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24th February 2006

Australian Stock Exchange
Company Announcement Office
Level 4 20 Bridge Street
Sydney NSW 2000

DECEMBER 2005 HALF YEAR EARNINGS RELEASE

The directors of iiNet Limited ("iiNet") are pleased to release the December 2005 half year results for iiNet.

Financial Highlights:

- Revenue $120 million versus December 2005 guidance $118 million
- EBITDA $16.4 million versus December 2005 guidance $16.4 million
- NPAT before amortisation $6.0 million versus December 2005 guidance $5.8 million
- The company has declared a fully franked interim dividend of one cent per share

Operational Highlights

- 185,000 broadband customers across Australia and New Zealand
- 85,000 customers on iiNet DSLAMSs (reduced cost base per customer from ~$50 to <$30 per customer per month)
- Offering DSLAM speeds of up to 24,000kbps
- Migration of OzEmail customers to iiNet network and billing system completed
- Virtual call centre role-out on schedule with Genesys equipment commissioned during February
- Voice bundle rates exceed expectations
- Scale in voice customers being achieved to support MSAN roll-out.
- VoIP product well received by customers, 19,000 customers since launch in August 2005

About iiNet

iiNet is one of Australia's internet service pioneers, having begun in western Australia in 1993. With the completion of the OzEmail acquisition on 1 March 2005, iiNet became the third largest Internet Service Provider in Australia and currently has over 680,000 subscribers across Australia and New Zealand. iiNet has built a reputation for providing innovative, quality and value internet products, and friendly 24-hour customer service and support. For more information on iiNet, please visit www.iinet.net.au or call 131917.

For further information contact Stephen Fewster, Chief Financial Officer on +61 8 9213 1358 or Michael Malone Chief Executive Officer on +61 8 9214 2207.

Stephen Fewster
iiNet Chief financial Officer

IINET LIMITED

ABN 48 068 628 937

FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005 AND ASX APPENDIX 4D

IINET LIMITED

FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

iiNet Limited

Results for Announcement to Market (Appendix 4D)

Current Reporting Period: Half-Year ended 31 December 2005
Previous Corresponding Period: Half-Year ended 31 December 2004

	Percentage Change %	Amount $A'000
Revenue and Net Profit		
Revenues from continuing operations	up 89%	120,046
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	up 12%	16,429
Net Profit after Tax before Amortisation (NPATBA)	down 24%	6,006
Profit from ordinary activities after tax attributable to members	down 68%	1,305
Net Profit for the period attributable to members	down 68%	1,305

	Amount per share	Franked amount per share
Dividends		
Interim Dividend for 2006	1.0 cents	1.0 cents
Record Date for determining entitlements to the dividend	7th March 2006	
Final Dividend for 2005 paid	4.5 cents	4.5 cents

Brief Explanation of Revenue and Net Profit

Consolidated revenues from continuing operations were $120 million. This represented a 89% increase from the corresponding period in the previous year. This increase can be attributed to the growth in iiNet's customer base following the acquisition of OzEmail in February 2005 and the change in iiNet's product mix as customers move from low priced dial products through to broadband and bundled broadband and voice products.

	Half Year Ended 31-Dec-05	Half Year Ended 31-Dec-04
NTA Backing		
Net tangible asset backing per security	-47.57 cents	-12.72 cents

Details of Entities Where Control Has Been Gained or Lost During the Period
The group has not gained or lost control over any entities during the half year ended 31 December 2005.

Dividends Paid and Proposed - Refer Note 3 to the Financial Statements

Details of Dividends or Distribution Re-Investment Plans - Not Applicable

Details of Associates and Joint Venture Entities - Not Applicable

Audit Dispute or Qualification - Not Applicable

DIRECTORS' REPORT

The directors of iiNet Limited submit the consolidated financial statements for the half-year ended 31 December 2005.

DIRECTORS

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

Mr P.C. Harley (Chairman)

Mr K.N. Goodall

Mr M.M. Malone

Mr A.L. Milner

Mr P.R. James

REVIEW AND RESULTS OF OPERATIONS

For the half-year ended 31 December 2005, the consolidated entity generated a net profit after tax of $1,304,629 (2004: $4,119,659).

Net Profit before amortisation of client databases for the same period decreased by 24 % to $6,005,676.

Consolidated operating revenues of $120 million were 89% higher than that reported for the previous corresponding half. Earnings before interest, taxation, depreciation and amortisation of $16.4 million is an increase of 12% on the $14.7 million achieved in the previous corresponding period.

As at 31 December 2005, the consolidated cash holdings stood at $7,516,659 million.

