



ABN 48 068 628 937

Preliminary Financial Report and Appendix 4E for the Year
Ended 30 June 2013

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Contents

Results for Announcement to the Market	2
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Financial Position	5
Consolidated Statement of Changes in Equity	6
Consolidated Statement of Cash Flows	7
Notes to the Preliminary Financial Report	8
Corporate Information	14

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Results for Announcement to the Market

Current Reporting Period: Year ended 30 June 2013

Previous Reporting Period: Year ended 30 June 2012

Financial Performance	Change %	Amount \$'000
Revenue from ordinary activities	+13%	940,990
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	+29%	187,009
Profit for the year	+64%	60,938
Profit attributable to the owners of the company	+64%	60,938

Overview of Financial Performance

Revenue is up 13% to \$940,990k (2012: \$831,225k). The increase in revenue was attributable to the following:

- Continued expansion of the services provided to existing residential and business broadband customers; and
- A full year's contribution from the acquisition of the TransACT Group and Internode Pty Ltd against only seven months and five months respectively for the comparative financial period.

Profit for the year increased 64% to \$60,938k (2012: \$37,054k). The increase was attributable to a number of factors including:

- The revenue increase and contributions from the acquisitions identified above;
- Associated acquisition synergies to the Group plus other ongoing operating cost savings;
- A rebate of \$5,663k (net of tax) for the year ended 30 June 2013 relating to excess Internal Interconnection Charges (IIC) in prior periods recognised in December 2012; and
- In June 2012, retrospective amended legislation in relation to Rights to Future Income Tax was substantially enacted preventing iiNet from claiming income tax deductions for all of the cost base allocated to its previously acquired subscriber bases. This amended legislation increased the Company's income tax expense by \$7,804k in FY2012.

Net cash flows from operating activities increased 37% to \$138,270k (2012: \$100,912k).

Dividends	Amount per share cents	Franked amount per share %
Interim dividend for 2013	8.0	100
Final dividend for 2013	11.0	100

The company paid an interim fully franked dividend of 8.0 cents per share on 18 April 2013. On 20 August 2013, the Group declared a fully franked final dividend with respect to the year ended 30 June 2013 of 11.0 cents per share. The dividend has a record date of 2 September 2013 and a payment date of 27 September 2013.

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Results for Announcement to the Market (continued)

	30 June 2013	30 June 2012
Net Tangible Asset Backing	cents	cents
Net tangible asset backing per security	(128)	(124)

Net tangible assets are defined as the net assets of the iiNet Group less intangible assets and goodwill. The number of iiNet shares on issue as at 30 June 2013 was 161,238,847 (2012: 160,968,847). A net tangible liability position exists as the iiNet Group has acquired significant intangible assets in the form of subscriber bases and goodwill through previous acquisitions. These acquisitions have largely been funded through bank debt.

EBITDA is not a financial measure recognised by International Financial Reporting Standards (IFRS). The measure has been inserted because it is the closest approximation to net cash flows from operating activities from the Consolidated Statement of Comprehensive Income. EBITDA, a non-IFRS measure, has been calculated using inputs measured in accordance with IFRS as follows:

	30 June 2013	30 June 2012
	Amount	Amount
Profit before income tax to EBITDA reconciliation	\$'000	\$'000
Profit for the year before income tax	83,241	63,009
Add: Depreciation and amortisation expense	82,045	65,458
Add: Finance costs net of interest revenue	21,723	16,378
Earnings before interest, taxation, depreciation and amortisation (EBITDA)	187,009	144,845

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

iiNet Limited has not gained or lost control of any entities during the period up to the release of this preliminary report.

Audit Report

This preliminary financial report is based on financial statements which are in the process of being audited.

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Consolidated Statement of Comprehensive Income for the year ended 30 June

	Note	2013 \$'000	2012 \$'000
Revenue			
Rendering of services		916,810	814,726
Sale of hardware		23,174	15,315
Other revenue	2 (a)	1,006	1,184
Total revenue		940,990	831,225
Other income	2 (b)	1,081	8,061
Network and carrier costs		(494,672)	(477,387)
Employee expenses	2 (c)	(144,526)	(110,684)
Marketing expenses		(34,833)	(24,986)
Occupancy costs		(27,621)	(23,836)
Corporate expenses		(44,491)	(49,291)
Depreciation and amortisation expense	2 (d)	(82,045)	(65,458)
Finance costs	2 (e)	(22,729)	(17,562)
Other costs (i)		(7,913)	(7,073)
Profit before income tax		83,241	63,009
Income tax expense	7	(22,303)	(25,955)
Profit for the year		60,938	37,054
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
<i>Cash flow hedges:</i>			
Loss taken to equity		(247)	(447)
Income tax on items of other comprehensive income		74	134
Other comprehensive loss for the year, net of tax		(173)	(313)
Total comprehensive income for the year		60,765	36,741
Profit attributable to the owners of the company		60,938	37,054
Total comprehensive income attributable to the owners of the company		60,765	36,741
Earnings per share for profit attributable to the ordinary equity holders of the company	6	Cents	Cents
Basic earnings per share		37.8	23.9
Diluted earnings per share		37.6	23.9

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

- (i) Other costs include \$1,200k of realised foreign currency exchange loss, on various forward exchange contracts, incurred during the year ended 30 June 2013.

