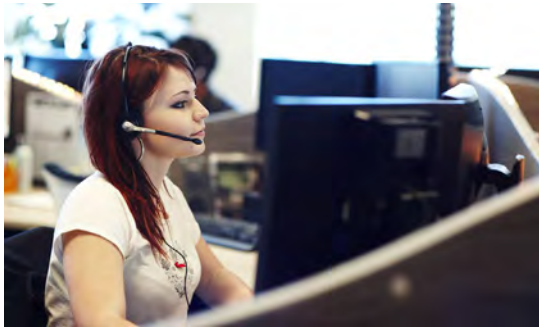
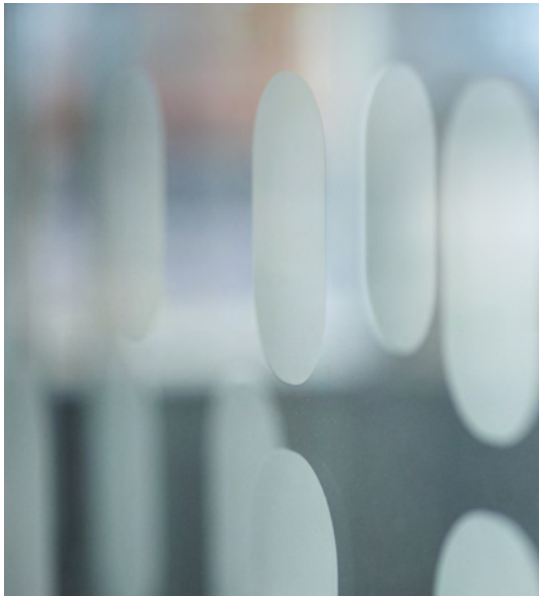
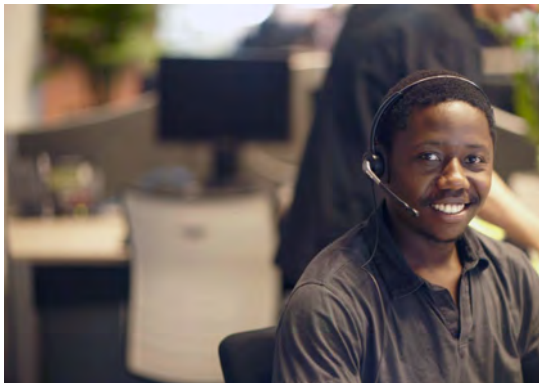


ANNUAL REPORT 2012



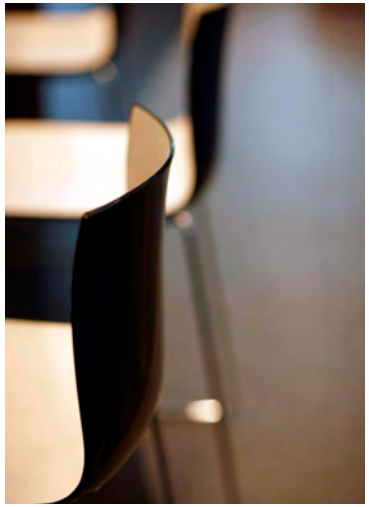


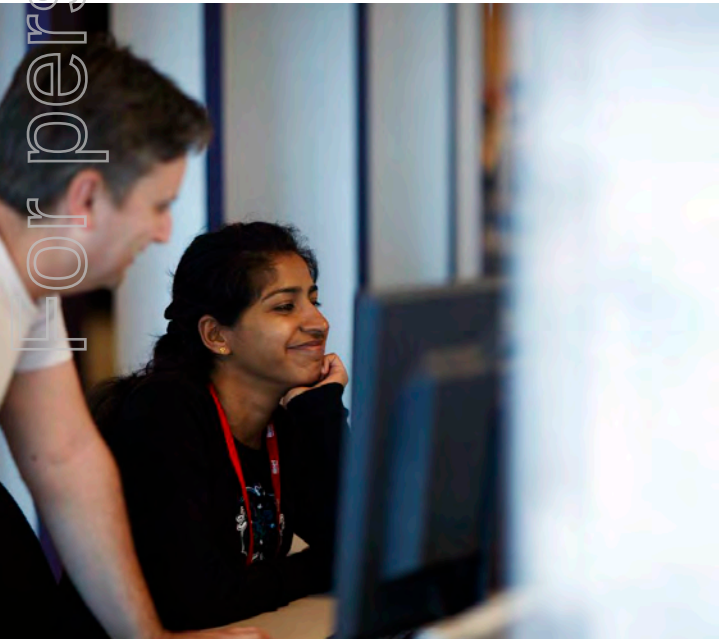
iinet
connect better

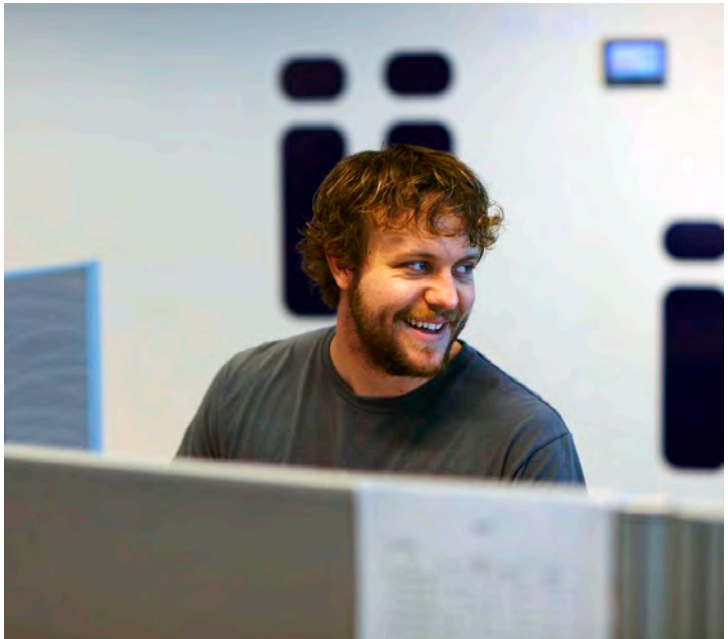
Photograph by Jane Yeap, Web Designer

CONTENTS

ABOUT US







We've come a long way since our days of working out of a suburban garage in the early 90s. Fast forward 18 years, and iiNet is now Australia's second largest DSL Internet Service Provider (ISP) and leading challenger in the telecommunications market.

Our vision is to lead the market with products that harness the potential of the Internet and then differentiate with award-winning customer service. To achieve this, we employ over 2,000 creative thinkers and advocates of technology.

Our people are passionate about the transformative benefits of the Internet and are committed to helping Australians connect better. Together we support 1.6 million broadband, telephony and Internet Protocol TV (IPTV) services nationwide.

Our vision, 'delivering cool products and awesome service to your digital world', drives all that we do at iiNet.

93
No. of Staff
2

iiNet Commences Business

After completing their degrees, university friends Michael Malone and Michael O'Reilly establish iiNet in the garage of Michael Malone's family home. iiNet becomes the first organisation in WA to offer dialup Internet access to the public. The initial modems are a combination of 2,400 and 14,400bps and the price is $25/month flat rate.

97
No. of Staff
30

iiNet Modems Go Digital

iiNet introduces its first digital modems. Not only are these smaller (with 60 digital modems fitting into the space occupied by 16 of the superseded analogue modems) but also faster. This provides a significant competitive advantage to the company, as it is one of the first in WA to adopt such technology.

AWARDS

WA Brand Revitalisation Winner
Australian Marketing Institute Awards
September 2011

Best Telecommunications Initiative
ARN IT Industry Awards
September 2011

Deloitte Technology Fast50 Australia
Deloitte
October 2011

National Large Business of the Year
Customer Service Institute of Australia Service Excellence Awards
November 2011

Gold Winner for Cheapest International Calls
Money magazine awards
December 2011

Entrepreneur of the Year 2011
Australia Ernst & Young Entrepreneur of the Year Awards
November 2011

Australia's Coolest Company 2011
Anthill Cool Company Awards
November 2011

VIC Contact Centre of the Year (between 81-150 FTE)
Australian Teleservices Association
July 2012

WA Contact Centre of the Year (150 FTE+)
Australian Teleservices Association
July 2012

Best Home / Remote Agent Program
Contact Centre World Regional Awards (APAC)
July 2012

99
No. of Staff
97

iiNet Lists on the ASX

iiNet Limited becomes a public company and lists on the Australian Securities Exchange. The prospectus closes early due to huge demand for the shares. As part of the listing process, iiNet sets its sights on 50,000 customers by the middle of 2000, a seemingly impossible target with less than 20,000 in July 1999.

04
No. of Staff
446

Infrastructure Rollout Begins

iiNet begins deployment of its own infrastructure called DSLAMs. By 2005 iiNet expects over half of its customers will be connected to its own network – the iiNetwork.

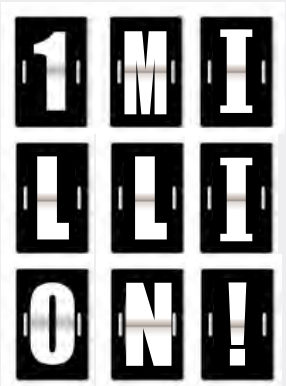
07
No. of Staff
601

The Naked Revolution

iiNet leads the pack in November as the first national provider of Naked DSL. Set to change the way users connect, Naked delivers broadband without a landline phone, meaning customers can wave goodbye to phone line rentals.

After months of research (and late nights), iiNet's lovable Irishman 'Finn' bursts on to the scene in Manifesto - iiNet's first major advertising campaign.

10
No. of Staff
2,041



Cracking the Million

iiNet becomes the 2nd biggest ADSL provider in Australia! Total customer numbers double over only two years to reach a total 1.3 million services in 2010.

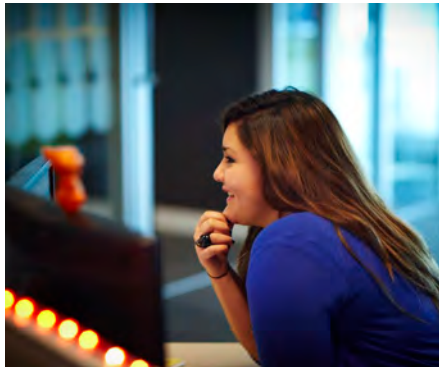
iiNet expands the family when it acquires Canberra-based telco TransACT followed closely by Adelaide-based Internode. The two acquisitions lead to a string of integration benefits and strong company growth.

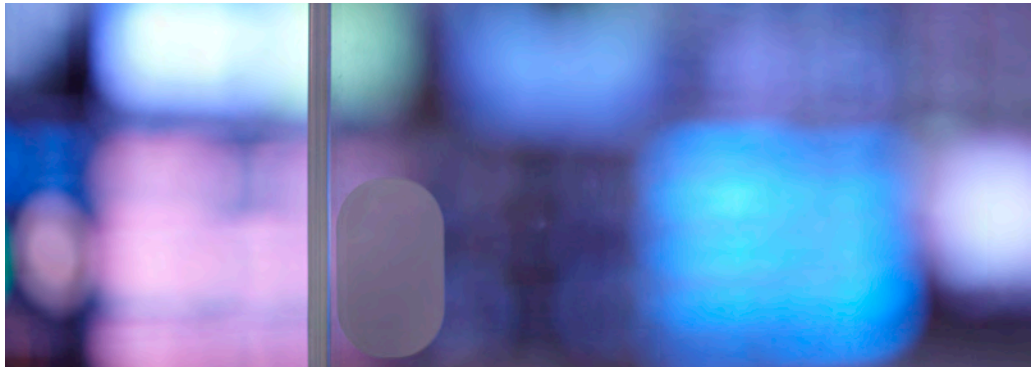
After a four year battle, iiNet successfully defends its copyright position in the High Court against film industry heavyweights, reaffirming the belief that new business models are needed to allow consumers to share content legally.

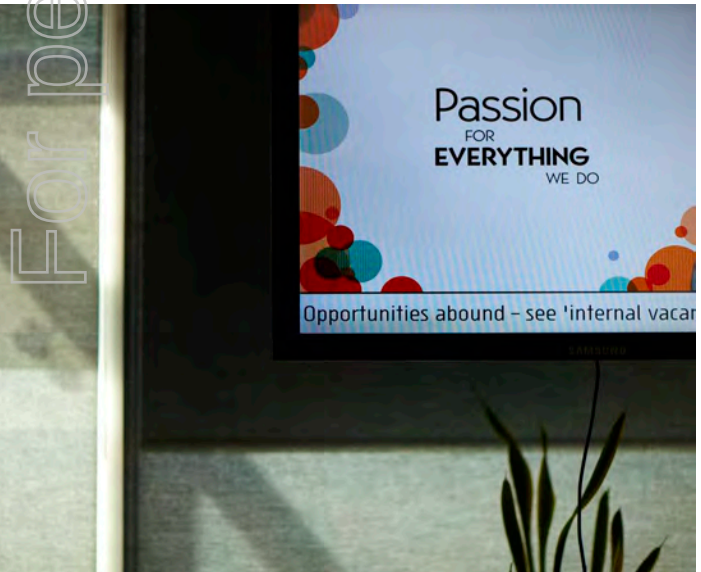
iiNet Labs cross the ditch with iiNet's first export contract, adapting the latest creation, BoB2™, for our Kiwi friends.

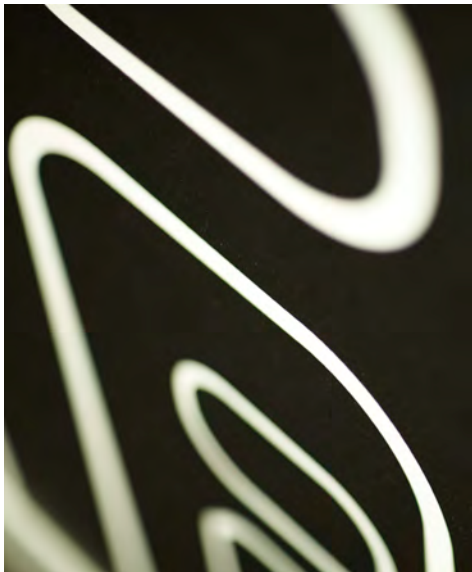
2012

CHAIRMAN'S REVIEW









In the last twelve months, we have continued to grow in what has been one of iiNet's busiest periods.

The Company has now strengthened its position as the "clear No.2" with enhanced growth opportunities following the strategic acquisitions of TransACT and Internode. We now supply 1.6 million broadband, telephony, Internet Protocol TV (IPTV) and other services to our loyal broadband customers.

The past year has resulted in an exceptional performance with iiNet producing its best ever financial results, reflecting organic growth and the contribution from acquisitions.

Michael Smith

CONTINUED GROWTH IN REVENUE AND EARNINGS

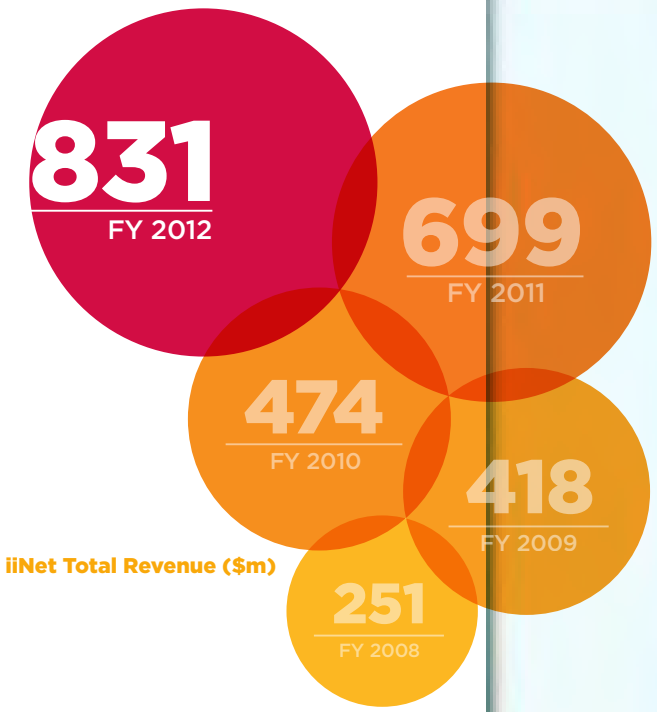
Revenue was up 19% to $831.2 million reflecting growth in the number of products per customer, contributions from the TransACT and Internode acquisitions, and rapidly growing provision of telecommunication services to business customers.

Reported earnings before interest, tax, depreciation and amortisation (EBITDA) as defined on page 27 of the Director's Report was up 47% to $144.8 million, beating the market consensus forecast for iiNet's results. The growth in earnings was driven by increased revenue, market-leading customer service levels resulting in low churn, synergies from the ongoing integration of acquired businesses, an improved regulatory environment for wholesale network costs and the benefits of economies of scale falling through to earnings.

