ABN 48 068 628 937

Half-Year Financial Report for 31 December 2013 and ASX Appendix 4D

iiNet Limited
Financial Report for the Half-Year Ended and Appendix 4D
31 December 2013

Contents

iiNet Limited
Financial Report for the Half-Year Ended 31 December 2013

ASX Appendix 4D

Results for Announcement to the Market

The results reported below are in round thousand dollars.

Current reporting period:	Half-Year ended 31 December 2013
Previous corresponding period:	Half-Year ended 31 December 2012

Statutory Reported Financial Performance	Change %	Amount $'000
Revenue from ordinary activities	4%	493,150
Profit for the period	(9%)	29,101
Profit attributable to owners of the Company	(9%)	29,101

Other Financial Metrics		
Underlying earnings before interest, taxation, depreciation and amortisation (Underlying EBITDA)	6%	95,343
Underlying net profit for the period after income tax (Underlying NPAT)	20%	31,409

See page 3 for reconciliation of underlying metrics to reported financial performance.

Dividends	Amount per share cents	Franked amount per share %
Interim dividend	9.0	100
Record date for determining entitlements to the interim dividend		14 March 2014

Earnings Per Share	31 December 2013 cents	31 December 2012 cents
Basic earnings per share	18.0	19.8
Diluted earnings per share	17.9	19.7

Net Tangible Asset Backing	31 December 2013 cents	31 December 2012 cents
Net tangible asset backing per security	(154.7)	(147.6)

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 31 December 2013 was 161,238,847 (2012: 161,238,847).

Results for Announcement to the Market *(continued)*

Underlying results

EBITDA is not a financial measure recognised by International Financial Reporting Standards ("IFRS"). This measure is referenced because of its close approximation to the Group's net cash flows from operating activities and is a widely used performance measure in the Telecommunications Industry.

Underlying EBITDA and underlying NPAT provide a useful understanding of the Group's underlying operating results by removing the impact of significant non-recurring items.

Non-IFRS measures have been calculated using inputs measured in accordance with IFRS as follows:

For the Half-Year ended 31 December 2013 **Reported profit before income tax to underlying EBITDA reconciliation**	**Amount** **$'000**
Reported Profit for the period before income tax	39,932
Add: Depreciation and amortisation expense	41,379
Add: Finance costs net of interest revenue	11,034
Add: Costs in relation to acquisition of businesses and asset disposal	2,998
Underlying earnings before interest, taxation, depreciation and amortisation (Underlying EBITDA)	95,343

Reported NPAT to underlying NPAT reconciliation	**Amount** **$'000**
Reported Profit for the period after income tax	29,101
Add: Costs in relation to acquisition of businesses and asset disposal after income tax	2,308
Underlying net profit for the period after income tax (Underlying NPAT)	31,409

For the Half-Year ended 31 December 2012 **Reported profit before income tax to underlying EBITDA reconciliation**	**Amount** **$'000**
Reported Profit for the period before income tax	45,478
Add: Depreciation and amortisation expense	40,917
Add: Finance costs net of interest revenue	11,361
Less: Rebate for IIC charges relating to prior periods	(8,090)
Underlying earnings before interest, taxation, depreciation and amortisation (Underlying EBITDA)	89,666

Reported NPAT to underlying NPAT reconciliation	**Amount** **$'000**
Reported Profit for the period after income tax	31,935
Less: Rebate for IIC charges relating to prior periods after income tax	(5,663)
Underlying net profit for the period after income tax (Underlying NPAT)	26,272

Directors' Report

The Directors present their report on the consolidated entity consisting of iiNet Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2013.

Directors

The following individuals were Directors of iiNet Limited during the whole of the half-year ended 31 December 2013 and up to the date of this report unless otherwise stated.

Mr. M.J. Smith (Chairman)

Mr. M.M. Malone (Managing Director)

Mr. P.A. Broad – resigned effective 19 November 2013

Mr. D.C. Grant

Mr. S.W. Hackett – resigned effective 27 November 2013

Mr. P.R. James

Ms. L.S. McCann

Rounding of Amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' report and financial statements. Amounts in the Directors' report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Overview of Financial Performance

Total revenue for the half-year ended 31 December 2013 was up 4% to $493,150k (2012: $473,599k). The increase in revenue was attributable to the following:

- Organic growth in residential and business subscribers;
- Continued expansion of the services provided to existing residential and business broadband customers; and
- The acquisition of Adam Internet Holdings Pty Ltd on 30 August 2013.

