to our review of the financial report of iiNet Limited for the half-year ended 31 December 2006, 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

19 February 2007

CONDENSED INCOME STATEMENT

		CONSOLIDATED	
	NOTE	Half-year ended 31 December 2006 \$	Half-year ended 31 December 2005 \$
CONTINUING OPERATIONS			
REVENUE			
Rendering of services		109,048,619	99,375,759
Sale of goods		4,075,710	3,556,764
Other revenue	3(i)	592,338	578,842
TOTAL REVENUE		<u>113,716,667</u>	<u>103,511,365</u>
DIRECT SERVICE EXPENSES			
Cost of sales and services rendered		(73,936,418)	(59,422,885)
GROSS PROFIT		<u>39,780,249</u>	<u>44,088,480</u>
Employee expenses		(17,466,625)	(18,937,708)
Marketing expenses		(555,611)	(3,501,196)
Office expenses		(4,015,212)	(4,720,737)
Other expenses		(3,476,348)	(3,265,749)
Depreciation and amortisation expenses	3(ii)	(9,357,983)	(9,109,999)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX AND FINANCING COSTS		<u>4,908,470</u>	<u>4,553,091</u>
Financing costs		(2,319,065)	(2,190,544)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		<u>2,589,405</u>	<u>2,362,547</u>
Income tax		(887,512)	(361,334)
PROFIT FROM CONTINUING OPERATIONS AFTER INCOME TAX		<u>1,701,893</u>	<u>2,001,213</u>
DISCONTINUED OPERATIONS			
Profit/(loss) from discontinued operations after income tax	4	5,439,415	(696,584)
PROFIT ATTRIBUTABLE TO MEMBERS OF II.NET LIMITED		<u>7,141,308</u>	<u>1,304,629</u>
EARNINGS PER SHARE (cents per share)			
- basic, for profit for the half-year attributable to ordinary equity holders of the parent		5.7	1.2
- basic, for profit from continuing operations attributable to ordinary equity holders of the parent		1.4	1.8
- diluted, for profit for the half-year attributable to ordinary equity holders of the parent		5.7	1.2
- diluted, for profit from continuing operations attributable to ordinary equity holders of the parent		1.4	1.8
Dividends per share	5	-	1.0

CONDENSED BALANCE SHEET

	CONSOLIDATED	
NOTE	At 31 December 2006 \$	At 30 June 2006 \$
CURRENT ASSETS		
Cash and cash equivalents	10,131,992	7,390,535
Trade and other receivables	14,932,690	19,237,121
Inventories	327,346	480,351
Prepayments	4,317,387	5,351,628
Other	-	306,751
TOTAL CURRENT ASSETS	29,709,415	32,766,386
NON-CURRENT ASSETS		
Property, plant and equipment	46,514,675	50,724,026
Intangible assets and goodwill	116,266,067	144,510,028
Deferred income tax assets	1,863,029	1,661,935
Prepayments	3,287,603	-
TOTAL NON-CURRENT ASSETS	167,931,374	196,895,989
TOTAL ASSETS	197,640,789	229,662,375
CURRENT LIABILITIES		
Trade and other payables	25,101,989	41,395,735
Unearned revenue	17,871,638	14,649,011
Interest bearing loans and borrowings	4,731,124	13,536,323
Provisions	2,609,195	3,577,586
TOTAL CURRENT LIABILITIES	50,313,946	73,158,655
NON-CURRENT LIABILITIES		
Interest bearing loans and borrowings	25,296,770	44,372,016
Deferred income tax liabilities	-	498,206
Provisions	32,868	35,818
TOTAL NON-CURRENT LIABILITIES	25,329,638	44,906,040
TOTAL LIABILITIES	75,643,584	118,064,695
NET ASSETS	121,997,205	111,597,680
EQUITY		
Issued capital	183,383,784	180,800,726
Accumulated losses	(63,787,497)	(70,928,805)
Other reserves	2,400,918	1,725,759
TOTAL EQUITY	121,997,205	111,597,680

