

iiNet Limited

ABN 48 068 628 937

Preliminary Financial Report and Appendix 4E
for the year ended 30 June 2007

RESULTS FOR ANNOUNCEMENT TO MARKET (APPENDIX 4E)..... 3

CONSOLIDATED INCOME STATEMENT 4

CONSOLIDATED BALANCE SHEET 5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY..... 6

CONSOLIDATED CASH FLOW STATEMENT 7

NOTES TO THE PRELIMINARY FINANCIAL REPORT..... 8

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 8

2. REVENUE AND EXPENSES..... 8

3. DISCONTINUED OPERATIONS 9

4. DIVIDENDS PAID AND DECLARED..... 10

5. ISSUED CAPITAL 10

6. SEGMENT REPORTING 11

RESULTS FOR ANNOUNCEMENT TO MARKET (APPENDIX 4E)

Current Reporting Period: Year ended 30 June 2007

Previous Corresponding Period: Year ended 30 June 2006

	Percentage Change	Amount
	%	\$A'000
Revenue and Net Profit		
Revenues from continuing operations	7%	229,628
Earnings before Interest, Taxation, Depreciation and Amortisation (EBITDA)	153%	45,942
Net profit from ordinary activities after tax	139%	17,814
Net profit for the period attributable to members	137%	23,253
Dividends		
	Amount per share	Franked amount per share
Interim dividend for 2007	1.0 cents	1.0 cents
Final dividend for 2007	5.0 cents	5.0 cents

Brief Explanation of Revenue and Net Profit

Consolidated revenues from continuing operations were \$229.6 million. This represented a 7.1% increase in revenue from continuing operations from the corresponding period in the previous year. The increase in net profit from ordinary activities after tax is attributable to improved margins following:

- A reduction in the price of line sharing service subsequent to the final determination issued by the Australian Competition and Consumer Commission;
- an increase in the number of subscribers using the iiNet broadband network;
- the re-pricing of unprofitable plans; and
- an improvement in operational efficiency.

NTA Backing	Year Ended 30 June 2007	Year Ended 30 June 2006
Net tangible asset backing per security	0.18	(0.25)

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

By virtue of its sale to Vodafone in October 2006, the Group lost control over iHug, a subsidiary based in New Zealand, during the year ended 30 June 2007.

Dividends Paid and Declared

The Company paid an interim fully franked dividend of 1.0 cents per share on 5 April 2007.

On 20 August 2007, the Directors have declared the payment of a fully franked final dividend with respect to the year ended 30 June 2007 of 5.0 cents per share, with a record date of Friday 15 September 2007 and a payment date of Friday 5 October 2007.

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

Details of Associates and Joint Venture Entities - Not Applicable

Audit Report

The preliminary final report is based on accounts which are in the process of being audited.

CONSOLIDATED INCOME STATEMENT

	Note	2007 \$	2006 \$
Continuing Operations			
Revenue			
Rendering of services		222,522,751	206,263,665
Sale of goods		4,629,290	7,544,590
Other revenue	2(a)	2,476,436	577,041
Total revenue		<u>229,628,477</u>	<u>214,385,296</u>
Direct service expenses			
Cost of sales and services rendered		(135,203,961)	(135,404,163)
Gross profit		<u>94,424,516</u>	<u>78,981,133</u>
Other income	2(b)	7,109,371	586,056
Employee expenses		(33,366,557)	(39,453,028)
Marketing expenses		(5,879,581)	(3,948,201)
Office costs		(7,589,130)	(9,880,995)
Administration expenses		(6,279,889)	(7,577,660)
Depreciation and amortisation expense	2(c)	(19,290,741)	(19,994,414)
Impairment of non-current assets		-	(47,405,731)
Profit/(Loss) from continuing operations before tax and finance costs		<u>29,127,989</u>	<u>(48,692,840)</u>
Financing costs	2(e)	(4,065,739)	(4,955,884)
Profit/(Loss) from continuing operations before income tax		<u>25,062,250</u>	<u>(53,648,724)</u>
Income tax (expense)/benefit		(7,248,293)	8,300,221
Profit/(Loss) from continuing operations after income tax		<u>17,813,957</u>	<u>(45,348,503)</u>
Discontinued Operations			
Profit/(Loss) from discontinued operations after income tax		<u>5,439,415</u>	<u>(17,202,408)</u>
Profit/(Loss) attributable to members of iiNet Limited		<u>23,253,372</u>	<u>(62,550,911)</u>
Earnings/(Loss) per share (cents per share)			
- basic for profit from continuing operations attributable to the ordinary equity holders of the parent		18.6	(56.9)
- diluted, for profit from continuing operations attributable to the ordinary equity holders of the parent		18.6	(56.9)
- dividends per share		6.0	1.0