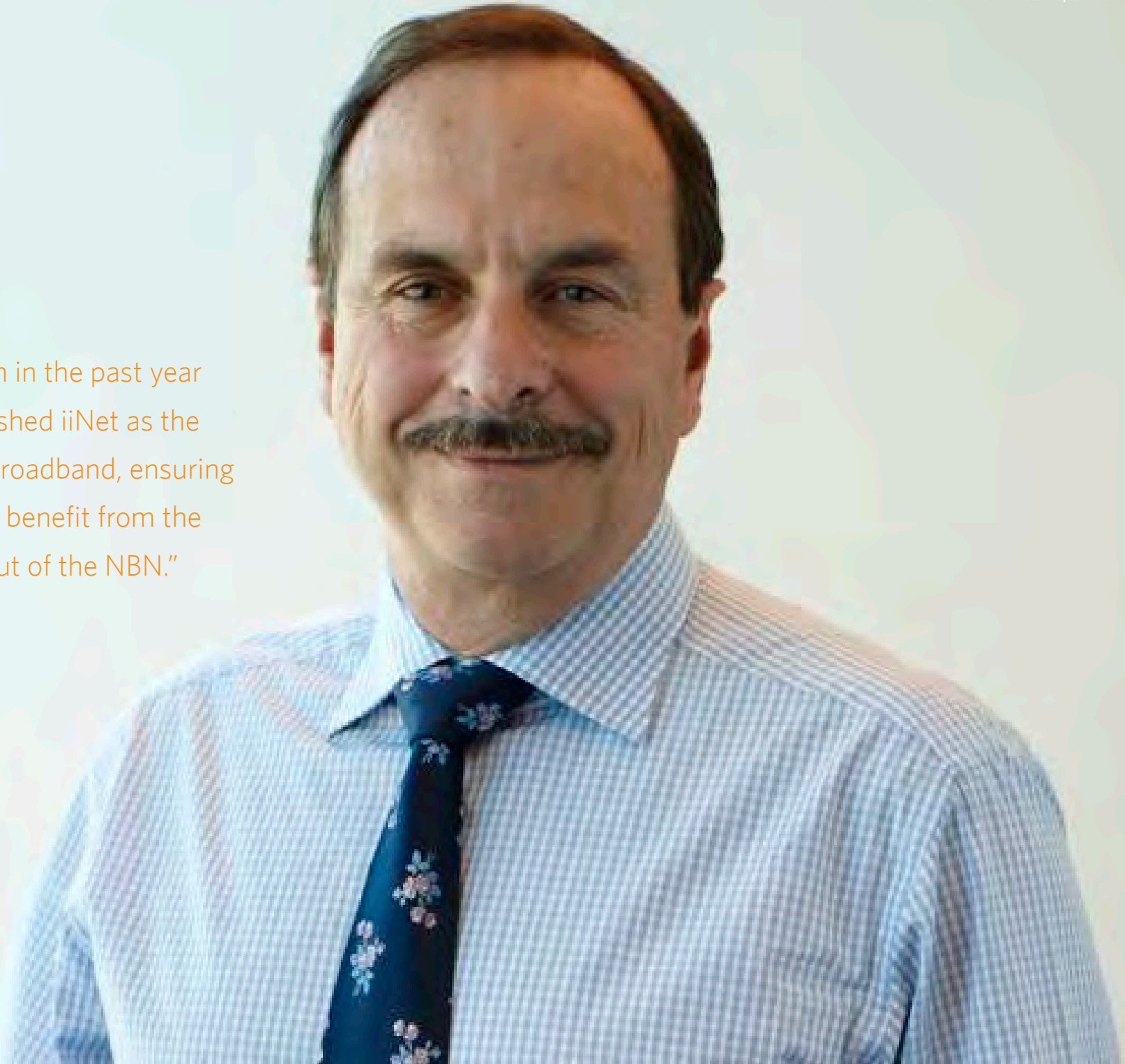
FOCUS ON SHAREHOLDER RETURNS SEES GROWING DIVIDEND

Your Board declared a total dividend for the 2012 financial year of 14.0 cents per share fully franked, up 17% on the prior year dividend. This is not only due to the earnings growth for the last twelve months but it also reflects the Board's positive view regarding iiNet's future direction and potential growth opportunities.

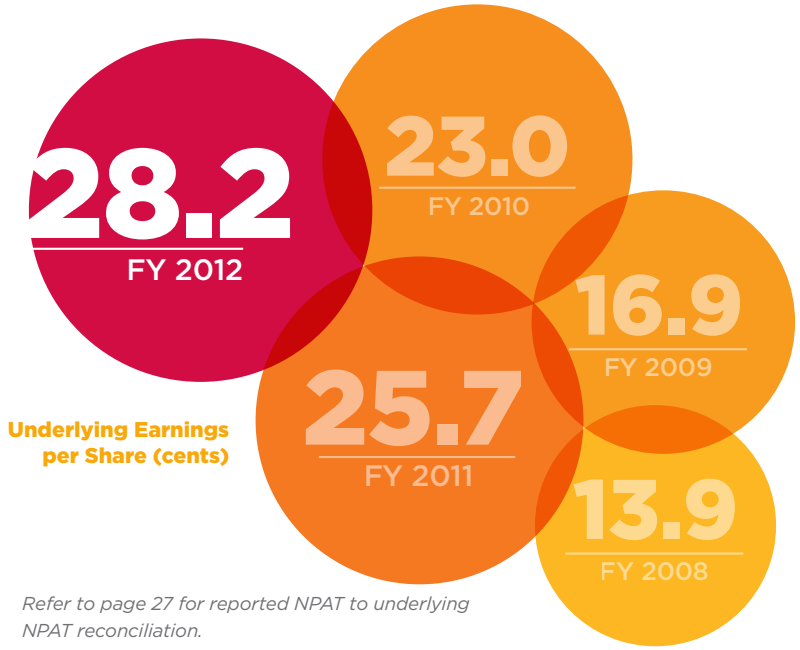
The continued growth in dividends is a clear example of the success of iiNet's strategy and the ongoing commitment of the Board to maximise shareholder value.



iiNet Total Revenue ($m)



"Continued growth in the past year has clearly established iiNet as the number two in DSL broadband, ensuring it is well-placed to benefit from the increasing roll-out of the NBN."



Refer to page 27 for reported NPAT to underlying NPAT reconciliation.

INCREASED SCALE FOLLOWING ACQUISITIONS

This year, iiNet completed the strategic acquisitions of TransACT and Internode. These acquisitions have transformed iiNet into the third largest provider of fixed broadband market services with approximately 15% market share, and the "clear No. 2" in terms of DSL broadband in Australia.

These acquisitions are expected to produce significant synergies going forward as they are integrated into the iiNet Group. In addition, the acquisition of TransACT was a strong strategic fit as we expanded our presence into the corporate and government segment in the ACT. Focusing on this high growth market will allow iiNet to diversify and further grow its earnings.

REGULATORY CHANGES MAKE REGIONAL MARKET MORE ATTRACTIVE FOR iiNET

Recent changes to the regulatory environment with the ACCC declaring new wholesale ADSL prices, will provide a more level playing field in regional markets as we all transition to the National Broadband Network (NBN). These changes will allow iiNet to be more competitive and grow market share, and will provide long-term certainty and benefits for both iiNet and its customers.

PRODUCT INNOVATION

Over the past 12 months, iiNet Labs continued its innovative customer-led product development to ensure we remain at the forefront of the industry. Continued product and service evolution is vital to expanding the number of our products per customer, thereby expanding our average customer revenues and margins.

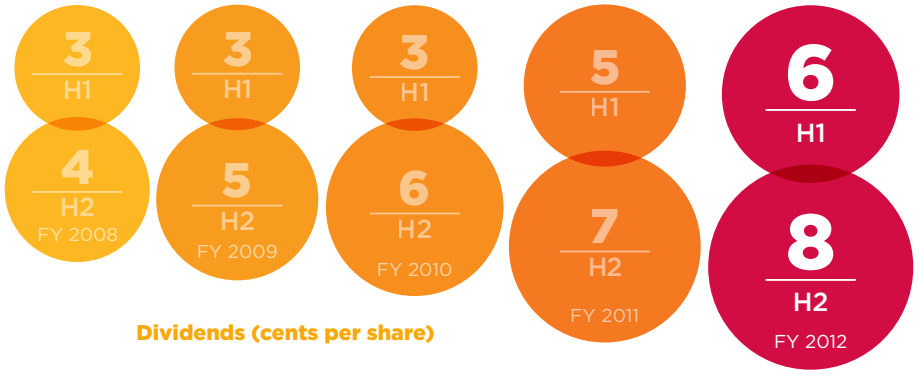
All of these initiatives tie back into iiNet's vision to deliver cool products and awesome service to its customers and their digital world. It is crucial that we continue to invest in product and service development to ensure we remain the leading challenger in the industry.

STRONG BALANCE SHEET

Despite reinvesting for growth and the substantial acquisitions of Internode and TransACT, iiNet's balance sheet was well capitalised with net debt of around $222 million and a net debt to equity ratio of 77%. The Company remains in a comfortable financial position producing significant cash flows each year.

HIGH COURT DISMISSED AFACT APPEAL

In April 2012, the High Court of Australia unanimously dismissed an appeal lodged by Roadshow Films & others against iiNet for copyright infringement. This judgment supported iiNet's position and finally brings this lawsuit to an end. iiNet has never supported nor encouraged unauthorised sharing or file downloading. In fact, through our freezone and IPTV services (fetchtv), we have demonstrated that partnering with content owners can provide consumers with legitimate access to content. We look forward to further collaboration between ISPs and copyright holders to achieve the best way to showcase an owner's content.



NEW DIRECTOR APPOINTED

In August 2012, it was announced that Simon Hackett would join the Board as a non-executive director. Simon was previously the Managing Director of Internode and brings a wealth of knowledge with over 21 years of experience. The Board welcomes Simon and looks forward to working with him as the Company further integrates Internode and continues to progress the Group's growth strategy.

iiNet's CONTINUED DEDICATION OF STAFF AND MANAGEMENT

Following this year's acquisitions, iiNet now employs over 2,000 staff across four countries. The financial and operational results over the 2012 financial year are a testament to the tireless work of our staff. It is the Company's unique culture amongst our staff that is the key to our continued success and the reason we continue to have one of the industry's highest customer service levels. On behalf of the Board, I would like to thank Managing Director, Michael Malone, and the entire team at iiNet for all their hard work and dedication over the past twelve months. They have been instrumental in the ongoing success of the Company and their hard work has ensured iiNet is ready for the NBN world after establishing itself as the "clear No. 2" in DSL broadband.

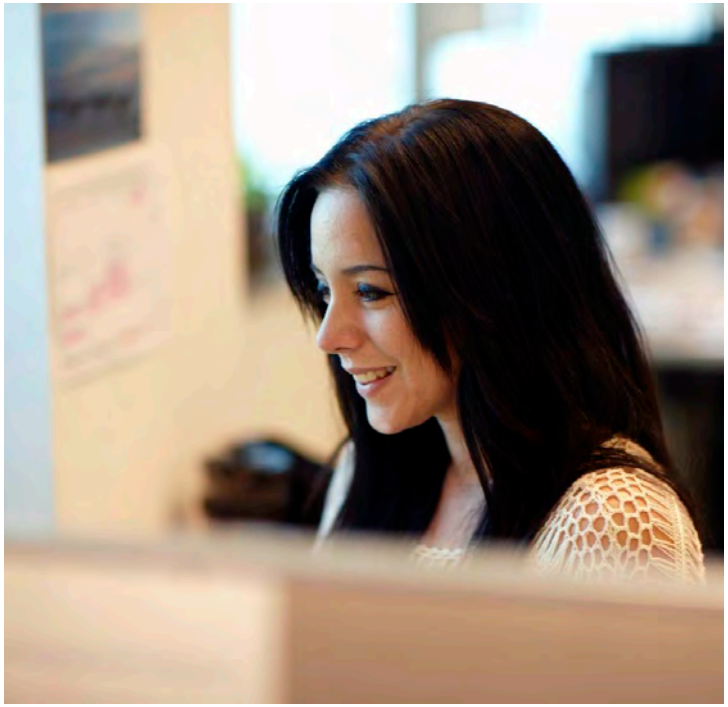
Whilst Michael's efforts have never gone unnoticed here at iiNet, his hard work was recognised at a national level, having been named 'Australian Entrepreneur of the Year' at the 2012 Ernst & Young awards. On behalf of the Company, I would like to congratulate Michael on this outstanding achievement.

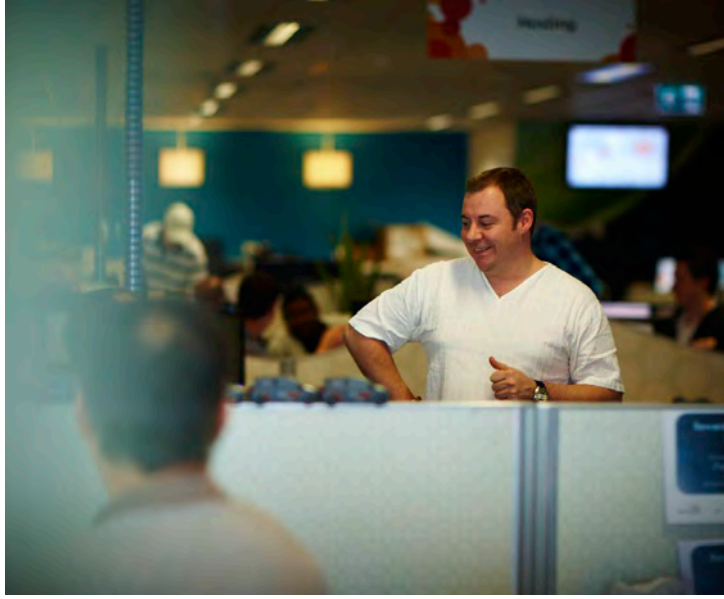
I would also like to thank my fellow Directors for their invaluable contribution to the Company's direction and success over the last twelve months.

More importantly, I would like to thank you, our shareholders, for your ongoing support. We are proud of our achievements this year, with continued growth demonstrating the success of the Company's strategy.

Whilst industry competition remains intense, iiNet is ready to operate in the NBN world. We have established ourselves with the necessary scale, network and technology capabilities to thrive as the industry continues to evolve. We are excited by the opportunities that lie ahead, and the potential to further grow shareholder value.

MANAGING DIRECTOR'S REPORT





The 2012 financial year has been our most active yet.

Over the past 12 months we acquired two attractive and strategically complementary businesses – TransACT and Internode – that cemented our position as the second largest provider of DSL broadband in Australia and substantially grew our business customer segment. These acquisitions did not stop us from doing all the other things we do well:

- we maintained our excellent customer service levels that deliver industry leading low churn levels for iiNet
- we continued to release new products and be at the forefront of industry innovation
- we launched new marketing campaigns that have further grown our brand
- we became operationally ready for the NBN rollout.

iiNet's operational initiatives continued to drive excellent financial performance, with the Company growing across all key financial metrics.

Michael Malone

B.Sc, DipEd, FAIM, FAICD, FACS

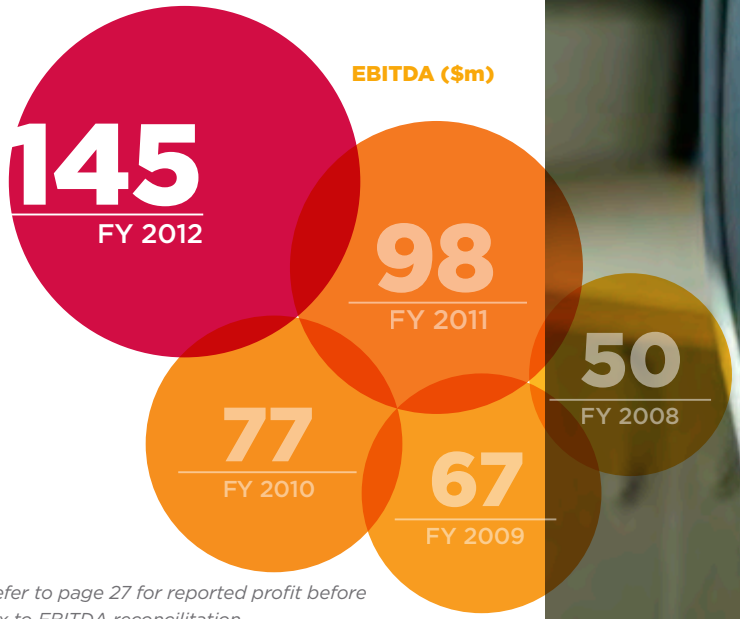
The past 12 months have shown that we have the right strategy in place and that we have an excellent team of people that have brilliantly executed that strategy. We have seen another year of strong growth. None of that would have been possible without the dedication and hard work of all our fantastic staff, and I want to thank all of them for their efforts over the past year.