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Consolidated Statement of Financial Position

as at 30 June

	Note	2013 \$'000	2012 \$'000
Assets			
Current assets			
Cash and cash equivalents	4	12,369	6,606
Trade and other receivables		74,962	70,836
Prepayments		6,409	5,228
Inventory		18,469	7,579
Non-current assets held for sale	9	9,288	-
Derivative financial instruments		1,171	-
Total current assets		122,668	90,249
Non-current assets			
Plant and equipment		164,413	179,364
Intangible assets and goodwill		531,008	486,622
Derivative financial instruments		7,291	-
Deferred tax assets		702	235
Other assets		11	40
Total non-current assets		703,425	666,261
Total assets		826,093	756,510
Liabilities			
Current liabilities			
Trade and other payables		96,660	84,498
Unearned revenue		54,451	51,929
Interest bearing loans and borrowings		2,017	2,355
Indefeasible right of use lease liability	8	14,621	12,565
Income tax payable		12,755	9,034
Provisions		377	484
Employee benefit liability		11,963	12,113
Derivative financial instruments		401	632
Total current liabilities		193,245	173,610
Non-current liabilities			
Interest bearing loans and borrowings		184,475	225,931
Indefeasible right of use lease liability	8	119,344	61,135
Deferred tax liabilities		3,333	7,473
Provisions		524	525
Employee benefit liability		830	1,187
Total non-current liabilities		308,506	296,251
Total liabilities		501,751	469,861
Net assets		324,342	286,649
Equity			
Issued capital	5	251,069	250,528
Retained earnings		66,938	31,777
Other reserves		6,335	4,344
Total equity		324,342	286,649

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

iiNet Limited
Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013
**Consolidated Statement of Changes in Equity
for the year ended 30 June**

	Issued Capital	Retained Earnings	Employee Equity Benefits Reserve	Cash Flow Hedge Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2011	223,557	15,035	4,042	(128)	242,506
Profit for the year	-	37,054	-	-	37,054
Other comprehensive loss	-	-	-	(313)	(313)
Total comprehensive income for the year	-	37,054	-	(313)	36,741
Transactions with owners in their capacity as owners:					
Issue of share capital	36,321	-	-	-	36,321
Re-purchase of share capital	(9,350)	-	-	-	(9,350)
Share-based payments	-	-	743	-	743
Dividends paid	-	(20,312)	-	-	(20,312)
At 30 June 2012 and 1 July 2012	250,528	31,777	4,785	(441)	286,649
Profit for the year	-	60,938	-	-	60,938
Other comprehensive loss	-	-	-	(173)	(173)
Total comprehensive income for the year	-	60,938	-	(173)	60,765
Transactions with owners in their capacity as owners:					
Issue of share capital	541	-	-	-	541
Share-based payments	-	-	2,164	-	2,164
Dividends paid	-	(25,777)	-	-	(25,777)
30 June 2013	251,069	66,938	6,949	(614)	324,342

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

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Consolidated Statement of Cash Flows for the year ended 30 June

	Note	2013 \$'000	2012 \$'000
Cash flows from operating activities			
Receipts from customers		1,030,823	949,917
Payments to suppliers and employees		(851,367)	(818,317)
Interest received		1,006	1,230
Interest and other costs of finance paid		(20,135)	(16,124)
Income tax paid		(22,057)	(13,144)
Costs incurred on acquisition of subsidiary		-	(2,650)
Net cash inflows from operating activities		138,270	100,912
Cash flows from investing activities			
Payment for the establishment of exchange space		-	(2,118)
Payment for subscriber acquisition costs		(4,927)	(4,651)
Purchase of plant and equipment		(31,651)	(40,927)
Payment of project development and other intangible costs		(12,682)	(8,513)
Proceeds from sale of plant and equipment		-	5,380
Payment for acquisition of subscriber bases		-	(826)
Acquisition of subsidiary, net of cash acquired		-	(129,005)
Net cash flows used in investing activities		(49,260)	(180,660)
Cash flows from financing activities			
Proceeds from issue of shares		541	103
Proceeds from borrowings		5,000	158,100
Payment for share buy-back		-	(9,350)
Repayment of borrowings		(45,000)	(37,053)
Payment for transaction costs related to borrowings		(2,870)	(592)
Payment of IRU and finance lease liabilities		(15,141)	(10,040)
Equity dividends paid		(25,777)	(20,312)
Net cash flows from/(used in) financing activities		(83,247)	80,856
Net increase in cash		5,763	1,108
Cash and cash equivalents at the beginning of year		6,606	5,498
Cash and cash equivalents at the end of the year	4	12,369	6,606