	6 MONTHS 31-DEC-05 $	6 MONTHS 31-DEC-04 $
Profit from continuing operations		
Profit from continuing operations after income tax attributable to members	1,304,629	4,119,659
Profit from continuing operations after income tax attributable to members before Amortisation	6,005,676	7,923,861
Profit from continuing operations before Amortisation, Depreciation, Interest and Tax (EBITDA)	16,429,022	14,682,766

DIVIDENDS

In respect of the half-year ended 31 December 2005, the directors recommend the payment of a 1.0 cent per share interim dividend with a record date of 7 March 2006 and a payment date of 7 April 2006.

AUDITOR'S INDEPENDENCE DECLARATION

We have obtained an independence declaration from our auditors, Ernst & Young, which is attached to this financial report.

Signed in accordance with a resolution of the directors.

On behalf of the Directors

M. M. Malone
Managing Director
Perth, WA
24 February 2006

P. C. Harley
Chairman
Perth, WA
24 February 2006

ERNST & YOUNG

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Independent review report to members of iiNet Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both iiNet Limited (the company) and the entities it controlled during the half-year, and the directors' declaration for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and 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 non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of the consolidated entity, comprising 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 financial position of the consolidated entity at 31 December 2005 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

24 February 2006

IINET LIMITED

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:

   i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half year ended on that date of the consolidated entity; and

   ii) comply 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	P. C. Harley
Managing Director	Chairman
Perth, WA	Perth, WA
24 February 2006	24 February 2006

CONDENSED INCOME STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	NOTE	CONSOLIDATED 31-DEC-05 $	 31-DEC-04 $
CONTINUING OPERATIONS			
Revenue			
Rendering of services		115,586,155	61,851,281
Sale of goods		3,556,764	1,413,999
Other revenue		903,128	379,680
Total Revenue	2(i)	120,046,047	63,644,960
Direct service expenses			
Cost of Sales and Services Rendered		(67,353,576)	(28,597,532)
Gross Profit		52,692,471	35,047,428
Employee expenses		(21,894,220)	(12,692,030)
Depreciation and amortisation expenses		(12,473,974)	(8,151,571)
Marketing expenses		(4,220,949)	(1,278,709)
Office costs		(5,861,629)	(4,507,551)
Other expenses		(3,775,796)	(1,743,075)
PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND FINANCE COSTS		4,465,903	6,674,491
Financing costs		(2,274,170)	(376,236)
PROFIT FROM CONTINUING OPERATIONS BEFORE INCOME TAX		2,191,733	6,298,255
Income tax expense relating to ordinary activities		(887,104)	(2,178,597)
PROFIT ATTRIBUTABLE TO MEMBERS OF IINET LIMITED		1,304,629	4,119,658
Earnings per share (cents per share)			
- basic profit for the half-year		1.2	5.1
- diluted for profit for the half-year		1.2	5.1
- dividends per share	3	1.0	2.5

IINET LIMITED

CONDENSED BALANCE SHEET
AS AT HALF-YEAR ENDED 31 DECEMBER 2005

	CONSOLIDATED	
	AS AT 31-DEC-05	AS AT 30-JUN-05
	$	$
CURRENT ASSETS		
Cash and cash equivalents	7,516,659	25,387,373
Trade and Other receivables	27,501,129	21,835,649
Inventories	1,163,246	497,087
Prepayments	4,089,030	3,183,279
Income tax receivable	3,606,690	-
Other	-	2,497,375
TOTAL CURRENT ASSETS	43,876,754	53,400,763
NON-CURRENT ASSETS		
Trade and Other receivables	375	375
Property, plant and equipment	30,528,334	24,769,159
Intangible assets and goodwill	218,278,498	217,165,499
Deferred income tax asset	5,655,624	5,120,743
TOTAL NON-CURRENT ASSETS	254,462,831	247,055,776
TOTAL ASSETS	298,339,585	300,456,539
CURRENT LIABILITIES		
Trade and other payables	30,939,512	31,211,105
Unearned revenue	20,051,415	16,529,856
Interest bearing loans and borrowings	13,027,585	11,994,823
Income tax payable	-	851,405
Provisions	3,441,559	5,875,891
TOTAL CURRENT LIABILITIES	67,460,071	66,463,080
NON-CURRENT LIABILITIES		
Interest bearing loans and borrowings	51,235,299	53,804,061
Deferred income tax liabilities	13,249,674	10,815,712
Provisions	40,862	128,328
TOTAL NON-CURRENT LIABILITIES	64,525,838	64,748,101
TOTAL LIABILITIES	131,985,906	131,211,181
NET ASSETS	166,353,679	169,245,358
EQUITY		
Issued capital	170,256,126	170,195,672
Accumulated losses	(5,586,475)	(2,541,773)
Other reserves	1,684,028	1,591,459
TOTAL EQUITY	166,353,679	169,245,358