STRONG FINANCIAL PERFORMANCE AND GROWING FULLY FRANKED DIVIDEND

iiNet has again achieved record results with growth across all key financial metrics in the 2012 financial year:

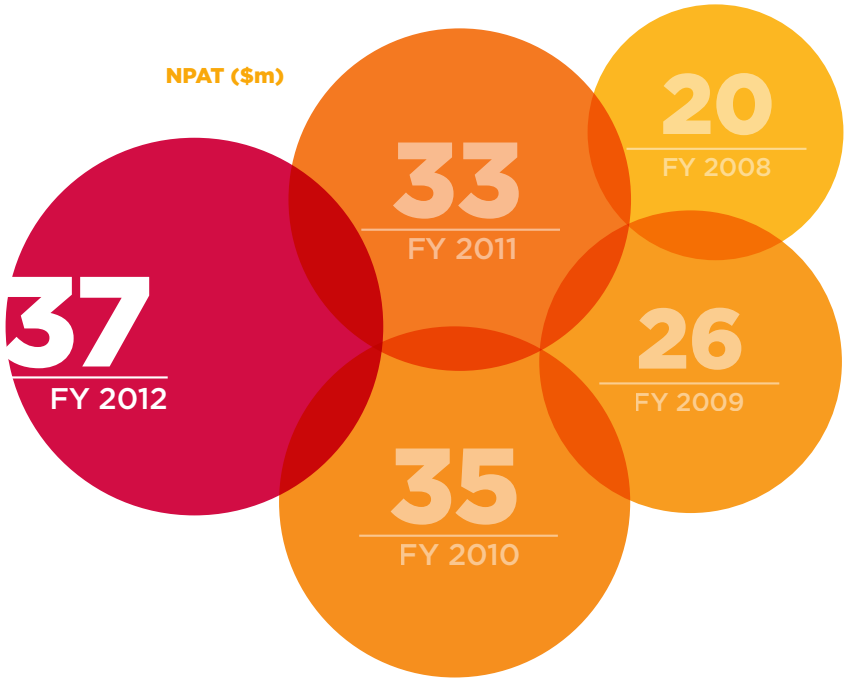
- Group revenue was up 19% to $831.2 million
- Business revenue was up 110% to $120 million, with annualised business revenues of greater than $170 million
- Reported net profit after tax was up 11% to $37.1 million
- Reported EBITDA was up 47% to $144.8 million
- Underlying earnings per share was up 10% to 28.2 cents per share

Reflecting the Board's confidence in iiNet's future growth opportunities, and the Company's strong cash flows and comfortable gearing levels, the Company declared a fully franked total dividend for the 2012 financial year of 14.0 cents per share, which was up 17% on the 2011 financial year.



Refer to page 27 for reported profit before tax to EBITDA reconcilitation.

"The past year has been one of considerable expansion, but our focus remains on delivering awesome customer service and cool products."



SCALE IS KEY – iiNet IS THE ACQUIRER OF CHOICE

The 2012 financial year saw iiNet achieve significant scale following the acquisitions of TransACT and Internode. Having led consolidation amongst Internet Service Providers over the past six years, the last 12 months were no exception. These acquisitions were key in building further scale, cementing iiNet as the "clear No. 2" in DSL broadband, and making iiNet the third largest broadband provider with a market share of around 15%.

The acquisition of Internode, announced on 22 December 2011, was well received by Internode staff and customers given the very strong cultural fit of the two organisations. This acquisition brought together the two leading customer service focused brands in the Australian ISP Industry, with both companies also having a strong commitment to innovation.

The acquisition of TransACT was announced on 21 November 2011. The deal represented an attractive strategic opportunity to build scale in the ACT and regional Victorian markets quickly and efficiently. It also provided an opportunity for iiNet to quickly build market share in the corporate and government business sectors.

We are unlocking value from these acquisitions and focusing on accelerating the integration benefits and synergies. We expect to integrate Internode's and TransACT's systems and networks over the next 12-24 months. We are already integrating operating structures into iiNet and this will provide further earnings growth opportunities going forward.

The AAPT Consumer Division integration concluded with the migration of its billing system, drawing to a close the integration of this customer base into the iiNet world.

LEADING INDUSTRY SERVICE AND LOW CHURN

Industry competition continues to be fierce and iiNet's customer service driven strategy continues to deliver. Throughout the 2012 financial year we have continued to deliver on our internal NPS targets and have demonstrated market-leading low levels of churn. We have seen a reduction in the Telecommunications Industry Ombudsmen ("TIO") customer complaints and we continue to take home numerous awards including:

- iiNet's Perth contact centre took out the state award for WA Contact Centre of the Year 150 FTE+ for the Australian Teleservices Association Awards in July 2012
- iiNet's Melbourne contact centre wins Contact Centre of the Year between 81 FTE and 150 FTE for Victoria at the state chapter Australian Teleservices Association Awards in July 2012.
- iiNet staff took home five individual customer service awards in the state category of Business of the Year in the Customer Service Institute of Australia Awards in November 2011

LEADING PRODUCT INNOVATION AND INCREASING PRODUCTS PER CUSTOMER

A lot has changed since iiNet was founded back in 1993. iiNet is at the forefront of product innovation as we maintain our vision to lead the market with cool products that harness the potential of the internet. In-depth analysis of our customer's needs has focused our innovation efforts and our staff have now developed a strong culture of sales and service through training, reward and recognition.

We developed a number of new products during the past twelve months in our efforts to drive towards our goal to increase our products per customer ratio from two to three. We can see a significant opportunity to cross sell new products and services to our existing customers as part of our strategy to be their trusted provider of digital services.

We released a number of new residential and business product improvements, further increasing our product range and improving the overall customer experience. The recent launches of "Combo" bundles and mobile handset "pick and mix" offers will drive continued growth in revenues from our residential customers. In addition, with our current focus on expanding our business segment, we have developed new Business Bundles and Business Cloud services.

iiNet IS NBN READY

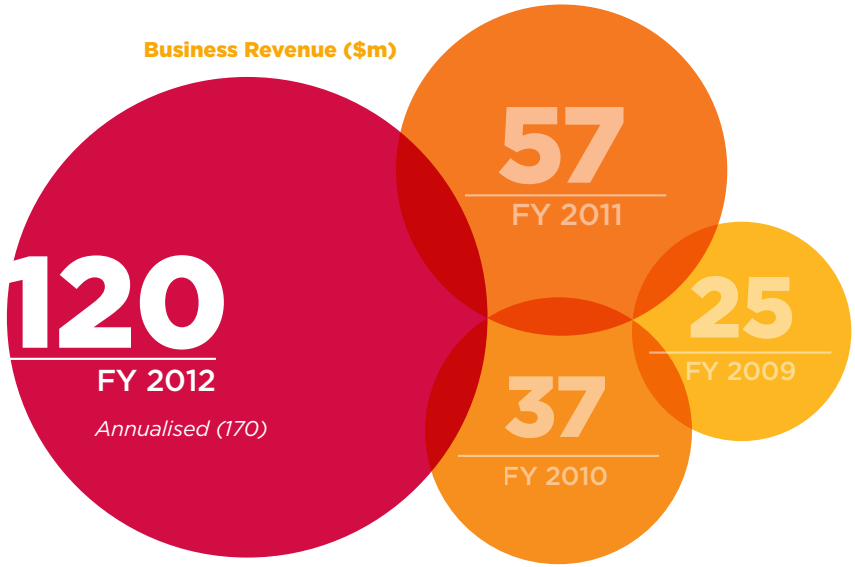
The NBN is now commencing its rollout across Australia and iiNet is NBN ready. We have the scale, as well as the network and hardware capabilities. Our new NBN plans are attractive and we have a brand centred on service and product delivery that will allow us to thrive in an NBN world.

The NBN will provide substantial growth opportunities for iiNet and positive benefits to customers. Under NBN we will obtain equal access to regional markets, see improved margin opportunity and lower capital investment requirements going forward. The NBN will create opportunities for wholesale and national partnerships and increased services per customer, new products and content.

GETTING SERIOUS ABOUT BUSINESS

Five years ago we identified the business telecommunications market as one we would focus on expanding. Since then, we have been successful in extending our business portfolio and capturing market potential in key business sectors. We have seen revenue from key business sectors grow 110% and annualised revenue of more than $170 million is now generated from business customers.

We are expanding our business products and service offering to include complete solutions tailored to home and small offices (Soho) and small and medium enterprise (SMEs). This year alone we have introduced business mobile handsets and SIM cards, Cloud services and new business bundles.



Key business sales and service skills acquired through the recent TransACT and Internode acquisitions are being put to use. The TransACT acquisition has accelerated our penetration of the lucrative corporate and government sectors in the ACT and Internode provides an essential further step into the SME sector.

iiNet HAS AN EXCITING FUTURE

iiNet has grown from humble beginnings to become the "clear No. 2" in DSL broadband.

With a substantial scale position following the acquisitions of TransACT and Internode over the past year, the Company is ideally positioned with significant momentum for its next phase of growth. Our strategy is to provide cool products and awesome service to our customers' digital world, and we are looking to increase the number of products per customer from 2 to 3 over the next few years.

iiNet will look to capitalise on the NBN opportunity and its associated margin improvement and continue to increase its market share in the business sector.

On behalf of all of the management team and staff, I would like to close by thanking you, our shareholders, for your continued support. The 2012 financial year was an amazing year in terms of iiNet's development. However, the 2013 financial year promises to be even more exciting as we look to build on the exciting growth foundations laid over the past 12 months.

MICHAEL SMITH

Chairman and Non-Executive Director

FAMI, CMC, FAIM, GAICD

Term of office

Director since 19 September 2007
Chairman since 19 November 2007
Independent: Yes

Experience and directorships

Michael began his career with TVW Limited, after which he joined Perth advertising agency, McAuliffe & Goff. In 1979, he formed The Marketing Centre where he sat as Managing Director and provided strategic marketing advice to leading Australian and international companies.

Michael currently chairs Synergy and Lionel Samson Sadlier Group. He holds a Deputy Chairman post with the Automotive Holdings Group and is a director of 7-Eleven stores, a chain of 600 convenience stores on Australia's east coast. Michael is a Director of the Australian Institute of Company Directors and President of the WA division of the Australian Institute of Company Directors. He has been made a fellow of the Australian Marketing Institute, Australian Institute of Management and the Institute of Management Consultants. He is also a board member of Giving West, an executive member of the American Marketing Association, a chartered management consultant and member of the Institute of Management Consultants.

Michael was formerly Chairman and Director of the West Coast Eagles, Scotch College and the Perth International Arts Festival. He steered Indian Pacific Ltd as a director and has presided previously as WA State President of the Australian Marketing Institute and a member on its Federal Board. Other past board positions included Chairman of the Pearling Industry Advisory Committee and of Barking Gecko Theatre Company.

Committee membership

Member of the Remuneration and Nomination Committee and of the Audit and Risk Committee.

MICHAEL MALONE

Managing Director

B.Sc, DipEd, FAIM, FAICD, FACS

Term of office

Director since 14 March 1995

Independent: No (Executive)

Experience and directorships

Back in 1993, fresh from university, Michael Malone founded WA's first Internet Service Provider (ISP), iiNet, in the garage of his family home. Since then Michael has led the rapid growth which has seen iiNet grow from its humble beginnings, into the second largest broadband DSL ISP in Australia.

Having been involved in the Internet industry since inception, Michael has been a founding board member of various industry and consumer bodies. From residing as President of the WA Internet Association from 1996 to 2002, to sitting as a board member and Chairman of the .au Domain Administration, to being one of the founders of Electronic Frontiers Australia (EFA).

Michael is currently a Deputy Chairman of Autism West and just recently joined the board of Scitech in Perth.

Michael has been recognised with a raft of industry accolades. He received an Industry Lifetime Achiever Award in the WA Information Technology and Telecommunications Awards in 2005. In 2006 he was the winner of the Business News Award for the most outstanding business leader in WA under the age of 40. In the same year he was named Young Leader of the Year in the JML Australia Human Capital Leadership Awards. 2009 saw Michael pick up CEO of the Year in the Australian Telecom Awards and National Customer Service CEO of the Year in the CSIA's Australian Service Excellence Awards. In 2011, Michael was named Australian Ernst & Young Entrepreneur of the Year, a finalist for WA Citizen of the Year, and was the 2011 Communications Alliance Communications Ambassador of the Year.

Michael remains passionately committed to the transformative benefits of the internet and still holds the founding belief that has driven iiNet for 18 years - that awesome customer service is good for business.

Committee membership

Attends all committee meetings.

PAUL BROAD

Non-Executive Director

B.Comm (Hons), M.Comm (Econ)

Term of office
Director since 6 June 2006
Independent: Yes

Experience and directorships
Paul was appointed Chief Executive Officer of Infrastructure NSW in July 2011. Paul was previously the Chief Executive Officer of one of Australia's largest telecommunications companies, AAPT from May 2007 until July 2011. He assumed this key position after Telecom New Zealand acquired 100% of PowerTel in January 2007.

Paul was Managing Director of PowerTel from November 2004 and was the former Managing Director of Energy Australia from 1997 to 2004. Prior to this, he was Managing Director of Sydney Water from 1993 to 1997 where he introduced significant cultural and commercial change, leading to its incorporation in 1995. Paul had previously implemented similar reform during his tenure as Managing Director of the Hunter Water Corporation.

Paul is currently Chairman of the Board of the Hunter Development Corporation, a Director of Community Telco Australia and a Non-Executive Director of KUTh Energy Limited.

Committee membership
Member of the Remuneration and Nomination Committee.

PETER JAMES

Non-Executive Director

BA, FAICD

Term of office
Director since 28 November 2003
Independent: Yes

Experience and directorships
Peter's experience includes 21 years as a board member of a range of Australian publicly listed companies. In addition, Peter has 16 years experience in Chief Executive Officer roles, including Computer Power Group Limited, Ainsworth Game Technology Limited, and Adcorp Australia Limited, a publicly listed media and communications company.

Peter is a Non-Executive Director of Macquarie Telecom Ltd and has has played a leading role in launching Ninefold an Australian Cloud Technology business where he is currently Chairman. Peter is also a successful investor in a number of Australian Technology and Social Media businesses, including the leading Australian group buying site JumpOnIt which was sold to US based LivingSocial in January this year.

Peter has a particular interest in building high performance teams and is one of the judges for the annual Aon Hewitt Best Employers program.

Committee membership
Chairman of the Remuneration and Nomination Committee.

LOUISE McCANN

Non-Executive Director

Master of Management (MGSM), FAICD, FAIM, FRSA

Term of office
Director since 14 April 2011
Independent: Yes

Experience and directorships
Louise has over 25 years experience in media, publishing and market research in Australia, across Asia Pacific and internationally.

Louise has former experience as the Chief Executive Officer for Asia and Managing Partner for Australia for Hall & Partners, a specialist brand and communications market research agency. She also was Chairman and Chief Executive Officer at Research International (ANZ), Chief Executive Officer of OzTAM Pty Ltd and has served as the Industry President and Vice President for The Association of Market and Social Research Organisations. She also served as Director for the International Advertising Associations Australian Chapter and is also a Non-Executive Director of The Brain Bank.

Louise has also held executive positions with the Ten Network, Dawson Magazine and senior production positions with the Australian Broadcasting Corporation.

Committee membership
Member of the Audit and Risk Committee.

DAVID GRANT

Non-Executive Director
B.Comm, ACA, GAICD

Term of office
Director since 12 October 2006
Independent: Yes

Experience and directorships
David is a Chartered Accountant with significant public company experience spanning a range of corporate and divisional financial roles with Goodman Fielder Limited, Consolidated Rutile Limited and Iluka Resources Limited, where he was Chief Financial Officer until February 2007. David was also a founding director of Trans-Tasman Resources Ltd, an iron ore exploration company based in New Zealand.

As Chairman of iiNet's Audit and Risk Committee, David brings expertise in financial process and discipline as well as corporate governance and risk management.

Committee membership
Chairman of the Audit and Risk Committee.

SIMON HACKETT

Non-Executive Director
B.Sci (App Maths), FACS

Term of office
Resigned as an employee 16 August 2012 and appointed as Director since that date
Independent: No

Experience and directorships
Simon has worked on the development of the Internet since its early days in Australia. He was a part of the national university team that created the Australian Academic and Research Network (AARNet) - the first emergence of the Internet in Australia.