CONDENSED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
	ISSUED CAPITAL	ACCUMULATED LOSSES	EMPLOYEE EQUITY BENEFITS RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	TOTAL
	\$	\$	\$	\$	\$
AT 1 JULY 2005	170,195,672	(2,541,773)	1,060,721	530,738	169,245,358
Currency translation differences	-	-	-	(100,764)	(100,764)
Total income and expense for the period recognised directly in equity	-	-	-	(100,764)	(100,764)
Profit for the period	-	1,304,629	-	-	1,304,629
Total income and expense for the period	-	1,304,629	-	(100,764)	1,203,865
Issue of share capital	60,454	-	-	-	60,454
Transaction costs on share issue	-	-	-	-	-
Cost of share-based payment	-	-	193,333	-	193,333
Equity dividends	-	(4,365,265)	-	-	(4,365,265)
Other	-	15,934	-	-	15,934
AT 31 DECEMBER 2005	170,256,126	(5,586,475)	1,254,054	429,974	166,353,679
AT 1 JULY 2006	180,800,726	(70,928,805)	2,131,222	(405,463)	111,597,680
Currency translation differences	-	-	-	405,463	405,463
Total income and expense for the period recognised directly in equity	-	-	-	405,463	405,463
Profit for the period	-	7,141,308	-	-	7,141,308
Total income and expense for the period	-	7,141,308	-	405,463	7,546,771
Issue of share capital	2,619,734	-	-	-	2,619,734
Transaction costs on share issue	(36,676)	-	-	-	(36,676)
Cost of share-based payment	-	-	269,696	-	269,696
Equity dividends	-	-	-	-	-
Other	-	-	-	-	-
AT 31 DECEMBER 2006	183,383,784	(63,787,497)	2,400,918	-	121,997,205

CONDENSED CASH FLOW STATEMENT

	CONSOLIDATED	
	Half-year ended 31 December 2006	Half-year ended 31 December 2005
NOTE	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	131,863,103	117,479,020
Payments to suppliers and employees	(119,903,524)	(108,827,310)
Interest received	346,026	-
Interest and other costs of finance paid	(2,560,629)	(2,273,666)
Income tax paid	(1,303,919)	(4,245,883)
NET CASH FLOWS FROM OPERATING ACTIVITIES	8,441,057	2,132,161
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for establishment of exchange space	-	(2,295,281)
Payment for subscriber acquisition costs	(1,141,909)	(2,976,882)
Purchase of plant and equipment	(9,345,909)	(7,999,706)
Proceeds on disposal of subsidiary	4 30,731,464	-
Payment of project development costs	(630,139)	(978,996)
NET CASH FLOWS FROM/(USED) IN INVESTING ACTIVITIES	19,613,507	(14,250,865)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	2,619,734	60,454
Payments for capital raising costs	(52,395)	-
Proceeds from borrowings	5,000,000	4,629,669
Repayment of borrowings	(32,880,446)	(6,165,668)
Equity dividends paid	-	(4,365,265)
NET CASH FLOWS USED IN FINANCING ACTIVITIES	(25,313,107)	(5,840,810)
Net (decrease)/increase in cash	2,741,457	(17,959,514)
Net foreign exchange difference	-	88,800
Cash and cash equivalents at beginning of period	7,390,535	25,387,373
CASH AND CASH EQUIVALENTS AT END OF PERIOD	10,131,992	7,516,659

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

The half-year financial report of iiNet Limited (the Company) for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 19 February 2007. iiNet Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange (“ASX”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

This half-year financial report should be read in conjunction with the annual financial report of iiNet Limited for the year ending 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by iiNet Limited and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

i. Basis of preparation

The half-year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001 and AASB 134 “Interim Financial Reporting”.

The half-year financial report is prepared in Australian dollars.

For the purposes of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

ii. Significant accounting policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006, except for the adoption of amending standards mandatory for annual periods beginning on or after 1 July 2006, as described in note 2(iv).

iii. Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of iiNet Limited and its subsidiaries as at 31 December 2006 (‘the Group’).

iv. Changes in accounting policies

Australian Accounting Standards and Urgent Issues Group Interpretations that have recently been issued or amended and are effective from 1 July 2006 are outlined below.