IINET LIMITED

CONDENSED CASH FLOW STATEMENT
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	CONSOLIDATED 31-DEC-05 $	31-DEC-04 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	117,479,020	58,225,894
Payments to suppliers and employees	(108,827,310)	(44,358,296)
Income tax paid	(4,245,883)	(7,099,694)
Interest and other costs of finance paid	(2,273,666)	(242,432)
NET CASH FLOWS FROM OPERATING ACTIVITIES	2,132,161	6,525,472
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of plant and equipment	(7,999,706)	(10,192,266)
Proceeds from sale of plant and equipment	-	918
Acquisition of business, net of cash acquired	-	(8,750,698)
Purchase of project development costs	(6,251,159)	-
NET CASH FLOWS USED IN INVESTING ACTIVITIES	(14,250,865)	(18,942,046)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	60,454	1,971,940
Proceeds from borrowings	4,629,669	17,076,551
Repayment of borrowings	(6,165,668)	(3,095,005)
Equity dividends paid	(4,365,265)	(3,217,337)
NET CASH FLOWS USED IN/FROM FINANCING ACTIVITIES	(5,840,810)	12,736,149
Net (decrease)/increase in cash	(17,959,514)	319,575
Net foreign exchange difference	88,800	268,689
Cash and cash equivalents at beginning of period	25,387,373	6,241,685
CASH AND CASH EQUIVALENTS AT END OF PERIOD	7,516,659	6,829,949

IINET LIMITED

CONDENSED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

	ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT				
CONSOLIDATED	***ISSUED CAPITAL***	***ACCUMULATED LOSSES***	***SHARE OPTION PREMIUM RESERVE***	***OTHER RESERVES***	***TOTAL***
	$	**$**	**$**	**$**	**$**
AT 1 July 2004 under AIFRS	84,720,239	(7,938,965)	313,108	543,393	77,637,775
Profit for the period	-	4,119,659	-	-	4,119,658
Currency translation differences	-	-	-	95,811	95,812
Income and expense for the period recognised directly in equity	-	4,119,659	-	95,811	4,215,470
Issue of share capital	1,971,940	-	-	-	1,971,940
Cost of share-based payment	-	-	378,623	-	378,623
Equity dividends	-	(3,217,278)	-	-	(3,217,278)
Other		(59)			(59)
31 December 2004	86,692,179	(7,036,643)	691,731	639,204	80,986,471

At 1 July 2005	170,195,672	(2,541,773)	1,060,721	530,738	169,245,358
Profit for the period	-	1,304,629	-	-	1,304,629
Currency translation differences	-	-	-	(100,764)	(100,764)
Income and expense for the period recognised directly in equity	-	1,304,629	-	(100,764)	1,203,865
Issue of share capital	60,454	-	-	-	60,454
Cost of share-based payment	-	-	193,333	-	193,333
Equity dividends	-	(4,365,265)	-	-	(4,365,265)
Other	-	15,934	-	-	15,934
31 December 2005	170,256,126	(5,586,475)	1,254,054	429,974	166,353,679

1. BASIS OF PREPARATION OF THE FINANCIAL REPORT

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.

The half-year financial report should be read in conjunction with the annual financial report of iiNet Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable financial years beginning before 1 January 2005 ('AGAAP').

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 2005 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) BASIS OF ACCOUNTING

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, applicable Accounting Standards including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

The half-year financial report has been prepared on a historical cost basis.

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

(b) STATEMENT OF COMPLIANCE

The half-year financial report complies with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

The consolidated entity changed its accounting policies on 1 July 2005 to comply with AIFRS. The transition to AIFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition. An explanation of how the transition from superseded policies to AIFRS has affected the consolidated entity's position, financial performance and cash flows is discussed in note 1(e).

The accounting policies set out below have been applied in preparing the financial statements for the half-year ended 31 December 2005, the comparative information presented in these financial statements, and in the preparation of the opening AIFRS balance sheet at 1 July 2004 (as disclosed in note 1(e)), the consolidated entity's date of transition, except for the accounting policies in respect of financial instruments. The consolidated entity has not restated comparative information for financial instruments, including derivatives, as permitted under the first-time adoption transitional provisions. The accounting policies for financial instruments applicable to the comparative information are consistent with those adopted and disclosed in the lodged 2005 annual financial report.

(c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of iiNet Limited and its subsidiaries ('the Group').

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

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.