In 1991 Simon founded Internode and grew it to become the largest privately held Australian broadband company. During his time at Internode, Simon was the recipient of numerous industry awards. Simon agreed to sell Internode to iiNet in December 2011, and continued as Internode Managing Director until his transition to the iiNet board in August 2012.

Simon is a fellow of the Australian Computer Society and has held board positions with the Adelaide Fringe, m.Net Corporation and the Australian Network for Art and Technology (ANAT). He was a founding director of the Internet Society of Australia and the founding president of the South Australian Internet Association.

TONY GRIST

Non-Executive Director
B.Comm, FINSIA, FAIC

Term of office - resigned 7 September 2011
Director since 26 July 2006
(resigned 7 September 2011)
Independent: No

Experience and directorships
Tony Grist is Chairman of Amcom Telecommunications Limited, an ASX listed company. He established a Western Australian based private investment group in 1991, and brings to the board significant international public company management expertise. Tony is also a director of Silver Stone Resources Limited.

In 2010 Tony was Chair of Judging for the western region of Ernst & Young's Entrepreneur of the Year program, as well as serving on the national judging panel. Tony is a fellow at both the Australian Institute of Company Directors and the Financial Services Institute of Australasia (FINSIA). He holds a Bachelor of Commerce from the University of Western Australia and a Post Graduate Diploma in Applied Finance from FINSIA.

Committee membership
Member of the Audit and Risk Committee until 7 September 2011.

GREG BADER

Chief Business Officer

M.Sc TM, MBA

Greg has worked in the Information and Communication Technology industry for over 20 years. He has Masters degrees in Telecommunications Management and Business Administration and has worked in the IT industry across Asia, the Middle East and Europe. Since joining iiNet as Chief Technology Officer over nine years ago, Greg has led the deployment of Australia's largest independent ADSL2+, VoIP and IPTV networks. With iiNet's increased strategic focus on building its presence in the small business, corporate and government sector, Greg was appointed to the position of Chief Business Officer in May 2012.

DAVID BUCKINGHAM

Chief Financial Officer and Company Secretary

B.Eng, ACA, GAICD

David joined iiNet in January 2008, as Chief Financial Officer and Company Secretary. He manages the preparation of the Company's statutory financial reports, the Company's risk policy, business development and analysis, credit management, internal audit and company secretarial services. David was previously based in the United Kingdom where he held a number of senior financial roles from 1997 at Virgin Media, the UK's largest residential ISP and Cable TV operator. David trained as a Chartered Accountant with PriceWaterhouseCoopers in London and Perth, and became a member of the Institute of Chartered Accountants in England and Wales in 1993.

STEVE DALBY

Chief Regulatory Officer

Steve joined iiNet in 2003 and has over 40 years experience in the telecommunications industry. As Chief Regulatory Officer for iiNet, Steve's responsibilities include managing interaction with regulatory authorities, licensing and copyright matters, as well as government and media relations. He is a director of iiNet's carrier subsidiary Chime Communications Pty Ltd and has been a board member of the Telecommunications Industry Ombudsman since late 2006. Steve actively represents iiNet on a number of national bodies including the Communications Alliance and the Coalition of Competitive Carriers. Prior to joining iiNet, Steve held various senior roles at Telstra.

MARYNA FEWSTER

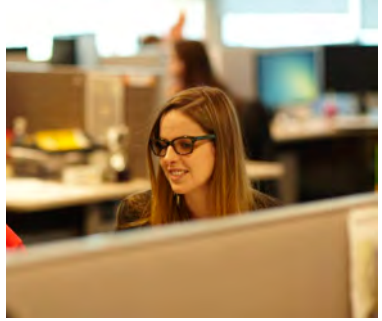
Chief Customer Officer

Maryna joined iiNet in 2003 when iiNet acquired ihug, where she was the GM Corporate Services. Today, she is responsible for ensuring that every iiNet customer gets the best possible experience. Her role incorporates Customer Service, Human Resources, Information Technology, Administration, Business Improvement and Customer Retention. Under Maryna's management, iiNet embraced NPS, Net Promoter Score, as the key measure for all staff, ensuring that everyone across the entire business is keenly focused on customer feedback every day. This has allowed the business to grow to more than 2,000 staff today while still retaining the culture and customer focus of a small business.

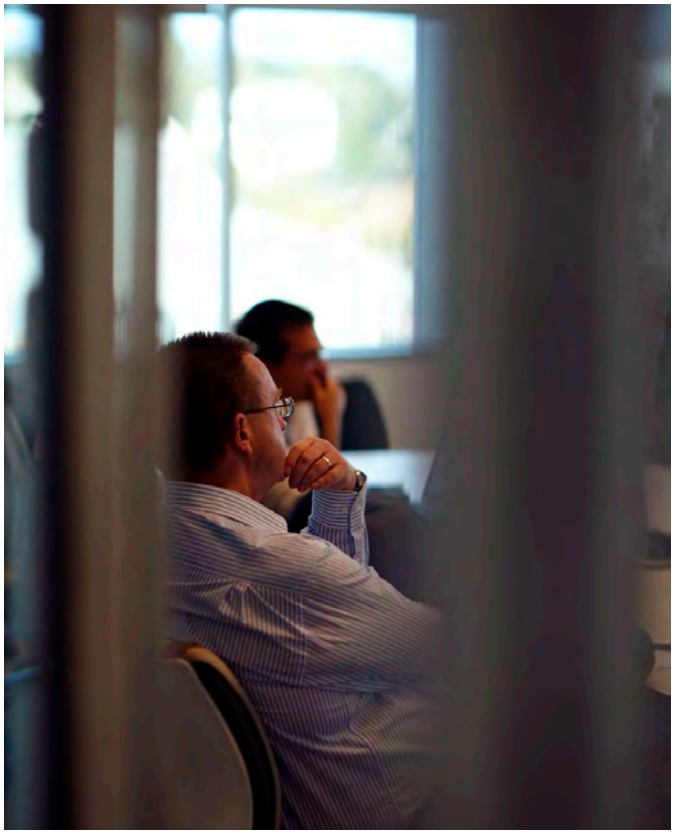
JOHN LINDSAY

Chief Technology Officer
MACS.

John Lindsay leads the development and operation of new Internet technologies across the iiNet group. Originally joining Internode in 2000 as Technology Operations Manager, John has held various roles including General Manager of Regulatory and Corporate Affairs until the end of 2011. In May 2012, following the acquisition of Internode by iiNet, John moved up to the position of Chief Technology Officer for the iiNet Group. One of his greatest achievements has been the development of Internode's international network. He led the push to extend its national First Tier Network to the US to ensure Internode, and now iiNet, has end-to-end independence for delivering business-class broadband to customers. John also represents the industry as a Board member of the Internet Industry Association.



DIRECTORS' REPORT



Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of iiNet Limited ('iiNet") and the entities it controlled at the end of, or during the year ended 30 June 2012.

DIRECTORS

The following persons were directors of iiNet Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

- M. Smith (Chairman)
- P. James
- M. Malone (Managing Director)
- D. Grant
- P. Broad
- L. McCann
- T. Grist - resigned 7 September 2011
- S. Hackett - appointed 16 August 2012

Details of each director's qualifications, roles, responsibilities and other listed company directorships are detailed on pages 18-21.

Interest in the shares and options of the Company and related bodies Corporate

As at the date of this report, the interest of the directors in the shares and options of iiNet Limited were as follows:

Director	Number of ordinary shares	Number of options over ordinary shares
M. Smith	270,429	-
M. Malone	14,012,162	-
D. Grant	85,000	-
P. James	35,000	-
P. Broad	48,596	-
L. McCann	8,000	-
S. Hackett	12,072,664	-
Total	**26,531,851**	**-**

Company Secretary

D. Buckingham – see page 22 for the biography of the company secretary.

Dividends	Cents per share	$'000
Total dividends declared for the 2012 financial year	14	22,538
Dividends paid in the year		
Final dividend paid for the 2011 financial year	7	10,652
Interim dividend paid for the 2012 financial year	6	9,660
Total	13	20,312

PRINCIPAL ACTIVITIES

During the year the principal activities of the Group consisted of the provision of internet and telephony services in Australia. There have been no significant changes in the nature of these activities during the year.

OPERATING AND FINANCIAL REVIEW

Group overview

iiNet was founded in 1993 and listed on the Australian Securities Exchange in 1999. Michael Malone was one of the two original founders of the business and is the current Managing Director of the iiNet Group.

A detailed overview and a review of the Groups operations are included in the Chairman's review and Managing Director's Report.

PERFORMANCE INDICATORS

The Board and senior management monitor the Group's operational and financial performance. Actual performance is assessed against operating plans and financial budgets. The Board and senior management also use key performance indicators (KPIs) to measure and monitor performance. Financial KPIs include revenue, earnings before interest, tax, depreciation and amortisation (EBITDA), net profit after tax (NPAT) and earnings per share (EPS). Operational KPIs include customer service (Net Promoter Score), subscriber and product growth (net customer growth) and customer retention (churn rates). Directors receive the KPIs for review prior to each Board meeting, allowing all directors to monitor the Group's performance.

OPERATING RESULTS FOR THE YEAR

Revenue was up 19% to $831,225k (2011: $699,086k). The increase in revenue was attributable to the following:

- The acquisition of TransACT Group on 30 November 2011;
- The acquisition of Internode Pty Ltd on 31 January 2012; and
- Continued expansion of the services provided to existing residential and business broadband customers.

Reported profit for the year increased 11% to $37,054k (2011: $33,374k). The increase was attributable to the revenue increase and contributions from the acquisitions mentioned above, including their associated synergies to the Group.

EBITDA, underlying EBITDA, underlying NPAT and underlying EPS are not financial information measures recognised by International Financial Reporting Standards ("IFRS"). The measures have been inserted because EBITDA is the closest approximation to net cash flows from operating activities from the Consolidated Statement of Comprehensive Income, and underlying results provide a useful understanding of the Group's underlying financial performance.

Underlying profit for the year was up 12% to $43,603k (2011: $39,033k) after excluding non-recurring costs of $6,549k (2011: $5,659k) relating to acquisition costs and Rights to Future Income Tax adjustments, offset by a gain on acquisition in FY2012. The increase in underlying profit was attributable to the following:

- Increased revenue as outlined above;
- A continued focus on cost management and the efficiency of core activities; and
- The delivery of synergies from acquisitions.

Reported Profit before tax to underlying EBITDA reconciliation	Amount $'000
Profit for the year before income tax	63,009
Add: Depreciation and amortisation expense	65,458
Add: Finance costs net of interest revenue	16,378
Reported earnings before interest, taxation, depreciation and amortisation	144,845
Costs in relation to the TransACT and Internode acquisitions	2,650
Gain on acquisition (Note 5(b))	(3,279)
Underlying earnings before interest, taxation, depreciation and amortisation	144,216

Reported Profit after tax to underlying NPAT reconciliation	Amount $'000
Reported profit for the year after income tax	37,054
Rights to Future Income Tax adjustment (Note 6(c))	7,804
Costs in relation to the TransACT and Internode acquisitions (net of tax)	2,024
Gain on acquisition (Note 5(b))	(3,279)
Underlying net profit for the year after income tax	43,603

REVIEW OF FINANCIAL CONDITION

During the year the Group produced net cash inflows from operating activities of $100,912k (2011: $92,132k). A significant amount of this has been reinvested in the network, with $40,927k spent on plant and equipment (2011: $36,319k). There was also a $80,856k net cash inflow (2011: $31,819k – inflow) from financing activities.

The gearing ratio for the Group for the year ended 30 June 2012 was 77% (2011: 40%), as measured by net debt divided by total equity.

Hedging is undertaken whenever necessary to manage financial risk exposures and comply with banking arrangements through the use of interest rate swap contracts and foreign exchange contracts.

RISK MANAGEMENT

Please refer to the Corporate Governance Statement for further detail.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 30 November 2011 iiNet completed the acquisition of the TransACT group. The consideration of this transaction was $60,700k, excluding transaction costs. On 31 January 2012 iiNet completed the acquisition of Internode Pty Ltd. The consideration of this transaction was $108,441k, excluding transaction costs.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The Group declared a fully franked final dividend of 8.0 cents per share with respect to the financial year ended 30 June 2012. The dividend will have a record date of 3 September 2012 and a payment date of 28 September 2012.

On 24 July 2012 iiNet Limited entered into a significant international capacity supply agreement with Southern Cross Cables Limited for the provision of 200Gbps of fully protected diverse path international IP bandwidth capacity.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

A detailed review of the Group's activities and prospects is contained in the Chairman's Review and the Managing Director's Report.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The operations of the Group are not subject to any significant environmental regulations.

SHARE OPTIONS

(i) Unissued shares

As at the date of this report and the reporting date, there were 270,000 unissued ordinary shares under options. Refer to note 27 of the financial statements for further details of the options outstanding. Option holders do not have any rights by virtue of the options they hold, to vote or participate in any share issue of the Company or any related body corporate.

Meetings of directors

The number of meetings of the Company's Board of directors and of each Board committee held during the year ended 30 June 2012, and the number of meetings attended by each director, were as follows:

			Meeting of Committees			
	Full Meetings of Directors		Audit and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
M. Smith	11	11	5	5	4	4
M. Malone	11	11	*	*	*	*
P. James	11	11	*	*	4	4
T. Grist (i)	2	2	1	1	*	*
P. Broad	11	11	*	*	4	4
D. Grant	11	11	5	5	*	*
L. McCann (ii)	11	11	3	3	*	*

A = Number of meetings attended.
B = Number of meetings held during the time the director held office.
** = Not a member of the relevant committee.*

(i) Resigned on 7 September 2011.
(ii) Appointed to Audit & Risk Committee 12 December 2012.

(ii) Shares issued as a result of the exercise of options

During the financial year, employees and executives have exercised options to acquire 139,521 fully paid ordinary shares in the Company at a weighted average exercise price of $0.74 per share.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the year the Company paid a premium in respect of a contract insuring the directors, officers and Company Secretary of the Company and all related bodies corporate, against liabilities incurred in acting in such capacities, to the extent permitted under the Corporations Act 2001. The contract prohibits the disclosure of the nature of the liabilities or the amount of the premium.

ROUNDING

The Company is of the kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding" of amounts in the Directors' Report. Amounts in the Directors' Report and in the financial report have been rounded in accordance with that class order to the nearest thousand dollars or in certain cases the nearest dollar.

AUDITOR 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 44.

Non-audit services

The following non-audit services were provided by the Group's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for audits imposed by the Corporation Act 2001. The nature and scope of each type of non-audit service provided was such that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Non-audit service	$
Tax compliance	23,395
Assurance related and due diligence services	476,980
Other services	-
Total non-audit services	500,375

REMUNERATION REPORT *Audited*

About this report

This report details the remuneration arrangements for Key Management Personnel ("KMP"). KMP encompasses all directors, as well as those executives that have specific responsibility for planning, directing and controlling material activities of the Group. In this report, "Executives" refers to the KMP excluding the Non-Executive Directors. The information provided in this Remuneration Report has been audited as required by Section 308 (3C) of the Corporations Act 2001.

The remuneration report is presented in two sections:

Section 1 - iiNet's Executives' Remuneration:

- Overview of iiNet's Executive remuneration strategy and incentive schemes; and
- iiNet Executives' remuneration details for 2012.

Section 2 - iiNet's Non-Executive Directors' Remuneration:

- Overview of iiNet's approach to Non-Executive Directors' remuneration; and
- iiNet Non-Executive Directors' remuneration details for 2012.

Details of KMP of the Group and Company

(i) Directors

M. Smith	Chairman and Non-Executive Director
M. Malone	Managing Director
P. James	Non - Executive Director
P. Broad	Non - Executive Director
T. Grist	Non - Executive Director – resigned 7 September 2011
D. Grant	Non - Executive Director
L. McCann	Non - Executive Director

(ii) Executives

G. Bader	Chief Business Officer
D. Buckingham	Chief Financial Officer and Company Secretary
M. Fewster	Chief Customer Officer
S. Hackett	Managing Director of Internode Pty Ltd (Became a KMP 1 February 2012, resigned 16 August 2012 and appointed to the iiNet Board as a Non-Executive Director)
J. Lindsay	Chief Technology Officer (Became a KMP 22 May 2012)

Other than the appointment of Mr Hackett as a Non–Executive Director of iiNet on 16 August 2012, there were no changes to KMP after the reporting date and before the date the financial report was authorised for issue.

WHAT IS THE ROLE OF THE REMUNERATION AND NOMINATION COMMITTEE?