AASB	Application date for the Group
2004-3	1 July 2006
2005-1	1 July 2006
2005-4	1 July 2006
2005-5	1 July 2006
2005-6	1 July 2006
2005-9	1 July 2006
2006-1	1 July 2006
119	1 July 2006

UIG	Application date for the Group
4	1 July 2006
5	1 July 2006
7	1 July 2006
8	1 July 2006
9	1 July 2006

None of these standards or interpretations resulted in a material change in accounting policy and therefore there was no material impact on the Group's financial performance or position for the half-year. The Group has taken the view that the financial guarantee given by group companies under the class order referred to in note 10 to the 2006 financial statements does not require any changes in accounting treatment for the Group under AASB 2005-9.

3. REVENUE, INCOME AND EXPENSES

	CONSOLIDATED	
	Half-year ended 31 December 2006	Half-year ended 31 December 2005
	\$	\$
CONTINUING OPERATIONS		
<i>i. Other Revenue</i>		
Interest	350,983	390,345
Other revenue	241,355	188,497
	592,338	578,842
<i>ii. Depreciation and amortisation</i>		
Depreciation of plant and equipment	6,567,623	4,448,017
Amortisation of		
Subscriber data-bases	-	3,470,789
Subscriber acquisition costs	2,051,765	797,052
Capitalised development costs	738,595	394,141
	9,357,983	9,109,999

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.

	Half-year ended 31 December 2006	Half-year ended 31 December 2005
	\$	\$
Revenue	8,744,891	16,534,682
Expenses	(8,105,783)	(16,621,870)
Gross profit/(loss)	639,108	(87,188)
Finance expenses	-	(83,626)
Gain on disposal of iHug Limited	5,016,282	-
Gain before tax from discontinued operations	5,655,390	(170,814)
Tax expense:		
<i>Related to pre-tax profit</i>	(215,975)	(525,770)
<i>Related to sale of iHug Limited</i>	-	-
Profit for the year from discontinued operations	5,439,415	(696,584)

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
	<u>36,047,222</u>
Liabilities	
Trade and other payables	5,567,379
Unearned revenue	705,797
Provisions	196,110
Deferred tax liability	776,817
	<u>7,246,103</u>
Net assets attributable to discontinued operations	<u>28,801,119</u>
Consideration received or receivable	35,966,627
Less: cash transaction costs	<u>(1,360,597)</u>
Net disposal consideration	34,606,030
Less: net assets disposed of	(28,801,119)
Less: net consolidated liabilities assumed	(1,118,045)
Add: write-back of share based payments reserve	105,345
Add: write-back of foreign exchange gains and losses reserve	<u>224,071</u>
Gain on disposal before income tax	5,016,282
Income tax expense	<u>-</u>
Gain on disposal after income tax	<u>5,016,282</u>

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 2006
	\$
Net cash inflow on disposal	
Consideration received or receivable	35,966,627
Less: purchase consideration adjustment	<u>(382,527)</u>
Cash and cash equivalents consideration	35,584,100
Less: repayment of subsidiary loans	(1,118,045)
Less: payment of transaction costs	(1,360,597)
Less: cash and cash equivalents balance disposed of	<u>(2,373,994)</u>
Reflected in the cashflow statement	<u>30,731,464</u>

5. DIVIDENDS PAID AND PROPOSED

	CONSOLIDATED	
	At 31 December 2006	At 31 December 2005
	\$	\$
Equity dividends on ordinary shares:		
a) Dividends paid during the half-year		
Final franked dividend for financial year 30 June 2006: nil cents (2005: 4.0 cents)	-	4,365,265
b) Dividends proposed and not recognised as a liability		
Interim franked dividend for the half-year 31 December 2006: 1.0 cents (2006: 1.0 cents)	1,256,050	1,091,660

6. ISSUED CAPITAL

	CONSOLIDATED	
	At 31 December 2006	At 30 June 2006
	\$	\$
<i>Ordinary shares</i>		
Issued and fully paid	183,383,784	180,800,726
<i>Movements in ordinary shares on issue</i>		
At 1 July 2006	121,841,016	180,800,726
Issued 30 August 2006 in placement at \$0.696 per ordinary share	3,763,986	2,619,734
Costs associated with above	-	(36,676)
At 31 December 2006	125,605,002	183,383,784