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Preliminary Financial Report

1. Summary of Significant Accounting Policies

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 2013.

Apart from the changes in accounting policy noted below, the accounting policies adopted are consistent with those of the previous financial year.

Changes in Accounting Policy

From 1 July 2012, iiNet Limited has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2012. When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049]

This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Notes to the Preliminary Financial Report (continued)

2. Revenue and expenses

	Consolidated	
	2013	2012
	\$'000	\$'000
(a) Other revenue		
Bank and other interest received	1,006	1,184
(b) Other income		
Includes the following:		
Commissions received	272	400
Gain on acquisition	-	3,279
(c) Employee expenses		
Wages and salaries	127,721	98,650
Superannuation expense	9,320	7,003
Expense arising from share-based payments	2,164	743
Other employee benefits expenses	5,321	4,288
Total	144,526	110,684
(d) Depreciation and amortisation expense		
Plant, equipment and leasehold improvements	41,864	35,337
Subscriber acquisition costs	4,674	4,988
Capitalised development costs	4,084	1,763
Subscriber bases	11,363	10,988
Indefeasible right of use assets	12,388	6,936
Software, licenses and other intangible assets	7,672	5,446
Total	82,045	65,458
(e) Finance costs		
Bank and other interest charges	12,062	12,878
Finance lease interest charges	71	84
Indefeasible right of use lease interest charges	8,738	3,726
Other borrowing costs	1,858	874
Total	22,729	17,562
(f) Lease payments included in the statement of comprehensive income		
Minimum lease payments - operating leases	9,800	8,273

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Notes to the Preliminary Financial Report (continued)

3. Dividends paid and proposed

	2013		2012	
	Cents per share	Total \$'000	Cents per share	Total \$'000
Recognised amounts				
Current year interim dividend – fully franked	8.0	12,899	6.0	9,660
Previous year final dividend – fully franked	8.0	12,878	7.0	10,652
Total	16.0	25,777	13.0	20,312
Unrecognised amounts				
Current year final dividend – fully franked	11.0	17,736		

4. Cash and cash equivalents

	Consolidated	
	2013 \$'000	2012 \$'000
Cash and cash equivalents balance comprises:		
- Cash at bank	12,119	5,574
- Short term deposits	250	1,032
Total	12,369	6,606

5. Contributed equity

Movement in consolidated ordinary share capital:

	2013 Number	2013 \$'000	2012 Number	2012 \$'000
Issued and fully paid	161,238,847	251,069	160,968,847	250,528
Movement in shares on issue:				
At 1 July	160,968,847	250,528	152,149,598	223,557
Share buy-back (i)	-	-	(3,876,500)	(9,350)
Exercise of share options	270,000	541	139,521	103
LTI shares issued (ii)	-	-	483,564	-
Shares issued (iii)	-	-	12,072,664	36,218
At 30 June	161,238,847	251,069	160,968,847	250,528

- (i) On 15 August 2011 iiNet announced that it would undertake a share buy-back of up to 5% of issued capital from 29 August 2011 through to 15 August 2012. The total number of shares the company acquired during the buy-back was 3,876,500. All shares bought back have been cancelled by the company. No shares were bought back during the 2013 financial year.
- (ii) Shares issued under the Group's Executive Long Term Incentive (LTI) Scheme.
- (iii) Shares issued as part of the acquisition of Internode Pty Ltd.