Profit after income tax attributable to the owners of the Company for the half-year ended 31 December 2013 was $29,101k (2012: $31,935k). The decline in net profit after tax is attributable to the non-recurrence of a credit rebate of $5,663k in relation to excess wholesale Internal Interconnection Charges (IIC) in the prior comparative period. Underlying net profit after tax increased by 20% to $31,409k (2012: $26,272k) after excluding this one-off rebate. Net cash flows from operating activities increased 0.7% to $72,137k (2012: $71,655k).

Dividends

The Group has declared a fully franked interim dividend of 9.0 cents per share with respect to the financial year ending 30 June 2014. The dividend will have a record date of 14 March 2014 and a payment date of 28 March 2014.

Directors' Report *(continued)*

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

This report is made in accordance with a resolution of the Directors.

M.J. Smith
Chairman

Sydney, New South Wales
19 February 2014

Consolidated Statement of Comprehensive Income

	Note	For the Half-Year Ended 31 December 2013 $'000	31 December 2012 $'000
Revenue			
Rendering of services		480,011	463,286
Sale of hardware		12,810	9,835
Other revenue	2(a)	329	478
Total revenue		**493,150**	**473,599**
Other income		851	282
Network and carrier costs (i)		(264,767)	(244,252)
Employee expenses	2(b)	(77,044)	(70,657)
Marketing expenses		(19,315)	(17,718)
Occupancy costs		(12,987)	(14,870)
Corporate expenses (ii)		(23,276)	(24,858)
Depreciation and amortisation expense	2(c)	(41,379)	(40,917)
Finance costs	2(d)	(11,363)	(11,839)
Other costs (ii)		(3,938)	(3,292)
Profit before income tax		**39,932**	**45,478**
Income tax expense	7	(10,831)	(13,543)
Profit for the period attributable to the owners of the Company		**29,101**	**31,935**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Cash flow hedges:			
Net loss taken to equity		(641)	(2,936)
Income tax on items of other comprehensive income		(241)	881
Other comprehensive loss for the period, net of tax		**(882)**	**(2,055)**
Total comprehensive income for the period attributable to the owners of the Company		**28,219**	**29,880**

Earnings per share for profit attributable to the ordinary equity holders of the Company:	6	**Cents**	**Cents**
Basic earnings per share		18.0	19.8
Diluted earnings per share		17.9	19.7

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

(i) Network and carrier costs includes a non-recurring rebate of $8,090k in the half-year ended 31 December 2012 relating to excess Internal Interconnection Charges (IIC) in prior periods.

(ii) Corporate expenses and Other costs include $2,998k (Corporate expenses of $2,532k and Other costs of $466k) in the half-year ended 31 December 2013 directly relating to acquisition of businesses and asset disposal activities.

Consolidated Statement of Financial Position

	Note	At 31 December 2013 $'000	At 30 June 2013 $'000
Assets			
Current Assets			
Cash and cash equivalents	4	29,882	12,369
Trade and other receivables	8	73,788	74,962
Prepayments		8,809	6,409
Inventory		15,583	18,469
Non-current assets held for sale	9	-	9,288
Derivative financial instruments		2,152	1,171
Total Current Assets		**130,214**	**122,668**
Non-current Assets			
Plant and equipment		171,701	164,413
Intangible assets and goodwill		455,092	393,471
Indefeasible right of use assets		130,951	137,537
Derivative financial instruments		8,252	7,291
Deferred tax assets		3,016	702
Other assets		-	11
Total Non-current Assets		**769,012**	**703,425**
Total Assets		**899,226**	**826,093**
Liabilities			
Current Liabilities			
Trade and other payables	10	103,849	96,660
Unearned revenue		62,671	54,451
Interest bearing loans and borrowings		1,679	2,017
Indefeasible right of use lease liabilities	11	16,790	14,621
Income tax payable		9,828	12,755
Provisions		1,208	377
Employee benefit liability		13,187	11,963
Derivative financial instruments		92	401
Total Current Liabilities		**209,304**	**193,245**
Non-current Liabilities			
Interest bearing loans and borrowings		235,582	184,475
Indefeasible right of use lease liabilities	11	113,221	119,344
Deferred tax liability		-	3,333
Provisions		4,203	524
Employee benefit liability		926	830
Derivative financial instruments		66	-
Total Non-current Liabilities		**353,998**	**308,506**
Total Liabilities		**563,302**	**501,751**
Net Assets		**335,924**	**324,342**
Equity			
Issued capital	5	251,069	251,069
Retained earnings		78,303	66,938
Other reserves		6,552	6,335
Total Equity		**335,924**	**324,342**