7. SEGMENT REPORTING

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

Half-year ended 31 December	Australia (continuing operations)		New Zealand (discontinued operations)		Total operations	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
Revenue						
Rendering of services	109,048,619	99,375,759	8,672,493	16,210,396	117,721,112	115,586,155
Sale of goods	4,075,710	3,556,764	-	-	4,075,710	3,556,764
Other revenue	241,355	188,497	25,087	203,775	266,442	392,272
Total segment revenue	113,365,684	103,121,020	8,697,580	16,414,171	122,063,264	119,535,191
Unallocated income and eliminations					398,294	510,856
Total income	113,365,684	103,121,020	8,697,580	16,414,171	122,461,558	120,046,047
Result						
Segment results	4,557,487	4,162,747	5,608,079	(207,700)	10,165,566	3,955,047
Profit/(loss) before income tax, finance costs and finance revenue	4,557,487	4,162,747	5,608,079	(207,700)	10,165,566	3,955,047

8. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

i. Contingent liabilities

Under the self assessment provisions and following the receipt of professional advice, certain costs relating to the acquisition of subscriber bases were claimed as deductions for income tax purposes for the years ended 30 June 1998 to 2001. The Australian Taxation Office (ATO) has disputed the deductibility of these costs but has confirmed the Company has a reasonably arguable case. However, as at the date of this report the issue remains unresolved and there is a potential liability to associated general interest charges payable totalling \$1.054 million, which have been fully provided for.

ii. Contingent assets

On 25 November 2005, through its 100% owned subsidiary Chime Communications Pty Ltd, iiNet lodged an access dispute with the ACCC over the price Telstra charges iiNet for connection to and use of Line Sharing Services (LSS). On 21 December 2006, the Australian Competition and Consumer Commission (“the ACCC”) issued an interim determination;

- dictating a reduction in the price charged for use of LSS from \$9.00 per month per line to \$3.20 per month per line,
- dictating a reduction in the LSS connection charge, and
- providing for the recoupment of LSS connection and usage charges previously levied at the higher price.

During the intervening period Telstra unsuccessfully appealed to the Australian Competition Tribunal (“the Tribunal”) on an ACCC decision to reject Telstra’s 2004 access undertaking for a \$9.00 per month per line LSS charge. The Tribunal’s June 2006 decision confirmed that Telstra’s proposed LSS annual charge was not reasonable.

Summary of contingent asset	At	At
	31 December 2006	31 December 2005
	\$000’s	\$000’s
i. LSS usage charges	7,205	-
ii. LSS connection charges	1,760	-
	8,965	-

i. LSS usage charges

On the basis that the \$3.20 per month per line LSS usage charge applies from the date iiNet lodged its access dispute, the recoupment of excess LSS usage charges is expected to be approximately \$7.2 million. This matter will be resolved as part of the ACCC’s final determination which they have stated will be made by 31 March 2007.

ii. LSS connection charges

On the basis that the LSS connection charge applies from the date iiNet lodged its access dispute, the recoupment of excess LSS connection charges is expected to be approximately \$1.8 million. This matter will be resolved as part of the ACCC’s final determination which they have stated will be made by 31 March 2007.

9. EVENTS AFTER THE BALANCE SHEET DATE

- i.* On 19 February 2007, the directors of iiNet Limited declared a final interim dividend on ordinary shares in respect of the December 2006 half-year. The total amount of the dividend is \$1,256,050 which represents a fully franked dividend of 1.0 cents per share. The dividend has not been provided for in the 31 December 2007 half-year financial statements.
- ii.* In January 2007, the Company made a voluntary payment of \$5 million over and above its scheduled commitments against its existing debt facility.

DIRECTORS' DECLARATION

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

In the opinion of the directors:

- a. the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and
 - ii. complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the 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.

On behalf of the Board



M.M. Malone
Managing Director
Perth, WA
19 February 2007



P.C. Harley
Chairman
Perth, WA
19 February 2007

To the members of iiNet Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of iiNet Limited and the entities it controlled during the half-year, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, a statement of accounting policies, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 "Review of an Interim Financial Report Performed by the Independent Auditor of the Entity", in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001 and other mandatory financial reporting requirements in Australia. As the auditor of iiNet Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other services. The provision of these services has not impaired our independence.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of iiNet Limited and the entities it controlled during the half-year, is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



G H Meyerowitz
Partner
Perth

19 February 2007