(ii) INCOME TAX

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.
- in respect of taxable temporary difference associated with investments in subsidiaries, except whre the timing of the reversal of the temporary differences can be controlled and its 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, 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 utitlised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent 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.

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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

(iii) 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.

(iv) REVENUE

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:

Rendering of services
Revenue is recognised over the period for which the service is provided.

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.

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.

Interest
Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) FOREIGN CURRENCY TRANSLATION

The functional currency of iiNet Limited and its Australian subsidiaries is Australian dollars (A$). The functional currency of iiNet New Zealand Limited and ihug Ltd is New Zealand Dollars. The presentation currency of the Group is Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of iiNet New Zealand and ihug Limited 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 weighted average exchange rate for the period. The exchange differences arising on the retranslation are taken directly to a separate component of equity.

(vi) 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.

(vii) TRADE AND OTHER RECEIVABLES

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

(viii) INVENTORIES

Inventories 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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(ix) 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) ACQUISITION OF ASSETS

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

(xi) IMPAIRMENT OF ASSETS

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 units exceeded its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

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 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 unless the asset is carried at revalued amount (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 unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xii) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost less accumulated depreciation and any impairment in value, where applicable.

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, whichever is shorter
Leasehold improvements	over 3 - 15 years or the lease term, whichever is shorter

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater 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 risks specific to the asset.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

(xiii) BORROWING COSTS

Borrowing costs are recognised as an expense when incurred.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xiv) LEASES

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.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or 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.

(xv) GOODWILL

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

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

Goodwill is not amortised.

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

As at the acquisition date, any goodwill acquired is allocated to each of the cash generating units expected to benefit from the combination's synergies.

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.

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.

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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xvi) INTANGIBLES

Acquired both separately and from a business combination

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible 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.

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 is reviewed at least at each financial year-end. Changes in the expected 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, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

	SUBSCRIBER BASES	PATENTS, TRADEMARKS AND LICENCES	DEVELOPMENT COSTS
Useful lives	finite	finite	finite
Amortisation - Method used	5 years – straight line	20 years – straight line	18 months to 5 years – straight line
Acquired / internally generated	acquired	acquired	internally generated
Impairment testing / recoverable amount testing	Reviewed annually for indicator of impairment.	Reviewed annually for indicator of impairment.	Reviewed annually for indicator of impairment.

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.

(xvii) TRADE AND OTHER PAYABLES

Trade payables and other payables are carried at amortised costs 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.

(xviii) INTEREST BEARING LOANS AND BORROWINGS

All loans and borrowings are initially measured 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. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(xix) 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.

Where 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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

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

Surplus leased space
In the event that premises leased by the Group pursuant to a non-cancellable operating lease are identified as surplus to the needs of the Group a liability and expense is recognised equal to the present value of the total expected outlay relating to the surplus space as specified under the lease agreement.

(xx) 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 shares or rights over shares ("equity settled transactions").

There are currently two plans in place to provide the following benefit:
(i) the Employee Share Option Plan (ESOP), which provides benefits to directors and eligible employees.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions liked to the price of the shares of iiNet ('market conditions').

The cost of these equity settled transactions with employees is measured by reference to the fair value of the equity instrument at the date they are granted. The value is determined using a binomial model. 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.

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.

1 (c) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(xxi) ISSUED CAPITAL

Ordinary share capital is recognised 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.

(xxii) 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 as expenses; and
- 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.

(xxiii) 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 using the projected unit credit method. 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.

(xxiv) DEFINED CONTRIBUTION PLANS

Our commitment to defined contribution plans is limited to making contributions in accordance with our minimum statutory requirements. We do not have any legal or constructive obligation 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. We recognise a liability when we are required to make future payments as a result of employee services provided.

(d) AASB 1 TRANSITIONAL EXEMPTIONS

The Company has made its election in relation to the transitional exemptions allowed by AASB 1 "First Time Adoption of Australian Equivalents to International Financial Reporting Standards" as follows:

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139
The Company has elected to adopt this exemption and has not applied AASB 132 "Financial Instruments: Presentation and Disclosure" and AASB 139 "Financial Instruments: Recognition and Measurement" to its comparative information.

Business combinations
AASB 3 "Business Combinations" was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions
AASB 2 "Share-Based Payments" is applied only to equity instruments granted after 7 November 2002 that had not vested on, or before 1 January 2005.

(e) IMPACT OF ADOPTION OF A-IFRS

The impacts of adopting A-IFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 July 2005 ("AGAAP") are illustrated below.