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

Consolidated Statement of Changes in Equity

For the Half-Year Ended 31 December 2012	Note	Issued capital $'000	Retained earnings $'000	Employee equity benefits reserve $'000	Cash flow hedge reserve $'000	Total $'000
At 1 July 2012		**250,528**	**31,777**	**4,785**	**(441)**	**286,649**
Profit for the period		-	31,935	-	-	31,935
Other comprehensive loss		-	-	-	(2,055)	(2,055)
Total comprehensive income/(loss)		-	31,935	-	(2,055)	29,880
Transactions with owners in their capacity as owners:						
Issue of share capital		541	-	-	-	541
Share-based payments		-	-	996	-	996
Dividends paid		-	(12,878)	-	-	(12,878)
At 31 December 2012		**251,069**	**50,834**	**5,781**	**(2,496)**	**305,188**

For the Half-Year Ended 31 December 2013	Issued capital $'000	Retained earnings $'000	Employee equity benefit reserve $'000	Cash flow hedge reserve $'000	Total $'000
At 1 July 2013	**251,069**	**66,938**	**6,949**	**(614)**	**324,342**
Profit for the period	-	29,101	-	-	29,101
Other comprehensive loss	-	-	-	(882)	(882)
Total comprehensive income/(loss)	-	29,101	-	(882)	28,219
Transactions with owners in their capacity as owners:					
Share-based payments	-	-	1,099	-	1,099
Dividends paid	-	(17,736)	-	-	(17,736)
At 31 December 2013	**251,069**	**78,303**	**8,048**	**(1,496)**	**335,924**

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

Consolidated Statement of Cash Flows

	Note	For the Half-Year Ended 31 December 2013 $'000	31 December 2012 $'000
Cash flows from operating activities			
Receipts from customers		545,538	520,654
Payments to suppliers and employees		(442,090)	(424,607)
Interest received		329	478
Interest and other costs of finance paid		(10,490)	(13,005)
Income tax paid		(19,017)	(11,865)
Costs incurred on acquisition of businesses and disposal of assets		(2,133)	-
Net cash flows from operating activities		**72,137**	**71,655**
Cash flows from investing activities			
Purchase of plant and equipment		(13,626)	(26,007)
Payment of project development costs and other intangibles costs		(10,708)	(1,140)
Payment for subscriber acquisition costs		(3,954)	(3,553)
Acquisition of subsidiary, net of cash acquired	15	(59,115)	-
Proceeds from sale of plant and equipment		9,003	-
Receipts from disposal of investments		24	-
Net cash flows used in investing activities		**(78,376)**	**(30,700)**
Cash flows from financing activities			
Proceeds from issue of shares		-	541
Payment for transaction costs related to borrowings		(62)	-
Proceeds from borrowings		60,000	5,000
Repayment of borrowings		(9,000)	(10,000)
Repayment of IRU and finance lease liabilities		(9,450)	(7,878)
Equity dividends paid	3	(17,736)	(12,878)
Net cash flows from/(used in) financing activities		**23,752**	**(25,215)**
Net increase in cash		17,513	15,740
Cash and cash equivalents at beginning of period		12,369	6,606
Cash and cash equivalents at end of period	4	**29,882**	**22,346**

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

Notes to the Financial Report

1. Basis of preparation and significant accounting policies

The general purpose condensed financial report for the half-year reporting period ended 31 December 2013 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001* and was authorised for issue in accordance with a resolution of the Directors on 19 February 2014. iiNet Limited ("the Company") is a for-profit entity limited by shares and incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX"). The principle activities of the Company and its subsidiaries ("the Group") are described in Note 12. The half-year financial report comprises the condensed consolidated interim financial statements of iiNet Limited and its subsidiaries as at and for the half-year ended 31 December 2013. The half-year financial report has been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

The half-year financial report does not include all the notes of the type normally included in the annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 30 June 2013 and any public announcements made by iiNet Limited during the interim reporting period in accordance with the continuous disclosure requirements of the ASX Listing Rules.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. This Company is an entity to which the Class Order applies.