The Remuneration and Nomination Committee is responsible to the Board of Directors for fulfilling the Board's oversight responsibility to shareholders by ensuring that iiNet has remuneration policies and practices that fairly and responsibly reward executives and non-executive directors with regards to performance, the law and corporate governance. In determining the level and construct of executive remuneration, the Remuneration and Nomination Committee reviews comparable Australian listed companies with similar market capitalisation, as well as referencing independent research on executive remuneration.

Remuneration philosophy

The Board recognises that iiNet's performance depends upon the quality of its staff. To achieve its financial and operating objectives, iiNet must attract, motivate and retain highly skilled directors and executives. To this end, the Company embraces the following principles in its remuneration framework:

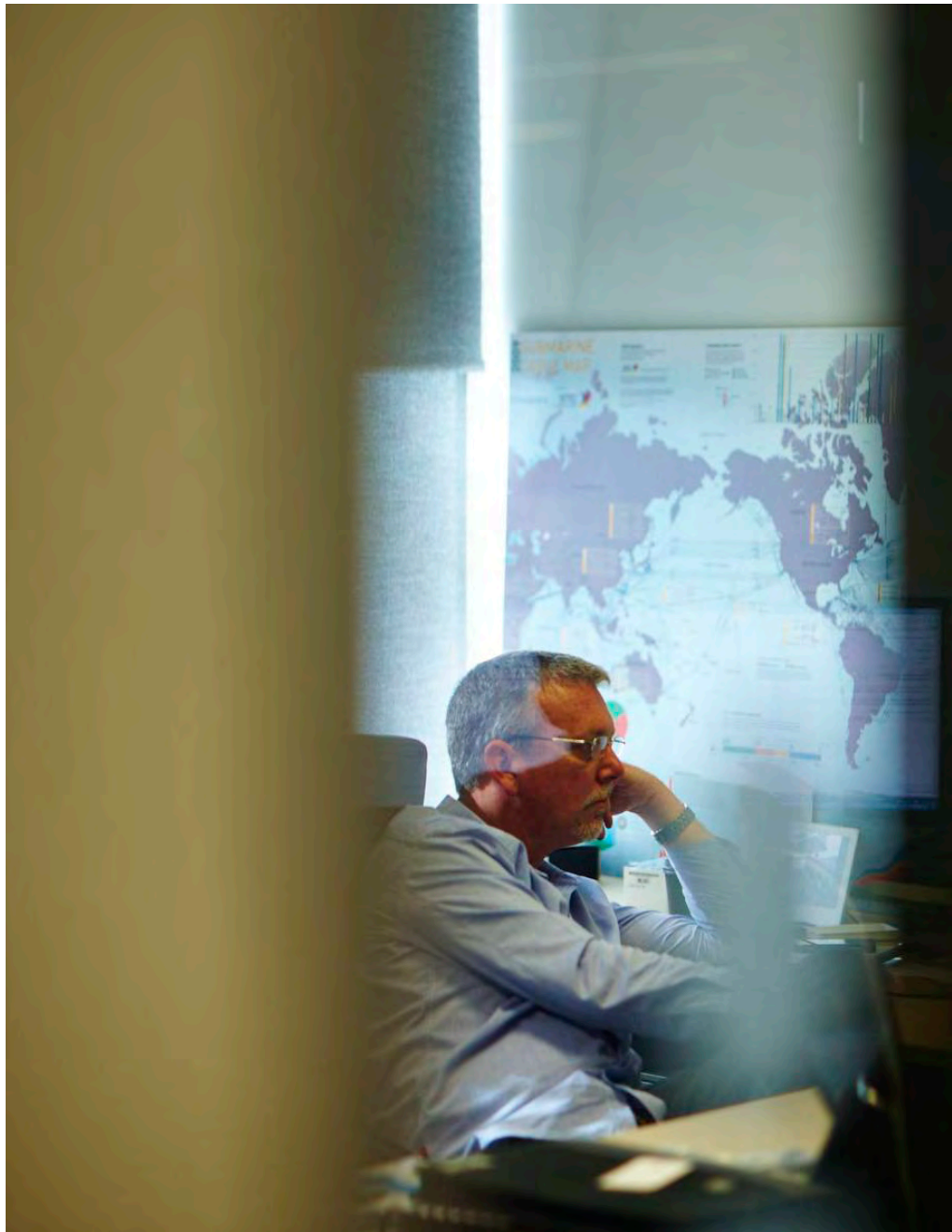
- Provide competitive rewards to attract, retain and motivate high calibre executives;
- Align incentive rewards with the Company's short term and long term objectives by placing a significant portion of executive remuneration "at risk" as short term and long term incentives;
- Set demanding performance hurdles which are clearly linked to an executive's remuneration;
- Structure remuneration at a level that reflects the executive's duties and responsibilities and is competitive within the sector; and
- Comply with applicable legal requirements and appropriate standards of governance.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive directors and executive's remuneration is separate and distinct.

Share trading policy

The Company has in place a share trading policy which imposes trading restrictions on all employees of the Company and its related entities who are considered to be in possession of "inside information" and additional restrictions in the form of trading windows for directors and executives of the Company. Directors, KMP and members of the executive management team are prohibited from trading in Company shares, except in a 30-day period following seven days after the release of the final and half-yearly results. These trading restrictions are subject to discretion exercised by the Chairman. The Company prohibits the directors and executives from entering into contracts to hedge their exposure to the Company's shares or options awarded as part of their remuneration package.



SECTION 1: iiNet's EXECUTIVES' REMUNERATION

Overview of our executive remuneration strategy and incentive schemes

The objectives of iiNet's executive remuneration strategy are to:

- Focus executives on connecting with the interests of key iiNet stakeholders by aligning reward to the achievement of corporate targets;
- Promote ownership for results by rewarding with equity and thereby achieving a link between the remuneration received by executives, increased earnings and the creation of shareholder wealth; and
- Attract and retain key executive talent by rewarding executives with a level and mix of remuneration commensurate with their position and responsibilities that is competitive by market standards.

WHAT WERE THE COMPONENTS OF REWARD IN 2012?

The remuneration program for the 2012 financial year was broken into three components:

(i) Fixed Remuneration
Recognises status and responsibilities, as well as market reward rates, to attract and retain key executive talent.

(ii) 'At Risk' or variable remuneration – Short Term Incentive ("STI")
Aligns reward to the achievement of iiNet's short term (12 months) individual and business objectives.

(iii) 'At Risk' or variable remuneration – Long Term Incentive ("LTI")
Aligns reward to long term success, focusing on increasing shareholder wealth on a sustainable basis over the long term (3 years). The Group has linked the objectives of its STI and LTI schemes to ensure executive objectives are linked to increasing shareholder value over the short to long term, i.e. 1 to 3 years.

ABOUT iiNet's FIXED REMUNERATION

This component of executive remuneration is determined by the scope of each executive's role, level of knowledge, skill and experience, along with their individual performance and market reward rates. There are no guaranteed base pay increases for any KMP.

iiNet's VARIABLE REMUNERATION

(i) About iiNet's short term incentive
The total potential STI available is set at a level so as to provide sufficient incentive to KMP to achieve short term objectives. Actual STI payments granted to each executive depend on the extent to which specific performance hurdles, which are set at the beginning of the financial year, are met.

The performance hurdles consist of a number of Key Performance Indicators ("KPIs") covering both financial and non-financial measures of performance such as contribution to net profit after tax, customer service and retention (measured by net promoter score "NPS"), product growth and diversification. These metrics are considered to be the most appropriate to assess the performance of iiNet's executives as they are the drivers of shareholder value. STI payments are delivered as a cash bonus.

The STI payments available for executives are subject to the approval of the Remuneration and Nomination Committee.

The maximum combined cash bonus pool available to be paid to the executive team for the 2012 financial year was $738,985 (2011: $716,000). 92% (2011: 63%) of this bonus amount was achieved by the executives in the year. Subsequent to year end, this amount has been allocated and vested upon assessment of KPIs met. Payment was made in August 2012. The remaining balance was forfeited. There have been no alterations to the STI bonus plans since their grant date.

ANALYSIS OF BONUSES INCLUDED IN REMUNERATION FOR THE 2012 FINANCIAL YEAR

	Included in Remuneration $ (i)	% Achieved	% Forfeited (ii)
M. Malone	274,312	96%	4%
G. Bader	79,500	80%	20%
D. Buckingham	86,450	86%	14%
M. Fewster	84,787	85%	15%
S. Hackett	50,000	100%	0%
J. Lindsay	103,985	100%	0%
Total	679,034	92%	8%

(i) Amounts included in remuneration for the financial year represent the amounts that vested and were allocated subsequent to the end of the financial year based on achievement of specific performance hurdles.

(ii) The amounts forfeited are due to the performance criteria not being met in relation to the current financial year.

(ii) About iiNet's 2012 long term incentive executive share plan

The 2012 LTI Share Plan has been designed to motivate executives to achieve longer term strategic corporate objectives for the period starting on 1 July 2011 and ending on 30 June 2014. The LTI Share Plan aligns executives to shareholder interests through the provision of equity (or cash for the Managing Director) upon the achievement of corporate targets.

Quantum:

A base pool LTI dollar value is determined for each executive by the Remuneration and Nomination Committee at the start of each performance period with reference to benchmarked market rates, and may be increased after assessment by the Remuneration and Nomination Committee of the performance of the executives. The final allocable pool LTI dollar value awarded to an executive will be translated into Performance Rights at the iiNet volume weighted share price. The period over which the iiNet volume weighted average share price is calculated, will be determined and approved by the Board's Remuneration and Nomination Committee immediately after the allocation point. If the weighted average share price used results in a change in the number of performance rights received, the change in value of the award measured at grant date fair value, is recognised as an adjustment and taken to the Statement of Comprehensive Income.

Instrument:

'Performance Rights' represents an executive's right to receive one iiNet share in the future for no consideration, subject to meeting performance targets. The performance conditions for the 2012 LTI Share Plan have been chosen to align executive reward with increasing shareholder value. At the conclusion of the performance period, assessment of performance will be reviewed and approved by the Remuneration and Nomination Committee, based on actual performance versus set targets. This assessment determines the final allocable pool LTI dollar value awarded to an executive which is then used to determine the actual number of Performance Rights an executive will receive.

The 3-year performance period commenced on 1 July 2011 and concludes on 30 June 2014. The total value of the LTI pool at grant date is $1,800k for the equity settled awards. The fair value of the performance rights awarded to executives is determined at grant date, 1 July 2011, as these awards are equity settled. The fair value of the base pool for the Managing Director is determined at the allocation date, 30 June 2014, as the award is paid out as a cash bonus after the release dates. The maximum cash bonus payable to the Managing Director under the LTI scheme is $5,130k undiscounted, and the minimum is nil, subject to Board discretion. 50% of any bonus achieved will be paid out on 30 September 2014 with the remainder to be paid on 31 December 2014.

TABLE OF GRANT DATE FAIR VALUE BY EXECUTIVES

	Total Value of Pool of 3 Year LTI ($)
Managing Director	
M. Malone	1,710,000
Executives	
G. Bader (i)	600,000
D. Buckingham (i)	600,000
M. Fewster (i)	600,000
S. Hackett	-
J. Lindsay	-
Total	3,510,000

(i) Fair value per right at grant date is $2.8167.

As the 2012 LTI share plan has a performance period extending to 30 June 2014, and a retention period to 30 September 2014 and 31 December 2014, the amount of LTI share plan awards achieved or forfeited have yet to be determined.

Photograph by Victoria Recaido, CSR

PERFORMANCE HURDLES

EPS Gate:
A minimum EPS accretion CAGR (Compound Annual Growth Rate) of 15.0% must be met first before any of the LTI award is payable.

Long term targets for the Managing Director and KMP for the period 1 July 2011 to 30 June 2014 were as follows:

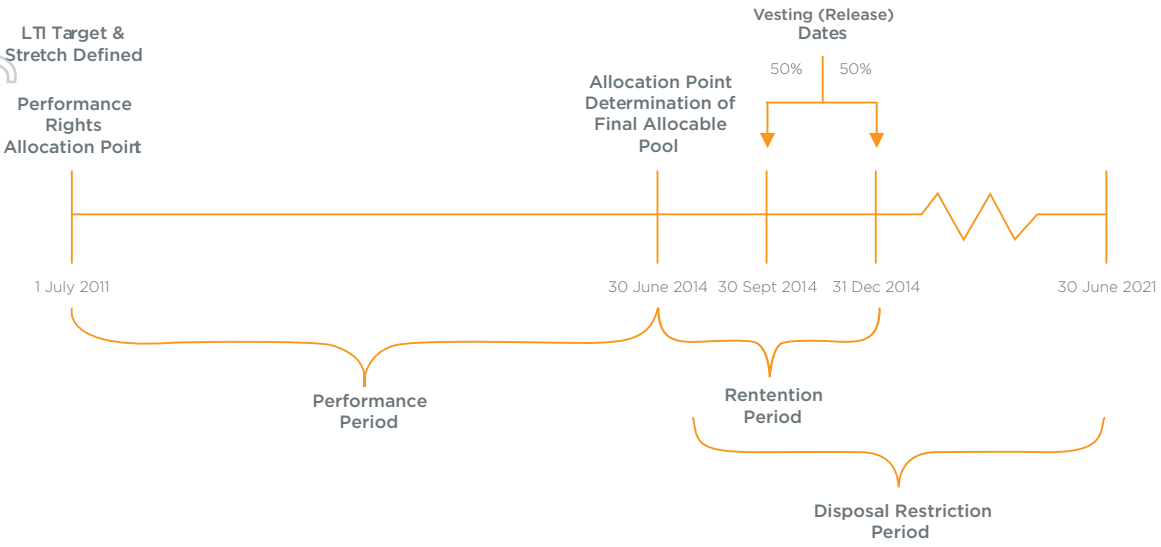
Type	Objective	Description
Common	1. Reduce churn	This goal focuses on reducing customer churn through improving Net Promoter Score (NPS). NPS is measured using data from internal customer surveys compared to target NPS.
	2. Cross-sales	This goal focuses on increasing the average number of products per customer.
Individual	3. Subscriber growth	These goals are focused on driving subscriber, SME, mobile and product growth which are key factors in driving growth in EBITDA, which in turn will increase profitability. These goals are measured through the monitoring of the following factors over the performance period: • Broadband subscribers; • SME revenue; • Mobile customer base; • Customer install visits per month; and • Hardware product sales
	4. Small Medium Enterprise (SME) growth	
	5. Individual product growth	
	6. Cost of goods sold efficiency	This goal is measured through the reduction in cost of goods sold as a percentage of revenue over the 3-year period.
	7. Operating expenditure efficiency	This goal is measured through the reduction in operating expenditure as a percentage of revenue over the 3-year period.
	8. Mergers & Acquisitions (M&A) growth	This goal focuses on the growth of EBITDA via M&A to drive increased scale and profitability.

EPS accelerator

The CAGR of EPS for the period has the potential impact of further accelerating the outcome of the above by the following rates, depending on which EPS CAGR target is met:

EPS Target	Accelerator of Award
EPS accretion CAGR 15.0%	100%
EPS accretion CAGR 17.5%	150%
EPS accretion CAGR 20.0%	200%

ALLOCATION AND VESTING SCHEDULE



ALLOCATION POINT

The LTI Share Plan replicates all the same features for executives and the Managing Director until the point of allocation. At this point the earned Rights are rewarded in equity to executives and in cash to the Managing Director. The Managing Director is already a significant shareholder in iiNet and is therefore well-aligned to longer term shareholder interests. His current iiNet share holdings prevent him qualifying for concessional treatment under the employee share scheme income tax rules. For these reasons, the Managing Director receives a cash bonus equivalent to his allocation of the LTI share plan pool awarded for achieving LTI goals. The Managing Director's cash bonus is not adjusted for share price movements between the allocation point and vesting points. The shares acquired by the executives on exercise of the Rights are subject to a disposal restriction, using an ASX Holding Lock. Executives wishing to trade their shares are required to obtain the approval of the Board to remove the ASX holding lock in order to trade.

(iii) LTI Performance Rights: Granted under the 2009 LTI Share Plan
(Granted FY2010 with performance period ended FY2011 and vested during FY2012)

The 2009 LTI Share Plan's performance period ended during FY2011 and was fully vested during FY2012 after the conclusion of the retention period on 31 December 2011. No rights were forfeited during the retention period. With regards to the equity settled plans, 483,564 shares were issued to the executives under the plan. In accordance with the scheme rules, the number of share allocated to each executive was determined on 6 September 2011 by the Remuneration and Nomination Committee using the iiNet weighted average share price of $1.71 for the 30 day period immediately prior to the grant date.