CONSOLIDATED BALANCE SHEET

	30 June 2007 \$	30 June 2006 \$
Current Assets		
Cash and cash equivalents	15,370,925	7,390,535
Trade	15,411,174	19,237,121
Other receivables	15,913,219	-
Inventories	344,179	480,351
Prepayments	8,352,464	5,351,628
Derivative financial instruments	55,473	-
Other	-	306,751
Total Current Assets	<u>55,447,434</u>	<u>32,766,386</u>
Non-Current Assets		
Property, plant and equipment	45,052,136	50,724,026
Intangible assets and goodwill	114,354,771	144,510,028
Deferred income tax asset	-	1,661,935
Total Non-Current Assets	<u>159,406,907</u>	<u>196,895,989</u>
Total Assets	<u>214,854,341</u>	<u>229,662,375</u>
Current Liabilities		
Trade and other payables	29,204,878	41,395,735
Unearned revenue	17,849,803	14,649,011
Interest bearing loans and borrowings	3,870,168	13,536,323
Provisions	2,482,382	3,577,586
Total Current Liabilities	<u>53,407,231</u>	<u>73,158,655</u>
Non-Current Liabilities		
Interest bearing loans and borrowings	19,158,608	44,372,016
Deferred income tax liabilities	4,973,612	498,206
Provisions	40,065	35,818
Total Non-Current Liabilities	<u>24,172,285</u>	<u>44,906,040</u>
Total Liabilities	<u>77,579,516</u>	<u>118,064,695</u>
Net Assets	<u>137,274,825</u>	<u>111,597,680</u>
Equity		
Issued capital	183,371,195	180,800,726
Accumulated losses	(48,931,511)	(70,928,805)
Other reserves	2,835,141	1,725,759
Total Equity	<u>137,274,825</u>	<u>111,597,680</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Consolidated	Issued Capital	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
Profit for the period	-	(62,550,911)	-	-	(62,550,911)
Currency translation differences	-	-	-	(936,201)	(936,201)
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 30 June 2006	180,800,726	(70,928,805)	2,131,222	(405,463)	111,597,680

Consolidated	Issued Capital	Accumulated Losses	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Total
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
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

CONSOLIDATED CASH FLOW STATEMENT

	2007 \$	2006 \$
Cash Flows from Operating Activities		
Receipts from customers	230,911,813	248,621,271
Payments to suppliers and employees	(199,204,443)	(224,116,947)
Interest received	788,410	784,029
Interest and other costs of finance paid	(3,627,079)	(5,055,800)
Income tax paid	(1,093,257)	663,169
Net Cash Flows from Operating Activities	<u>27,775,444</u>	<u>20,895,722</u>
Cash Flows from Investing Activities		
Payment for establishment of exchange space	(98,676)	(4,796,106)
Payment for subscriber acquisition costs	(1,594,355)	(6,220,341)
Purchase of plant and equipment	(14,539,233)	(23,376,594)
Proceeds from sale of plant and equipment	17,000	-
Proceeds from sale of intangibles	-	586,056
Acquisition of business, net of cash acquired	-	(815,417)
Proceeds from sale of business	31,113,991	-
Payment of other development costs	(1,115,879)	(2,045,663)
Net Cash Flows from/(used in) Investing Activities	<u>13,782,848</u>	<u>(36,668,065)</u>
Cash Flows from Financing Activities		
Proceeds from issue of shares	2,623,142	10,819,254
Payments for capital raising costs	(52,673)	(214,200)
Proceeds from borrowings	5,000,000	5,867,187
Repayment of borrowings	(39,879,563)	(13,757,732)
Equity dividends paid	(1,256,077)	(5,460,594)
Net Cash Flows used in Financing Activities	<u>(33,565,171)</u>	<u>(2,746,085)</u>
Net (decrease)/increase in cash	7,993,120	(18,518,428)
Net foreign exchange difference	(12,729)	-
Cash and cash equivalents at beginning of period	8,266,833	26,785,261
Cash and cash equivalents at end of period	<u>16,247,225</u>	<u>8,266,833</u>

NOTES TO THE PRELIMINARY FINANCIAL REPORT

1. Summary of Significant Accounting Policies

a. Basis of preparation

These preliminary consolidated financial statements relate to iiNet Limited and the entities it controlled at the end of, or during the year ended 30 June 2007. The accounting policies adopted are consistent with those of the previous financial year.