Except as described below, the accounting policies and methods of computation applied in this half-year financial report are the same as those adopted in the most recent annual financial statements.

Changes in accounting policy

From 1 July 2013, the Group has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning 1 July 2013. Adoption of these standards and interpretations did not have a material effect on the financial performance and position of the Group.

AASB 10 Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB *127 Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *Consolidation - Special Purpose Entities*.

The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.

AASB 12 Disclosure of Interests in Other Entities

AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosure requirements have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests. None of these disclosure requirements are applicable for interim consolidated financial statements, unless significant events and transactions in the interim period requires that they are provided.

Notes to the Financial Report *(continued)*

AASB 13 Fair Value Measurement

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition did not result in different fair values being determined for the relevant assets.

AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Additional disclosures have been set out in Note 14.

Consequential amendments were also made to other standards via AASB 2011-8.

AASB 119 Employee Benefits

The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

Consequential amendments were also made to other standards via AASB 2011-10.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities

AASB 2012-2 principally amends AASB 7 *Financial Instruments: Disclosures* to require disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position, when all the offsetting criteria of AASB 132 are not met.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following:

- Repeat application of AASB 1 is permitted (AASB 1)
- Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).

AASB 2012-9 Amendment to AASB 1048 arising from the withdrawal of Australian Interpretation 1039

AASB 2012-9 amends AASB 1048 Interpretation of Standards to evidence the withdrawal of Australian Interpretation 1039 Substantive Enactment of Major Tax Bills in Australia.

2. Revenue and expenses included in the consolidated statement of comprehensive income

	For the Half-Year Ended	
	31 December 2013 $'000	**31 December 2012 $'000**
(a) Other revenue		
Bank and other interest received	**329**	**478**
(b) Employee expenses		
Wages and salaries	69,030	62,225
Superannuation expense	5,284	4,590
Expense arising from share-based payments	1,099	996
Other employee benefits expense	1,631	2,846
Total	**77,044**	**70,657**
(c) Depreciation and amortisation expense		
Plant, equipment and leasehold improvements	21,108	21,043
Subscriber acquisition costs	2,732	2,302
Capitalised development costs	2,198	1,228
Subscriber bases	4,190	5,870
Indefeasible right of use assets	6,586	5,802
Software, licenses and other intangible assets	4,565	4,672
Total	**41,379**	**40,917**
(d) Finance costs		
Bank and other interest charges	5,874	6,158
Finance lease interest charges	66	937
Indefeasible right of use lease interest charges	4,844	3,375
Other borrowing costs	579	1,369
Total	**11,363**	**11,839**

3. Dividends paid and proposed

	For the Half-Year Ended	
	31 December 2013 $'000	**31 December 2012 $'000**
Equity dividends on ordinary shares:		
a) Dividends paid during the half-year: Final franked dividend for financial year 30 June 2013: 11.0 cents (2012: 8.0 cents).	17,736	12,878
b) Dividends declared and not recognised as a liability: Interim franked dividend for financial year 30 June 2014: 9.0 cents (2013: 8.0 cents).	14,511	12,899

Notes to the Financial Report *(continued)*

4. Cash and cash equivalents

	31 December 2013 $'000	30 June 2013 $'000
Cash and cash equivalent balances comprise:		
- cash at bank	29,632	12,119
- short term deposits	250	250
Total	**29,882**	**12,369**

5. Contributed equity

Movement in ordinary share capital:

	2013 Number	2012 Number	2013 $'000	2012 $'000
At 1 July	161,238,847	160,968,847	251,069	250,528
Exercise of share options	-	270,000	-	541
At 31 December	**161,238,847**	**161,238,847**	**251,069**	**251,069**