The number of shares issued to each executive was as follows:

	Rights Vested and Shares Issued	Fair Value of Shares Issued at Grant Date
	No.	$
G. Bader	139,572	233,780
D. Buckingham	130,522	218,650
S. Dalby	90,532	151,632
M. Fewster	122,938	205,657
Total	483,564	809,719

Cessation of employment conditions

	Condition	Unvested Performance Rights	Vested Performance Rights	Shares Under Holding Lock
Upon cessation of employment the following applies to all Executives:	Termination of employment by the Company with cause	Lapse immediately	Cancelled immediately	ASX Holding lock automatically removed, with employee free to deal with shares
	Voluntary Resignation	Lapse immediately	Required to be exercised within 30 days of termination. If not exercised within this timeframe, Rights will lapse	As above
	Redundancy, retrenchment, retirement, permanent incapacity, death, non-renewal of fixed term contract of employment	If a participant ceases employment within the vesting period, performance rights will lapse unless otherwise determined by the Board	Required to be exercised within 90 days of termination. If not exercised within this timeframe, Rights will lapse	As above

Photograph by Jane Yeap, Web Designer

(iv) About iiNet's long term incentive share option plan ("LTI Share Option Plan")

The LTI Share Option Plan benefits are delivered on a discretionary basis by the Board in the form of options to acquire ordinary shares in the Company. While the options have no vesting conditions specifically linked to performance criteria, the options are issued with an exercise price of an ordinary iiNet share at the time of issue (i.e. the market price of an iiNet share at the beginning of the performance period), ensuring that executives only receive a benefit where shareholder wealth has increased. There are two plans providing long term incentives to executives only one of which is still active. At the discretion of the Board, share options have been issued to specific directors and executives outside the plans detailed below.

(i) Share option plans

2005 iiNet Employee Share Option Plan	Two tranches or grants of options with different terms and conditions have been issued under the 2005 iiNet Employee Share Option Plan: • Tranche 1, the options are issued on the basis that 50 percent of the total number issued will vest on the 18 month and 36 month anniversary dates following their issue. The options have a five year life and can be exercised at any time after they have vested. The exercise price is set at the prevailing market price of the Company's ordinary shares at the time of the issue of the options. There are no other performance conditions attached. • Tranche 2, the options are issued on the basis that 100 percent of the total number issued will vest on the 12 month anniversary of their issue. The options have a 5 year life and can be exercised at any time after they have vested. The exercise price is set at the prevailing market price of the Company's ordinary shares at the time of the issue of the options. There are no other performance conditions attached.

(ii) Options issued outside existing plans

Executive & Director 2008	The options issued to an executive and director in the 2008 financial year were issued on the basis that 50 percent of the total number issued will vest on the 18 month and 36 month anniversary dates following their issue. The options have a 5 year life and can be exercised at any time after they have vested. The exercise price is set at the prevailing market price of the Company's ordinary shares at the time of the issue of the options. There are no other performance conditions attached.

Photograph by Lynton Haggett, Internode Frontline Support Team Leader

The options do not entitle the holder to voting or dividend rights. Options that have not vested are cancelled if the director or executive ceases to be an employee of the Company. The options are allocated to executive management on the basis of the incumbent's position and responsibilities on the recommendation of the Managing Director and by approval of the Board.

Options granted, exercised or lapsed as part of remuneration during the 2012 financial year

Shares issued on exercise of share options during the 2012 financial year were as follows:

Executive	Value of options exercised during the year (i) $	Shares issued (no.)	Paid per share $
G. Bader	$177,100	70,000	$0.80

(i) Intrinsic value has been applied on exercise date as the basis of measurement.

No share options were granted to executives in the 2012 financial year. No share options were forfeited by executives in the 2012 financial year. No other executives exercised any share options other than that detailed here.

EXECUTIVES' REMUNERATION DETAILS OF THE GROUP ($)

2012 Financial Year	Short term			Other	Long term		Post-employment	Share-based payments		Total	
KMP	Salary & fees	Cash bonus	Non-monetary benefits	Termination Benefits	Long service leave	Performance bonus (i)	Superannuation	Options	Performance rights (ii)	Total	Performance related %
M. Malone	394,004	274,312	57,149	-	44,935	508,505	15,775	-	-	1,294,680	60%
G. Bader	277,589	79,500	33,950	-	5,569	-	15,775	-	178,279	590,662	44%
D. Buckingham	282,447	86,450	22,437	-	4,913	-	15,775	-	175,469	587,491	45%
M. Fewster	295,140	84,787	12,245	-	10,728	-	15,775	-	175,665	594,340	44%
S. Hackett (iii)	114,090	50,000	4,179	-	181,684	-	10,644	-	-	360,597	14%
J. Lindsay (iv)	108,571	103,985	-	-	70,568	-	9,771	-	-	292,895	36%
Total	1,471,841	679,034	129,960	-	318,397	508,505	83,515	-	529,413	3,720,665	46%

(i) Includes performance bonus to be paid out in cash under the 2009 and 2012 LTI share plan.
(ii) Performance rights awarded to executives in equity under the 2009 and 2012 LTI share plan.
(iii) Became a KMP on 1 February 2012.
(iv) Became a KMP on 22 May 2012.

EXECUTIVES' REMUNERATION DETAILS OF THE GROUP ($)

2011 Financial Year	Short term			Other	Long term		Post-employment	Share-based payments		Total	
KMP	Salary & fees	Cash bonus	Non-monetary benefits	Termination Benefits	Long service leave	Performance bonus (i)	Superannuation	Options	Performance rights (ii)	Total	Performance related %
M. Malone	364,700	206,625	31,454	-	41,488	374,060	15,199	-	-	1,033,526	56%
G. Bader	263,138	62,500	35,515	-	10,907	-	17,571	-	134,725	524,356	38%
D. Buckingham (iii)	248,053	62,775	23,947	-	1,013	-	17,042	4,424	125,840	483,094	40%
S. Dalby (iv)	195,892	48,750	2,954	-	8,183	-	15,640	-	87,427	358,846	38%
M. Fewster	273,991	62,775	3,317	-	10,788	-	16,406	-	120,097	487,374	38%
S. McDonagh (v)	141,940	10,000	1,137	9,981	-	-	11,158	-	-	174,216	6%
Total	1,487,714	453,425	98,324	9,981	72,379	374,060	93,016	4,424	468,089	3,061,412	26%

(i) Includes performance bonus to be paid out in cash under the LTI share plan.
(ii) Performance rights are rewarded to executives in equity.
(iii) 1% of total remuneration comprised of options.
(iv) Was a KMP until 30 June 2011.
(v) Resigned on 11 February 2011.

REMUNERATION COMPONENTS AS A PROPORTION OF TOTAL REMUNERATION PAID OR EXPENSED:

2012 Financial Year

KMP	Fixed (i)	STI (ii)	LTI (iii)	Total
M. Malone	39.5%	21.2%	39.3%	100%
G. Bader	56.4%	13.5%	30.1%	100%
D. Buckingham	55.4%	14.7%	29.9%	100%
M. Fewster	56.2%	14.3%	29.5%	100%
S. Hackett	86.1%	13.9%	-	100%
J. Lindsay	64.5%	35.5%	-	100%

2011 Financial Year

KMP	Fixed (i)	STI (ii)	LTI (iii)	Total
M. Malone	43.8%	20.0%	36.2%	100.0%
G. Bader	62.4%	11.9%	25.7%	100.0%
D. Buckingham	60.0%	13.0%	27.0%	100.0%
S. Dalby (iv)	62.0%	13.6%	24.4%	100.0%
M. Fewster	62.5%	12.9%	24.6%	100.0%
S. McDonagh (v)	94.3%	5.7%	0.0%	100.0%

(i) Fixed equals the percentage of remuneration consisting of salary and fees, non-monetary benefits, termination payments, long service leave and superannuation.
(ii) STI equals the percentage of remuneration consisting of cash bonus.
(iii) LTI equals the percentage of remuneration consisting of options and performance rights and bonuses.
(iv) Was a KMP until 30 June 2011.
(v) Resigned on 11 February 2011.

Employment Contracts

The key conditions of Managing Director and executives service agreements are outlined below.

The following executives (all Australian based) are permanent employees employed under Australian Workplace Agreements (AWA's):

Name	Agreement Commence	Agreement Expire
M. Malone	28 July 2006	No expiry, continuous agreement
G. Bader	6 August 2007	No expiry, continuous agreement
D. Buckingham	7 December 2007	No expiry, continuous agreement
M. Fewster	24 July 2007	No expiry, continuous agreement
S. Hackett	5 November 2010	Ended 16 August 2012 upon appointment to the Board
J. Lindsay	18 May 2012	No expiry, continuous agreement

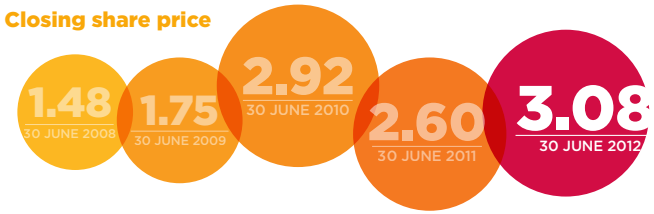
UNDER THE TERMS OF THE AWA'S:

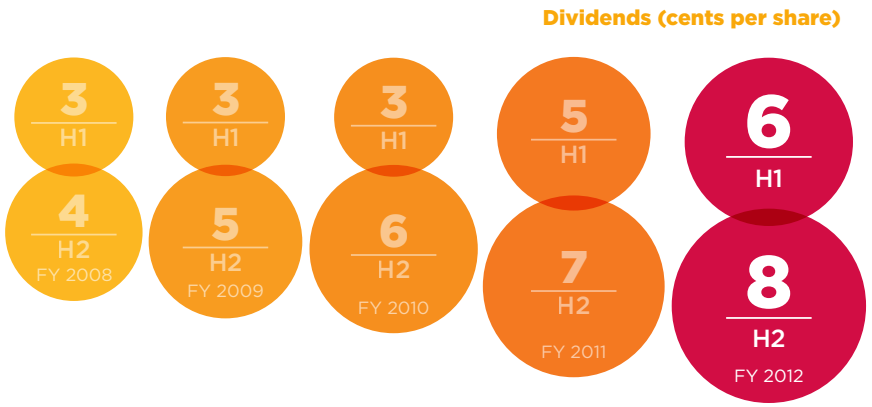
The Managing Director and executives may resign from their positions and thus terminate their contracts by giving 12 weeks notice. On resignation any options and performance rights not vested will be forfeited. The Company may terminate their employment agreement by providing 6 months notice or provide payment in lieu of the notice period. The period of notice is increased by 1 week if the employee is over 45 years of age and has completed at least 2 years continuous service with the Company.

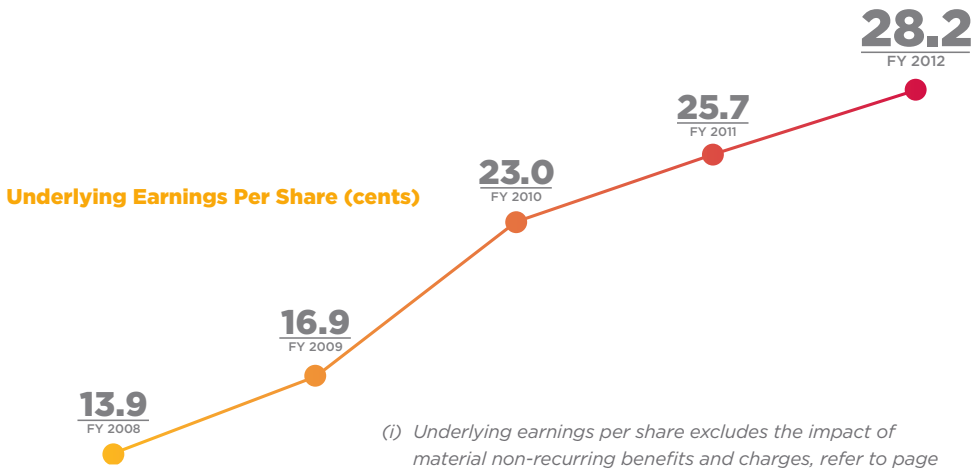
The Company may dismiss the employee at any time without notice for refusal of duty, neglect of duty or misconduct which contravenes rules and regulations as set out in the Company's Policies and Procedures, or misconduct which at law would justify summary dismissal. If the employee is dismissed on this basis, the employee will be entitled to be paid for work up to the time of the employee's dismissal only. In the event the Company terminates the employee's services, any options that have vested or will vest during the notice period will be released. Options that have not yet vested will be forfeited.

LINK BETWEEN COMPANY PERFORMANCE AND REMUNERATION

iiNet's remuneration policy aims to connect the remuneration received by executives with increased earnings and the creation of shareholder wealth. iiNet's performance as measured by underlying earnings per share for the past five years is as follows:







(i) Underlying earnings per share excludes the impact of material non-recurring benefits and charges, refer to page 27 for reconciliation of Underlying NPAT.

SECTION 2:
iiNet's NON-EXECUTIVE DIRECTORS' REMUNERATION

Overview of our approach to Non-Executive Directors' remuneration

The Board seeks to set remuneration at a level which provides iiNet with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders. The remuneration of the Non-Executive Directors is determined by the Board on recommendation from the Remuneration and Nomination Committee within a maximum aggregate amount. The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 24 November 2008 when shareholders approved a maximum aggregate remuneration cap of $700,000 per year.

NON-EXECUTIVE DIRECTOR REWARD COMPONENTS

Each director receives an annual fee of $75,000 for being a director of the Company. An additional annual fee may also be paid for each Board committee on which a director sits. Currently, the only additional fees paid are $65,000 to the chair of the Board, $20,000 to the chair of the Audit and Risk Committee and $10,000 to the chair of the Remuneration and Nomination Committee. An additional annual fee of $5,000 is paid to the directors that serve on a committee to recognise the additional time commitment.

Non-Executive Directors have long been encouraged by the Board to hold shares in the Company (purchased by the director on the market). It is considered good governance for directors to have a share stake in the Company upon whose Board they sit. Subject to shareholder approval the Non-Executive Directors of the Company can participate in specified issues of discretionary options. While these options issued are not specifically linked to performance criteria, the options are issued with an exercise price of an ordinary iiNet share at the time of issue, ensuring that directors only receive a benefit where shareholder wealth has increased. At the date of this report, only one Non-Executive Director, Mr. M. Smith, holds options in the Company's shares. These options were issued as part of the remuneration package required to attract a highly experienced new Chairman to the iiNet Board in September 2007 and vested on 19 November 2010.

Non-Executive Directors' remuneration details ($)

(i) 30 June 2012

Non-Executive Directors	Short-term			Post -Employment	Share-based Payments	Total
	Salary & fees	Cash bonus	Non-monetary benefits	Superannuation	Options	
M. Smith	155,769	-	-	14,019	-	169,788
P. Broad	83,077	-	-	7,477	-	90,554
P. James	88,269	-	-	7,944	-	96,213
T. Grist (i)	20,000	-	-	-	-	20,000
D. Grant	98,654	-	-	8,879	-	107,533
L. McCann	80,904	-	-	7,281	-	88,185
Total	526,673	-	-	45,600	-	572,273

(i) Resigned on 7 September 2011.

Non-Executive Directors' remuneration details ($)

(ii) 30 June 2011

Non-Executive Directors	Short-term			Post -Employment	Share-based Payments	Total Salary & Fees
	Salary & fees	Cash bonus	Non-monetary benefits	Superannuation	Options	
M. Smith (i)	147,458	-	1,773	13,431	7,222	169,884
P. Broad	71,998	-	7,618	7,165	-	86,781
P. James	82,263	-	2,352	7,615	-	92,230
T. Grist	80,000	-	-	-	-	80,000
D. Grant	94,615	-	-	8,515	-	103,130
L. McCann (ii)	12,981	-	-	1,168	-	14,149
Total	489,315	-	11,743	37,894	7,222	546,174

(i) 4% of total remuneration comprised of options.
(ii) Appointed on 14 April 2011.

LONG TERM INCENTIVES

Options granted, exercised or lapsed as part of remuneration during the 2011 or 2012 financial years

No share options have been granted to or exercised by Non-Executive Directors in the 2011 or 2012 financial years. No share options lapsed in the 2011 or 2012 financial years.

End of Remuneration Report (audited).

Signed in accordance with a resolution of the directors.