2. Revenue and Expenses

	2007	Consolidated	2006
	\$		\$
Revenue and Expenses From Continuing Operations			
(a) Other revenue			
Finance revenue - interest received			
- other entities	788,410		577,041
- Telstra LSS settlement	1,688,026		-
	<u>2,476,436</u>		<u>577,041</u>
(b) Other income			
Telstra LSS settlement	6,887,940		-
Gain/(loss) on disposal of non-current assets	17,000		586,056
Net gain on interest rate swap derivative	55,473		-
Other	148,958		-
	<u>7,109,371</u>		<u>586,056</u>
(c) Depreciation and Amortisation			
Depreciation of plant and equipment	11,568,390		8,874,347
Amortisation of:			
Subscriber bases	-		5,752,079
Equipment under finance lease	1,842,073		1,944,321
Leasehold improvements	351,216		212,089
Capitalised development costs	1,682,688		1,142,646
Subscriber acquisition costs	3,840,838		2,064,206
Patents and trademarks	5,536		4,726
	<u>19,290,741</u>		<u>19,994,414</u>
(d) Lease payments and other expenses included in Office Costs			
Operating lease rentals – minimum lease payments	1,661,130		3,888,881
Net bad and doubtful debts arising from other entities	1,781,793		2,597,506
Share based payments expense	703,919		694,974
	<u>4,146,842</u>		<u>7,181,361</u>
(e) Finance Costs			
Interest – other entities	3,064,751		3,940,594
Finance lease interest charges	569,553		619,882
Other borrowing costs	431,435		395,408
	<u>4,065,739</u>		<u>4,955,884</u>

3. 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.

	2007 \$	2006 \$
Revenue	8,740,198	34,160,265
Cost of sales	(4,938,885)	(17,217,088)
Gross profit	3,801,313	16,943,177
Expenses	(3,162,205)	(34,218,635)
Profit/(Loss) before tax from discontinued operations	639,108	(17,275,458)
Tax expense	(215,975)	73,050
Profit/(Loss) for the year from discontinued operations	423,133	(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
	<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	(1,360,597)
Net disposal consideration	<u>34,606,030</u>
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	224,071
Gain on disposal before income tax	<u>5,016,282</u>
Income tax expense	-
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: 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 cashflow statement	<u>31,113,991</u>

4. Dividends Paid and Declared

	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 final dividend – fully franked	-	-	4.0	4,366,891
	<u>1.0</u>	<u>1,256,078</u>	<u>5.0</u>	<u>5,460,594</u>
b) Dividends declared and not recognised as a liability				
Final dividend – fully franked	5.0	6,280,370	-	-
			2007	2006
			\$	\$
(c) Franking credit balance				
Franking 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 during the financial year			351,417	-
Franking debits that will arise from the payment of recommended final dividends for the end of the financial year			(2,691,587)	-
			<u>1,425,296</u>	<u>4,303,785</u>

5. Issued Capital

	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 the beginning of the year	121,841,016	180,800,726	109,126,616	170,195,672
Shares issued as part of capital raising	3,766,386	2,623,142	12,600,000	10,710,000
Cost of capital raising	-	(52,673)	-	(214,200)
Issue of shares under ESOP	-	-	114,400	109,254
Balance at the end of the year	<u>125,607,402</u>	<u>183,371,195</u>	<u>121,841,016</u>	<u>180,800,726</u>

6. Segment Reporting

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

	Australia		New Zealand		Discontinued operations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue								
Segment revenue								
Rendering of services	222,522,751	206,263,665	-	-	8,691,742	33,860,676	231,214,493	240,124,341
Sale of goods	4,629,290	7,544,590	-	-	-	-	4,629,290	7,544,590
Rental revenue	-	-	-	-	-	92,601	-	92,601
Non-segment revenue								
Interest	2,474,125	784,029	2,311	-	48,456	-	2,524,892	784,029
Total consolidated revenue							238,368,675	248,545,561
Result								
Profit before finance charges and tax	24,111,707	(48,765,891)	5,016,282	-	5,439,415	(17,202,408)	34,567,404	(65,968,299)
Finance charges							(4,065,739)	(4,955,884)
Net profit before tax							30,501,665	(70,924,183)
Tax expense							(7,248,293)	8,373,272
Net profit							<u>23,253,372</u>	<u>(62,550,911)</u>