6. Earnings per share

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

	For the Half-Year Ended	
	31 December 2013 $'000	31 December 2012 $'000
Net profit attributable to ordinary equity holders of the Company	29,101	31,935
Weighted average number of shares	**Number '000**	**Number '000**
Weighted average number of ordinary shares for basic earnings per share	161,239	161,103
Add effect of dilution:		
- Shares allocable under LTI plan	1,217	757
Weighted average number of ordinary shares for diluted earnings per share	162,456	161,860

7. Income tax

Income tax expense

	For the Half-Year Ended	
	31 December 2013	**31 December 2012**
	$'000	**$'000**
Current tax expense		
Current income tax charge	14,614	11,633
Adjustment in respect of previous year	1,592	201
Deferred tax expense		
Relating to the origination and reversal of temporary differences	(3,146)	1,050
Adjustment in respect of previous year	(329)	2,567
Recognition of tax losses	(1,900)	(1,908)
Total	**10,831**	**13,543**

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

Profit from continuing operations before income tax expense	39,932	45,478
Tax at the Group's statutory income tax rate of 30% (2012: 30%)	11,980	13,643
Expenditure not allowable for income tax purpose	2,102	1,104
Adjustments in respect of previous year	1,263	2,768
Recognition of previously unrecognised tax losses	(1,900)	(1,908)
Utilisation of tax losses	(2,614)	(2,064)
Income tax expense	**10,831**	**13,543**

8. Trade and other receivables

	31 December 2013	**30 June 2013**
	$'000	**$'000**
Trade receivables	73,648	74,846
Allowance for impairment losses	(3,657)	(3,632)
	69,991	**71,214**
Other receivables	3,797	3,748
Total	**73,788**	**74,962**

9. Non-current assets held for sale

At 30 June 2013, the carrying amount relating to completed releases of TransACT's fibre-to-the-premises (FTTP) network in the ACT region was classified as a non-current asset held for sale pending ACCC approval for completion of the sale to NBN Co Limited to occur. During the half-year ended 31 December 2013 the transaction completed and the sale was recognised. The consideration received for the disposal of these assets approximated their carrying value and there was no material impact on the Consolidated Statement of Comprehensive Income.

10. Trade and other payables

	31 December 2013 $'000	30 June 2013 $'000
Trade creditors	94,964	89,213
Other payables and accruals	4,467	5,380
GST payable	4,418	2,067
Total	**103,849**	**96,660**

11. Indefeasible right of use (IRU) lease liabilities

	31 December 2013 $'000	30 June 2013 $'000
Current	16,790	14,621
Non-current	113,221	119,344
Total	**130,011**	**133,965**

12. Segment reporting

The accounting policies used by the Group in reporting segments internally are the same as those contained in Note 2 to the annual financial statements for the year ended 30 June 2013. 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 operates within the telecommunications sector in the Australian market and has 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.

13. Cash flow hedge reserve

The change in the cash flow hedge reserve to 31 December 2013 represents the after tax net movement in market value of effective cash flow hedges from 30 June 2013. At 31 December 2013 the cash flow hedge reserve comprised $1,385k (2012: $2,448k) relating to forward exchange contracts and $111k (2012: $48k) relating to interest rate swaps.

During the half-year ended 31 December 2013 net gains of $2,922k (2012: $653k) have been reclassified from the hedge reserve to the Statement of Comprehensive Income. This includes a gain of $2,826k (2012: $1,192k) 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 loss recognised in the Statement of Comprehensive Income following the revaluation of the IRU liability at spot rate at 31 December 2013.

14. Financial instruments

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

(a) Quoted prices in active markets (Level 1);

(b) Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and

(c) Inputs that are not based on observable market data (Level 3).

As at 31 December 2013, the Group held the following classes of financial instruments measured at fair value:

	Level 2 $'000	31 December 2013 $'000
Derivative financial assets		
Forward exchange contracts	10,404	10,404
Derivative financial liabilities		
Interest rate swap contracts	(158)	(158)
Total	**10,246**	**10,246**

The Group recognises transfers between the levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1, Level 2 or Level 3 fair value measurements during the half-year ended 31 December 2013.

The carrying value of other financial instruments not measured at fair value approximates their fair values.

The foreign exchange contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. Fair values of interest rate swap contracts are based on the present value of the estimated future cash flows, reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and counterparty where appropriate.