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Notes to the Preliminary Financial Report (continued)

6. Earnings per share

Earnings and weighted average number of ordinary shares used in calculating basic and diluted earnings per share are:

	Consolidated	
	2013	2012
	\$'000	\$'000
Net profit attributable to ordinary equity holders of the company	60,938	37,054
Weighted average number of shares	Number	Number
	'000	'000
Weighted average number of ordinary shares for basic earnings per share	161,171	154,734
Add effect of dilution – Share options	29	73
– Shares allocable under the LTI plan	824	-
Weighted average number of ordinary shares for diluted earnings per share	162,024	154,807

7. Income tax expense

	Consolidated	
	2013	2012
	\$'000	\$'000
Current income tax		
Current income tax charge	26,812	18,357
Adjustments in respect of previous years	73	10
Adjustment for rights to future income tax	-	3,029
Deferred income tax		
Relating to the origination and reversal of temporary differences	(3,703)	(714)
Adjustments in respect of previous years	1,030	498
Adjustment for rights to future income tax	-	4,775
Recognition of tax losses	(1,909)	-
Total	22,303	25,955

Reconciliation between tax expense and pre-tax profit at the statutory rate

Profit before income tax	83,241	63,009
At the Group's statutory income tax rate of 30% (2012: 30%)	24,972	18,903
Adjustments in respect of previous years	1,103	508
Non-taxable items	-	(1,588)
Expenditure not allowable for income tax purposes	2,906	328
Income tax adjustments for rights to future income	-	7,804
Recognition of tax losses	(1,909)	-
Utilisation of tax losses	(4,769)	-
Income tax expense	22,303	25,955

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Notes to the Preliminary Financial Report (continued)

8. Indefeasible right of use lease liability

	30 June 2013	30 June 2012
	\$'000	\$'000
Current	14,621	12,565
Non-current	119,344	61,135
Total	133,965	73,700

In July 2012 iiNet entered into a new International Capacity Supply Agreement with Southern Cross Cables Limited. The lease component of the agreement has been accounted for as an indefeasible right of use finance lease.

9. Non-current assets held for sale

	30 June 2013	30 June 2012
	\$'000	\$'000
Current - assets classified as held for sale	9,288	-
Total	9,288	-

On 22 May 2013 TransACT Capital Communications Pty Ltd, a wholly owned subsidiary of iiNet Limited, reached an agreement with NBN Co Limited for the sale of TransACT's fibre-to-the-premises (FTTP) network in the ACT region. The carrying amount of the FTTP network in this region, previously included in plant and equipment, has been reclassified to non-current assets held for sale pending ACCC approval for completion to occur.

10. Segment reporting

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the preliminary financial statements. The iiNet Group has identified its operating segments based on the internal management reporting that is used by the executive management team (the chief operating decision maker) in assessing performance and allocating resources.

The reportable segments are based on aggregated operating segments determined by the similarity of the products sold and the services provided, as these are the sources of the Group's major risks and have the most effect on the rates of return.

The iiNet Group, Internode and TransACT are operating segments within the telecommunications sector in the Australian market and have been aggregated to one reportable segment given the similarity of the services provided, method in which services are delivered, types of customers and regulatory environment.

The Group's principal activity is the provision of internet and telephony services to a wide range of residential and business customers across Australia. As the Group is aggregated into one reportable segment, there are no inter-segment transactions.

Notes to the Preliminary Financial Report (continued)

11. Cash flow hedge reserve

The change in the cash flow hedge reserve to 30 June 2013, on page 6, represents the after tax net movement in market value of effective cash flow hedges from 30 June 2012. At 30 June 2013 the cash flow hedge reserve comprised \$123k (2012: \$293k) relating to interest rate swaps and \$491k (2012: \$148k) relating to forward exchange rate contracts.

During the year ended 30 June 2013 net gains of \$7,957k (2012: net losses of \$405k) have been reclassified from the hedge reserve to the Statement of Comprehensive Income. This includes a gain of \$8,803k (2012: \$nil) relating to the revaluation of forward exchange contracts entered into for the purpose of hedging the Group's exposure to the foreign currency risk associated with the IRU liability denominated in US dollars. The gain has off-set a corresponding loss recognised in the Statement of Comprehensive Income following the revaluation of the IRU liability at spot at 30 June 2013.

12. Post balance date events

On 20 August 2013, the Group declared a fully franked final dividend of 11.0 cents per share with respect to the financial year ended 30 June 2013. The dividend will have a record date of 2 September 2013 and a payment date of 27 September 2013.

On 5 August 2013, iiNet Limited entered into a binding agreement to acquire Adam Internet Holdings Pty Ltd (Adam Internet) and associated companies for \$60 million cash consideration. Completion of the acquisition is subject to a number of standard procedural conditions which are expected to be met by 31 August 2013.

iiNet Limited

Preliminary Financial Report and Appendix 4E for the Year Ended 30 June 2013

Corporate Information

Directors

Mr. M.J. Smith (Chairman)
Mr. M.M. Malone (Managing Director)
Mr. P.R. James
Mr. P.A. Broad
Mr. D. Grant
Ms. L. McCann
Mr. S. Hackett

Company Secretary

Mr. D. Buckingham

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iiNet Limited shares are listed on the Australian Securities Exchange (ASX) under the ASX code IIN.