Michael Smith
Chairman
20 September 2012

ERNST & YOUNG

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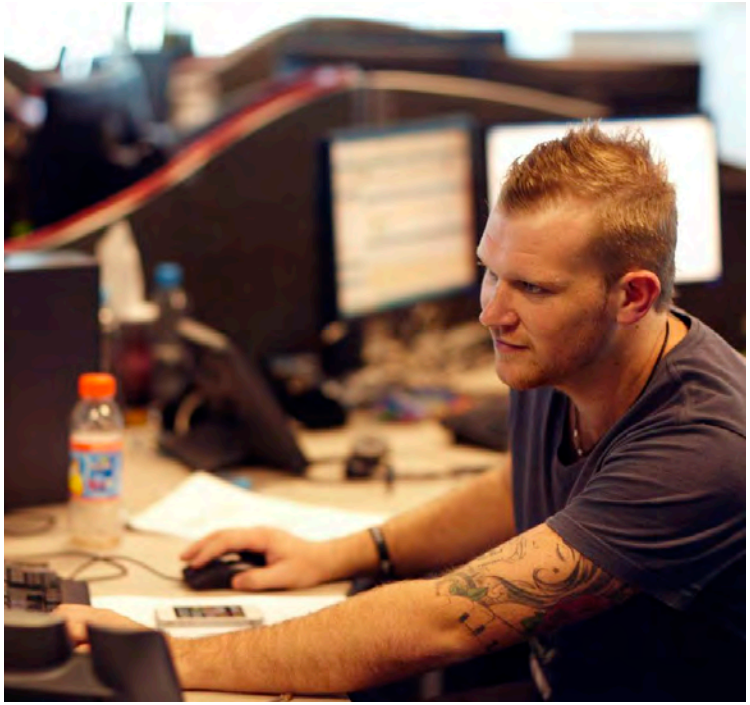
Auditor's Independence Declaration to the Directors of iiNet Limited

In relation to our audit of the financial report of iiNet Limited for the financial year ended 30 June 2012, 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.

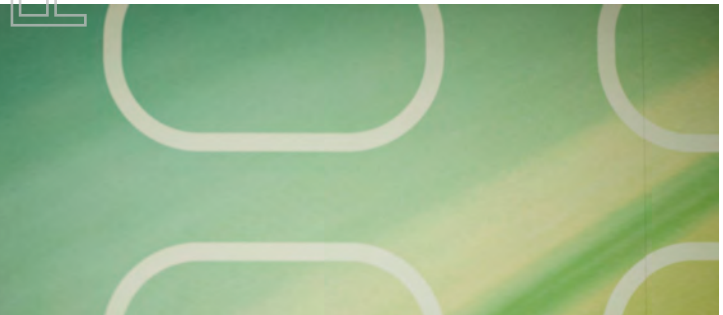
Ernst & Young

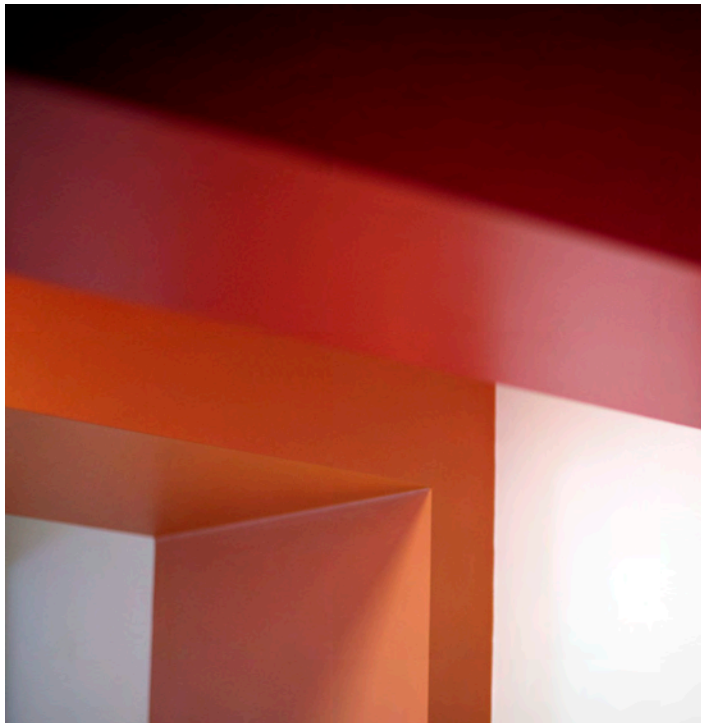
G H Meyerowitz
Partner
20 September 2012

GHM:MJ:iiNet:2012:014



CORPORATE GOVERNANCE STATEMENT





The board of directors of iiNet Limited is responsible for and committed to ensuring that the Company complies with the ASX Corporate Governance Council's Guide "Corporate Governance Principles and Recommendations".

Through the continual pursuit of the highest standards of corporate governance, iiNet is able to respect the following values to which it publicly subscribes:

- We will endeavour to provide staff with a challenging, rewarding and safe working environment;
- We will deliver quality products, excellent service and value for money to customers;
- We will take a responsible and ethical approach to the conduct of our business; and
- We will maximise the value of shareholders' investment in the Company.

iiNet Limited corporate governance practices were in place throughout the year ended 30 June 2012. Various corporate governance practices are discussed within this statement. For further information on corporate governance policies adopted by iiNet Limited, refer to our website:

http://investor.iinet.net.au/IRM/content/corporategovernance.html

THE BOARD OF DIRECTORS

Role of the Board and Board Charter

The Board has adopted a formal charter that details the functions and responsibilities of the Board. The Board Charter can be viewed on the Company's website. The Board of iiNet is charged with the following overall responsibilities:

(a) Charting the direction, strategies and financial objectives for the Company and monitoring the implementation of those policies, strategies and financial objectives; and

(b) Monitoring compliance with regulatory requirements and ethical standards. In addition, the following more prescriptive tasks have been assigned to the Board:

(i) Appointing and monitoring the performance of directors and officers, including the Managing Director, the Chief Financial Officer and the Company Secretary;

(ii) Providing input to and approving strategic plans and objectives, and approving the annual operating and capital budgets;

(iii) Monitoring systems that assess performance against the above; and

(iv) Approving and monitoring processes that monitor and limit risk, provide financial control and accountability as well as to ensure accurate and timely financial reporting.

STRUCTURE OF THE BOARD

The skills, experience and expertise of each director in office at the date of the annual report is included in the Directors' Report. Directors of iiNet are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

In the context of director independence, materiality is considered from both the Company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether the relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it.

The board considers the diversity of existing and potential directors. The board's policy is to seek a diverse range of directors who have a range of ages, genders and ethnicity which mirrors the environment in which iiNet operates.

In accordance with the established criteria for assessing independence above, and the materiality thresholds set, the following directors of iiNet Limited, shown together with their respective terms in office, are considered to be independent:

Name & position at 30 June 2012	Term of office
Peter James – Non-Executive Director	8 years & 7 months
David Grant – Non-Executive Director	5 years & 8 months
Michael Smith – Non-Executive Director	4 years & 9 months
Paul Broad – Non-Executive Director	6 years & 1 month
Louise McCann – Non-Executive Director	1 year & 2 months

AUDIT AND RISK COMMITTEE

The Board has established an Audit and Risk Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the Company. This includes internal controls to deal with the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information for inclusion in financial reports, as well as non-financial considerations such as benchmarking of key operational processes. The Board has delegated responsibility for establishing and maintaining a framework of internal control as well as establishing ethical standards and managing the Company's risk management policies to the committee.

The members of the committee during the year were:	
David Grant (Chairman) – Independent Non-Executive Director	Member for the full year
Tony Grist – Non-Executive Director	Resigned 7 September 2011
Michael Smith – Independent Non-Executive Director	Member for the full year
Louise McCann – Independent Non-Executive Director	Appointed to the Committee in December 2011

Qualifications of the Audit and Risk Committee members continuing at the date of this report:

- David Grant (Committee Chairman), a Chartered Accountant, has significant commercial and financial experience having held senior financial roles within several ASX listed companies.
- Louise McCann has extensive experience in public company management and has formerly held a number of board positions in publicly held companies.
- Michael Smith has significant marketing and management experience and has served as Chairman on the Board of various well known organisations.

For details on the number of meetings of the Audit and Risk Committee held during the year and the attendees at those meetings, refer to page 28.

RISK MANAGEMENT

The Board has established a formal policy for risk management and a framework for monitoring and managing material business risks on an ongoing basis. The governance of this policy has been delegated to the Audit and Risk Committee. The Audit and Risk Committee reviews the material business risks determined and reported by executive management on a regular basis and ensures that an effective, integrated and comprehensive risk management system and process is being operated by management.

REMUNERATION AND NOMINATION COMMITTEE

The Board has established a Remuneration and Nomination Committee, which operates under a charter approved by the Board. The committee's main responsibilities are delegated to it by the Board and include reviewing remuneration policies and practices of employees, executives and directors as described in the Remuneration Report. Further information regarding iiNet's Remuneration and Nomination Committee charter can be found on the Company's website, www.iinet.net.au.

The members of the committee during the year were:	
Peter James (Chairman) - Independent Non-Executive Director	Member for the full year
Paul Broad – Independent Non-Executive Director	Member for the full year
Michael Smith – Independent Non-Executive Director	Member for the full year

DIVERSITY

The board is committed to having an appropriate blend of diversity on the board and on iiNet's executive management team. iiNet has a current Equal Employment Opportunity Policy regarding gender, age, ethnic and cultural diversity.

The key elements of the diversity objectives for iiNet are as follows:

- Increased gender diversity on the board and senior executive positions and throughout the Group, aiming for at least 30% female representation on a full-time equivalent basis on the board by 30 June 2015 and in executive management positions and the entire group by 30 June 2017; and
- Annual assessment of board gender diversity objectives and performance against objectives by the board and nomination committee.

iiNet's performance against the diversity policy objectives are as follows:

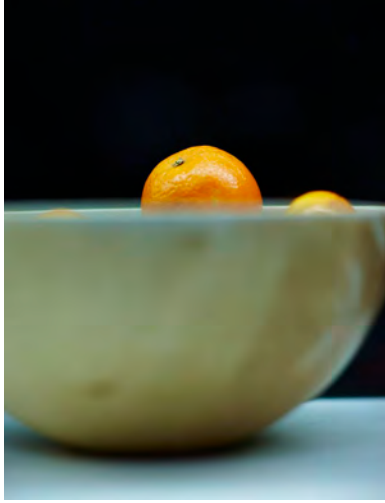
	30 June 2012		30 June 2011	
Gender representation	**Female (%)**	**Male (%)**	**Female (%)**	**Male (%)**
Board representation	17%	83%	14%	86%
Executive management team representation	20%	80%	20%	80%
Group representation	34%	66%	37%	63%

Photograph by Darren Kidd, Programmer

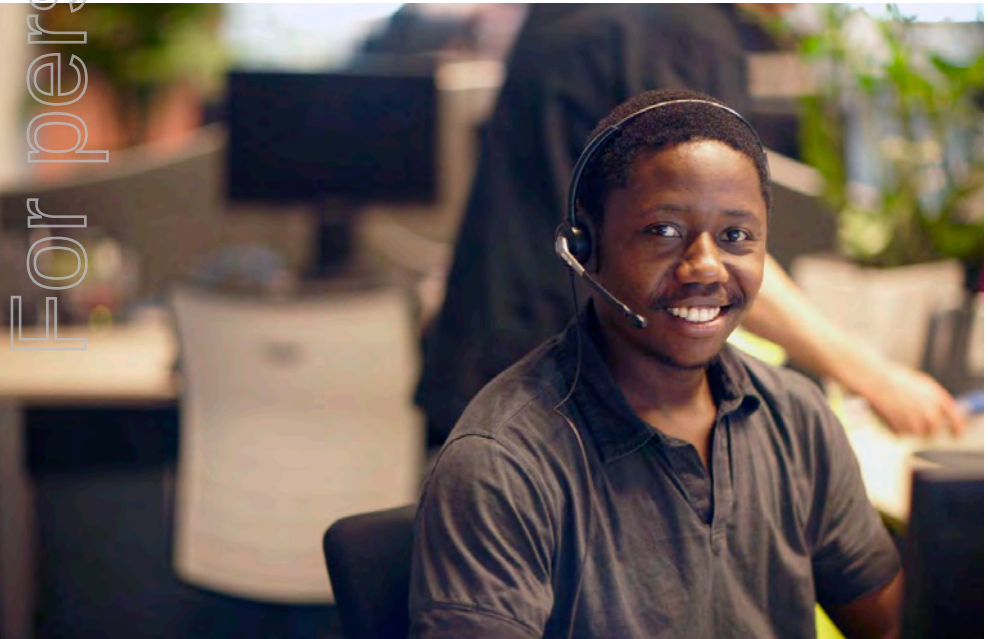
ADHERENCE TO THE GUIDE ON BEST PRACTICE RECOMMENDATIONS

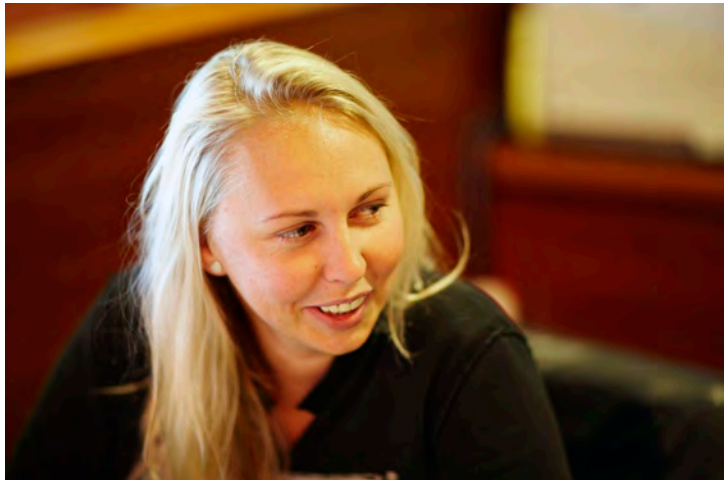
	Principle & Recommendation	Compliance
1	**Lay solid foundations for management and oversight**	
	1.1 Establish and disclose the functions reserved to the board and those delegated to senior executives.	✓
	1.2 Disclose the process for evaluating the performance of senior executives.	✓
	1.3 Companies should provide the information indicated in the guide to reporting on Principle 1.	✓
2	**Structure the Board to add value**	
	2.1 A majority of the Board should be independent directors.	✓
	2.2 The chair should be an independent director.	✓
	2.3 The roles of chairperson and chief executive officer should not be exercised by the same individual.	✓
	2.4 The Board should establish a nomination committee.	✓
	2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	✓
	2.6 Companies should provide the information indicated in the guide to reporting on Principle 2.	✓
3	**Promote ethical and responsible decision making**	
	3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to:	✓
	3.1.1 The practices necessary to maintain confidence in the Company's integrity.	✓
	3.1.2 The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders.	✓
	3.1.3 The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	✓
	3.2 Companies should establish and disclose a policy concerning diversity. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✓
	3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✓
	3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✓
	3.5 Companies should provide the information indicated in the guide to reporting on Principle 3.	✓
4	**Safeguard integrity in financial reporting**	
	4.1 The board should establish an audit committee.	✓
	4.2 Structure the audit committee so that it consists of:	✓
	• only non-executive directors;	✓
	• a majority of independent directors;	✓
	• an independent chair, who is not chair of the Board; and	✓
	• has at least three members.	✓
	4.3 The audit committee should have a formal charter.	✓
	4.4 Companies should provide the information indicated in the guide to reporting on Principle 4.	✓

	Principle & Recommendation	Compliance
5	Make timely and balanced disclosure	
	5.1 Companies should establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose a summary of those policies.	✓
	5.2 Companies should provide the information indicated in the guide to reporting on Principle 5.	✓
6	Respect the rights of shareholders	
	6.1 Companies should design and disclose a communications policy to promote effective communications with shareholders and encourage their participation at general meetings.	✓
	6.2 Companies should provide the information indicated in the guide to reporting on Principle 6.	✓
7	Recognise and manage risk	
	7.1 Companies should establish and disclose a summary of the policies for the oversight and management of material business risks.	✓
	7.2 Companies should design and implement a risk management and internal control system to manage the Company's material business risks and report on their effectiveness.	✓
	7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that it is operating effectively in all material respects in relation to financial reporting risks.	✓
	7.4 Companies should provide the information indicated in the guide to reporting on Principle 7.	✓
8	Remunerate fairly and responsibly	
	8.1 The Board should establish a remuneration committee.	✓
	8.2 The remuneration committee should be structured so that it:	✓
	• consists of a majority of independent directors;	✓
	• is chaired by an independent chair;	✓
	• has at least three members.	✓
	8.3 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executives, directors and senior executives.	✓
	8.4 Companies should provide the information indicated in the guide to reporting on Principle 8.	✓



CORPORATE SUSTAINABILITY





We continued to make strides in working towards a more sustainable workplace and reducing our environmental impact.