15. Business combination

On 30 August 2013, iiNet Limited acquired 100% of the shares and voting interest in Adam Internet Holdings Pty Ltd ("Adam"). The acquisition reinforces the Company's position as Australia's second largest DSL Internet Service Provider and the leading challenger brand in the Australian telecommunications market.

Provisional goodwill arising from the acquisition has been recognised as follows:

	$'000
Consideration transferred	60,425
Provisional fair value of identifiable net assets acquired	(8,663)
Provisional goodwill arising on acquisition	**51,762**

The purchase consideration was funded through a drawdown of iiNet's available bank loan facility and existing cash.

Due to the proximity of the transaction to the reporting date, the initial accounting for the business combination was incomplete at the reporting date. Accordingly, the Group has recognised the fair values of the assets acquired and liabilities assumed on a provisional basis.

The provisional fair value of the identifiable assets acquired and liabilities assumed at the acquisition date were as follows:

	$'000
Assets	
Cash and Cash Equivalents	1,310
Trade and Other Receivables	345
Prepayments	675
Inventory	309
Income tax receivable	118
Plant and equipment	16,907
Acquired subscriber base	1,900
Deferred tax assets	1,652
Total Assets	**23,216**
Liabilities	
Trade and other payables	(4,557)
Unearned revenue	(3,349)
Provision for onerous lease and make good	(4,400)
Employee benefit liability	(1,108)
Deferred tax liabilities	(1,139)
Total Liabilities	**(14,553)**
Provisional fair value of identifiable net assets acquired	**8,663**

15. Business combination *(continued)*

	$'000
Cash flows on acquisition of subsidiary in the statement of cash flows comprises:	
Purchase consideration paid	60,600
Less: Working Capital adjustment received	(175)
Consideration transferred	60,425
Less: Cash acquired	(1,310)
Net cash outflow on acquisition	**59,115**

The acquired business contributed revenues of $19,036k and net profit after tax of $1,918k to the Group for the period from acquisition to 31 December 2013. If the acquisition had occurred on 1 July 2013, iiNet Group revenues would have been $502,821k and net profit after tax would have been $30,410k (including costs in relation to acquisition and asset disposal of $2,308k after tax).

Direct costs relating to the acquisition totalling $1,785k have been recognised as Corporate expenses and Other costs in the Statement of Comprehensive Income for the half-year ended 31 December 2013.

Included in the business assets acquired were receivables with a gross contractual and fair value of $345k resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

Key factors contributing to the $51,762k of goodwill are the synergies expected to be achieved as a result of combining Adam with the rest of the group.

16. Post balance date event

On 19 February 2014, the Group declared a fully franked interim dividend of 9.0 cents per share with respect to the half-year ended 31 December 2013. The dividend will have a record date of 14 March 2014 and a payment date of 28 March 2014.

iiNet Limited
Financial Report for the Half-Year Ended
31 December 2013

Corporate Information

Directors

Mr. M.J. Smith (Chairman)
Mr. M.M. Malone (Managing Director)
Mr. P.A. Broad – resigned effective 19 November 2013
Mr. D.C. Grant
Mr. S.W. Hackett – resigned effective 27 November 2013
Mr. P.R. James
Ms. L.S. McCann

Company Secretary

Mr. B.A. Jenkins

Registered Office and Principal Place of Business

Level 1
502 Hay Street
Subiaco
Perth WA 6008

Internet: www.iinet.net.au

Share Registry

Link Market Services Limited
Ground Floor
178 St Georges Terrace
Perth WA 6000

Internet: www.linkmarketservices.com.au

Email: info@linkmarketservices.com.au

Telephone
Australia & International: +61 1300 275 410

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

Directors' Declaration

In accordance with a resolution of the Directors of iiNet Limited, I 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 consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date;

  (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.J. Smith
Chairman

Sydney, New South Wales
19 February 2014

Ernst & Young
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Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

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Auditor's Independence Declaration to the Directors of iiNet Limited

In relation to our review of the financial report of iiNet Limited for the half-year ended 31 December 2013, 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
19 February 2014

GHM:DR:iiNET:021

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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, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 half-year 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* . 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.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of iiNet Limited is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
19 February 2014