(i) RECONCILIATION OF TOTAL EQUITY AS PRESENTED UNDER AGAAP TO THAT UNDER A-IFRS

		CONSOLIDATED		
	NOTES	**30-JUN-05**	**31-DEC-04**	**1-JUL-04**
		$	**$**	**$**
TOTAL EQUITY UNDER AGAAP		170,483,690	88,040,345	87,284,762
Adjustments to equity				
Write-back of goodwill amortisation	(A)	4,888,217	1,451,828	-
Recognition of share-based payment expense	(B)	(1,060,721)	(691,731)	(313,108)
Recognition of option premium reserve	(B)	1,060,721	691,731	313,108
Adjustment to deferred tax	(C)	(5,542,908)	(8,505,702)	(9,646,987)
Redundancy costs expensed	(D)	(583,641)	-	-
TOTAL EQUITY UNDER AIFRS		169,245,358	80,986,471	77,637,775

(ii) RECONCILIATION OF PROFIT AFTER TAX UNDER AGAAP TO THAT UNDER A-IFRS

	NOTES	YEAR ENDED 30-JUN-05	HALF-YEAR ENDED 31-DEC-04
		$	$
PROFIT AFTER TAX AS PREVIOUSLY REPORTED		3,685,530	1,905,169
Write-back of goodwill amortisation	(A)	4,888,217	1,451,828
Share-based payment expense	(B)	(747,613)	(378,623)
Adjustment to deferred tax	(C)	3,402,801	1,141,285
Redundancy costs expensed	(D)	(583,641)	-
PROFIT AFTER TAX UNDER AIFRS		10,645,294	4,119,659

(iii) EXPLANATION OF MATERIAL ADJUSTMENTS TO THE CASH FLOW STATEMENTS

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

NOTES

(A) *Goodwill*

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

(B) *Share-based payment*

Share-based payment expenses are charged to the Income Statement under AASB 2 "Share-based payment" but were not recognised under AGAAP.

(C) *Deferred tax liability*

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

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

(D) *Redundancy costs expensed*

The adjustment relates to provisions for redundancies recognised as part of the acquisition accounting for OzEmail and Virtual Communities under AGAAP which are not allowable under AIFRS. Under AIFRS the cost of redundancies are expensed as incurred.

2 REVENUE AND EXPENSES

	CONSOLIDATED	
	31-DEC-05	31-DEC-04
	$	$
SPECIFIC ITEMS		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity:		
(i) REVENUE		
Rendering of services	115,586,155	61,851,281
Sale of goods	3,556,764	1,413,999
Interest receivable	510,856	97,620
Other revenue	392,272	282,060
	120,046,047	63,644,960
(ii) EXPENSES		
Depreciation of plant and equipment	5,815,446	4,118,397
Amortisation of:		
Subscriber bases	4,701,047	3,804,202
Development costs	1,957,481	228,972
Expense for share based payments	193,333	296,195

3 DIVIDENDS PAID AND PROPOSED

	31-DEC-05	31-DEC-04
	$	$
Equity dividends on ordinary shares:		
a) Dividends paid during the half-year		
Final franked dividend for financial year 30 June 2005: 4.0 cents (2004: 4.0 cents)	4,365,265	3,217,278
b) Dividends proposed and not recognised as a liability		
Interim franked dividend for financial year 30 June 2006: 1.0 cents (2005: 2.5 cents)	1,091,660	2,030,824

4 ISSUED CAPITAL

	CONSOLIDATED	
	31-DEC-05 NUMBER	30-JUN-05 NUMBER
Ordinary shares		
Issued and fully paid	109,166,016	109,123,616

Movements in ordinary shares on issue	NUMBER	$
At 1 July 2005	109,123,616	170,195,672
Issued during period	11,768	60,454
At 31 December 2005	109,135,384	170,256,126

5 SEGMENT REPORTING

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

Half year ended 31-Dec	AUSTRALIA		NEW ZEALAND		CONSOLIDATED	
	2005	**2004**	**2005**	**2004**	**2005**	**2004**
	$	**$**	**$**	**$**	**$**	**$**
Rendering of services	99,375,757	45,695,171	16,210,398	16,156,109	115,586,155	61,851,280
Other revenue	4,135,606	1,528,871	324,286	264,809	4,459,892	1,793,680
Segment Revenue	103,511,363	47,224,042	16,534,684	16,420,918	120,046,047	63,644,960
Segment result before tax	1,938,205	3,320,229	253,528	2,978,026	2,191,733	6,298,255

6 CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

7 EVENTS AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 31 December 2005 that has significantly affected, or may significantly affect, the operations of iiNet Limited and its controlled entities, the results of those operations or the state of affairs of iiNet Limited and its controlled entities in subsequent years.

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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 2005, 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

24 February 2006

GHM:DA:iiNet:039