In 2012, we formed the 'Footprint' Sustainability Committee to engage with our stakeholders and commit to action on issues important to us and our customers. This Committee took the lead and began to look at the strategies and processes we can adopt to make our marketplace, community, workplace and environment more sustainable.

During the year we developed the iiNet Sustainability Approach which outlines our goals when it comes to sustainability going forward. The Approach also forms the foundation for any sustainability initiatives we would like to run with over the coming years.

We're looking forward to continuing our journey towards a more sustainable future in 2013.

IN THE MARKETPLACE

- We stood firm in our belief that new business models are needed to allow consumers to share content legally, successfully defending our copyright position in the High Court against the heavyweights in the film industry.
- We welcomed TransACT and Internode into the iiNet family, acquiring valuable network assets, loyal customers, and solid business revenues.
- Our Chief, Michael Malone, was named the Ernst & Young 2011 Entrepreneur of the Year, receiving the gong for his vision, leadership and business achievements.
- We launched our latest creation from iiNet Labs, BoB2™ with a bang, and followed it up with business voice, business cloud and our shiny new NBN plans. We also crossed the ditch and started exporting our very own BoB2™ from iiNet Labs to Orcon in New Zealand.
- We remained strong on our Net Promoter Score, achieving above 56% and ensured our customers' privacy was protected, remaining compliant with industry and government security regulations.

iiNet victorious in High Court stoush

Louise Burke

Movie studios must make movies and TV shows affordable and quickly available to consumers in the same way iTunes has monetised music in order to reduce online piracy, according to iiNet chief Michael Malone.

Appearing tired but flushed after yesterday's High Court win against a group of 34 film and television companies, Mr Malone said iiNet was vindicated in its view that it was not responsible for customers downloading pirated material.

The companies, represented by the Australian Federation Against Copyright Theft (AFACT), have been fighting to force iiNet to find reason, in my opinion, that people are infringing is that they can't get content legally. The first step needs to make the material available."

Despite losing its final appeal, AFACT managing director Neil Gane said the judges had recognised that legislative change was required to address copyright infringements and its next move would be to lobby the Federal Government.

"Now that we have taken this issue to the highest court in the land, it is time for Government to act," Mr Gane said. "We are confident the Government would not want copyright infringement to go niques they use, the delays, the geo-coding, all those methods which belong in another century have got to be looked at in the light of serving consumers."

Mr Gane said there were already models for legitimately purchasing content, but "there isn't a business model in the world that can compete with free". "Commerce can only compete in a free market economy, not a free economy," he said.

The company pointed to FetchTV and its other content offerings as a successful way to get users to pay for the movies and television programs they downloaded.

FetchTV, which is also available

IN THE COMMUNITY

- Staff gave over 300 hours of their time supporting a bucketful of great causes and also dug deep, donating $38,000 to our monthly charities and special drives.
- We partnered with some great organisations through our community sponsorship program, including Lifeline WA, Autism West, the NBL, WNBL and Avcon, just to name a few. We contributed more than $1 million through this program, helping to boost our grassroots support of organisations that matter to us and our customers.
- We presented WOZ Live – the Apple Story, bringing the co-founder of Apple, Steve Wozniak, to Australia to share his insights into the brand that has shaped our lives and the technology industry.
- Gaming fanatic Steve Wright was crowned Top Geek 2.0 following fierce competition in our second ever nationwide search for geeky talent.
- We championed our Online Safety Series, spreading the word and advice each month on cyber security through our online help guides and Learn with iiNet seminars.
- We volunteered at local schools through one-on-one reading and mentoring programs, partnering with the Australian Business and Community Network (ABCN).

IN OUR WORKPLACE

- We saw a heap of integration benefits following recent acquisitions and worked to consolidate systems and networks as well as deliver the iiNet service experience across the Group.
- We continued to reward our people for applying their awesome customer service through our reward and recognition program.
- We got our hearts racing at a bevy of events including walks, indoor cricket tournaments, netball competitions, triathlons and bike hikes. We also ran a flu shot program to ward off winter colds.
- We reshuffled hundreds of staff into new offices in three states, consolidating some of our work sites.

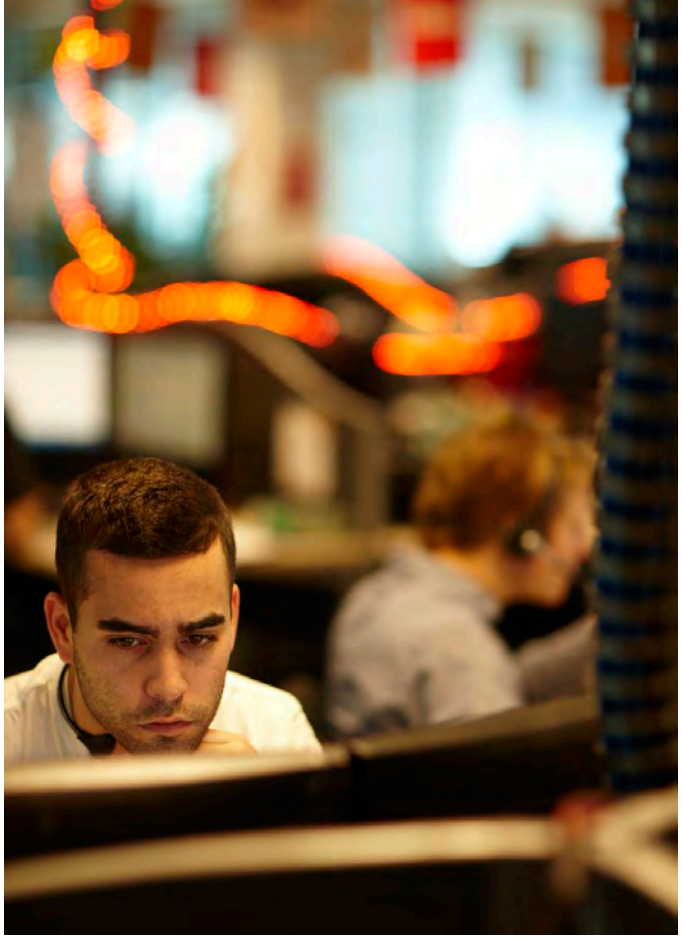
footprint

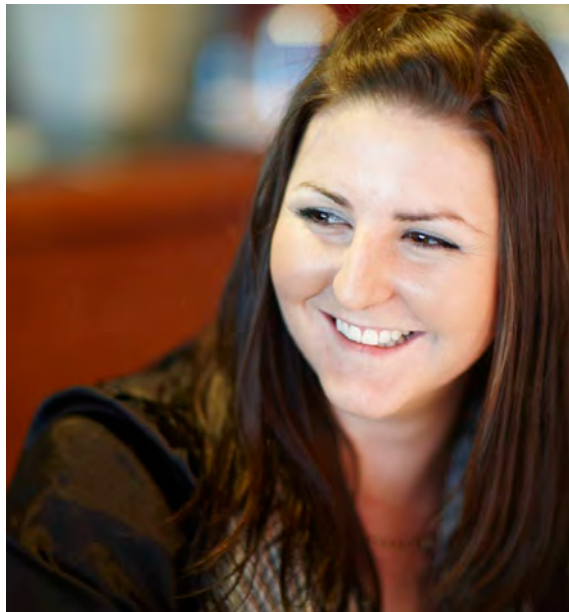
Sustainability at iinet

IN THE ENVIRONMENT

- We formed the 'Footprint' Sustainability Committee, developing the iiNet Sustainability Approach which outlines the sustainability goals and initiatives for iiNet going forward.
- We continued to grow the 'iiNet Forest', with more than 8400 mallee eucalypt trees planted over the past 3 years on our behalf by Carbon Conscious.
- We reduced our paper consumption by moving all iiNet new employee packs online, saving 37,000 sheets of paper per year.

FINANCIAL REPORT





CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Consolidated	
	Note	2012 $'000	2011 $'000
Revenue			
Rendering of services		814,726	689,052
Sale of hardware		15,315	8,099
Other revenue	5 (a)	1,184	1,935
Total Revenue		831,225	699,086
Network and carrier costs		(477,387)	(437,661)
Other income	5 (b)	8,061	1,527
Employee expenses	5 (c)	(110,684)	(81,988)
Marketing expenses		(24,986)	(19,772)
Office costs		(23,836)	(16,812)
Administration expenses		(49,291)	(38,002)
Depreciation and amortisation expense	5 (d)	(65,458)	(43,647)
Finance costs	5 (e)	(17,562)	(8,478)
Other costs		(7,073)	(6,094)
Profit before income tax		63,009	48,159
Income tax expense	6	(25,955)	(14,785)
Profit for the year		37,054	33,374
Other Comprehensive Income			
Cash flow hedges:			
Loss taken to equity		(505)	(425)
Gain taken to equity		58	86
Income tax on items of other comprehensive income		134	102
Other comprehensive (loss) / income for the year, net of tax		(313)	(237)
Total comprehensive income for the year		36,741	33,137
Total comprehensive income attributable to the owners of the company		36,741	33,137
Earnings per share for profit attributable to the ordinary equity holders of the company	20	Cents	Cents
Basic earnings per share		23.9	22.0
Diluted earnings per share		23.9	21.9

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Assets			
Current Assets			
Cash and cash equivalents	22(a)	6,606	5,498
Trade and other receivables	7	70,836	39,985
Prepayments	7	5,228	9,632
Inventory	8	7,579	4,615
Total Current Assets		90,249	59,730
Non-current Assets			
Plant and equipment	9	179,364	81,995
Intangible assets and goodwill	10	486,622	305,532
Prepayments	7	-	8,999
Deferred income tax asset	6(d)	235	221
Other Assets		40	-
Total Non-current Assets		666,261	396,747
Total Assets		756,510	456,477
Liabilities			
Current Liabilities			
Trade and other payables	11	84,498	68,963
Unearned revenue	11	51,929	29,411
Interest bearing loans and borrowings	12	2,355	1,277
Indefeasible right of use lease liability	13	12,565	-
Income tax payable		9,034	234
Provisions	14	12,597	5,972
Derivative financial instruments	29	632	185
Total Current Liabilities		173,610	106,042
Non-current Liabilities			
Interest bearing loans and borrowings	15	225,931	100,572
Indefeasible right of use lease liability	16	61,135	-
Deferred income tax liabilities	6(d)	7,473	6,738
Provisions	17	1,712	619
Total Non-current Liabilities		296,251	107,929
Total Liabilities		469,861	213,971
Net Assets		286,649	242,506
Equity			
Issued capital	18(a)	250,528	223,557
Retained earnings	19(a)	31,777	15,035
Other reserves	19(b)	4,344	3,914
Total Equity		286,649	242,506

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Consolidated				
	Issued Capital $'000	Retained earnings $'000	Employee Equity Benefit Reserve $'000	Cash Flow Hedge Reserve $'000	Total $'000
At 30 June 2010	223,116	(1,614)	3,696	109	225,307
Profit for the year	-	33,374	-	-	33,374
Other comprehensive income	-	-	-	(237)	(237)
Total comprehensive income	-	33,374	-	(237)	33,137
Transactions with owners in their capacity as owners:					
Issue of share capital	441	-	-	-	441
Share-based payments	-	-	346	-	346
Dividends paid	-	(16,725)	-	-	(16,725)
At 30 June 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	-	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	250,528	31,777	4,785	(441)	286,649

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Consolidated 2012 $'000	Consolidated 2011 $'000
Cash flows from operating activities			
Receipts from customers		949,917	766,306
Payments to suppliers and employees		(818,317)	(653,894)
Interest received		1,230	1,935
Interest and other costs of finance paid		(16,124)	(8,478)
Income tax paid		(13,144)	(9,878)
Costs incurred on acquisition of subsidiary		(2,650)	(3,859)
Net cash inflows from operating activities	22(c)	100,912	92,132
Cash flows from investing activities			
Payment for the establishment of exchange space		(2,118)	(3,749)
Payment for subscriber acquisition costs		(4,651)	(6,194)
Purchase of plant and equipment		(40,927)	(36,319)
Payment of project development and other intangible costs		(8,513)	(5,704)
Proceeds from sale of plant and equipment		5,380	-
Payment for acquisition of subscriber bases		(826)	-
Acquisition of subsidiary, net of cash acquired	30	(129,005)	(75,086)
Net cash flows used in investing activities		(180,660)	(127,052)
Cash flows from financing activities			
Proceeds from issue of shares		103	441
Proceeds from borrowings		158,100	156,000
Payment for share buyback		(9,350)	-
Repayment of borrowings		(37,053)	(104,541)
Payment for transaction costs related to borrowings		(592)	(1,457)
Repayment of IRU and finance leases		(10,040)	(1,899)
Equity dividends paid		(20,312)	(16,725)
Net cash flows from financing activities		80,856	31,819
Net increase/(decrease) in cash		1,108	(3,101)
Cash and cash equivalents at the beginning of year		5,498	8,599
Cash and cash equivalents at the end of the year	22(a)	6,606	5,498

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

1. CORPORATE INFORMATION

The financial report of iiNet Limited for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 20 September 2012.

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") and is the ultimate parent entity in the Group. The consolidated financial report for the year ended 30 June 2012 comprises the Company and its controlled entities ("the Group"). The nature of the operations and principal activities of iiNet Limited and its subsidiaries are described in the Directors' Report.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporation Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB"). The financial report complies with Australian Accounting Standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(b) Basis of preparation

The financial report is presented in Australian Dollars. The financial report is prepared on the historical cost basis, except for derivative financial instruments which are measured at fair value.

The Company is of the kind referred to in Class Order 98/100, issued by the Australian Securities and Investment Commission, relating to the "rounding" of amounts in the financial report. Amounts in the financial report have been rounded in accordance with that class order to the nearest thousand dollars, or in certain cases the nearest dollar.

(i) Critical accounting judgments and estimates

The preparation of the financial report requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(ii) New Accounting Standards and Interpretations

The accounting policies adopted are consistent with those of the previous financial year except as follows:

iiNet Limited has adopted all Australian Accounting Standards and Interpretations mandatory for annual periods beginning on or before 1 July 2011, including:

Annual Improvements Project: AASB 2009-12, AASB 2010-4, 2010-5 and 2010-6

In May 2009 and June 2010 the AASB issued an omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment.

- AASB 8 Operating Segments: requires an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.
- Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments, clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions and clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.
- AASB 1 & 7 Impairment of Assets: The amendments increase the disclosure requirements for transactions involving transfers of financial assets but which are not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.

AASB 124 (Revised)

Related Party Disclosures (December 2009) simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. The definition now identifies a subsidiary and an associate with the same investor as related parties of each other. Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other. The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other.

AASB 1054 Australian Additional Disclosures
This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.

This standard, with AASB 2011-1 relocates all Australian specific disclosures from other standards to one place and revises disclosures in compliance with Australian Accounting Standards, the statutory basis or reporting framework for financial statements, whether the entity is for profit or not for profit entity, whether the financial statements are general purpose of special purpose, audit fees and imputation credits.

The adoption of new and amended standards and interpretations had no impact on the financial position or performance of the Group:

(iii) New Accounting Standards and Interpretations issued but not yet effective
Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 June 2012 are detailed below.

AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income (Effective 1 July 2012)
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.

AASB 9 Financial Instruments (Effective 1 July 2015)
AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below:

- Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.
- Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows, the change attributable to changes in credit risk are presented in other comprehensive income and the remaining change is presented in profit or loss. If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

AASB 10 Consolidated Financial Statements (Effective 1 July 2013)
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.

AASB 12 Disclosure of Interest in Other Entities (Effective 1 July 2013)
AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.

AASB 13 Fair Value Measurement (Effective 1 July 2013)
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 may 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.

AASB 119 Employee Benefits (Effective 1 July 2013)
The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. 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.

AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle (Effective 1 July 2013)
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) and clarification of the competitive information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).

AASB 2011-4 (Effective 1 July 2013)
This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.

AASB 1053 Application of Tiers of Australian Accounting Standards (Effective 1 July 2013)
This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards
- Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements:

- For-profit entities in the private sector that have public accountability (as defined in this Standard)
- The Australian Government and State, Territory and Local Governments

The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:

- For profit private sector entities that do not have public accountability
- All not for profit sector entities
- Public sector entities other than the Australian Government and State, Territory and Local Governments.

AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities (Effective 1 July 2013)
This amendment principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate 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.

AASB 2012-3 Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities (Effective 1 July 2015)
This amendment adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right to set-off" and that some gross settlement systems may be considered equivalent to net settlement.

The impacts of amendments on the Group's statements have not yet been determined.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group as at 30 June each year. Subsidiaries are those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Group controls another entity. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and loss resulting from intra-group transactions have been eliminated in full. 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.

(d) Business combinations

Subsequent to 1 July 2009
The acquisition method of accounting is used to account for all business combinations. The consideration transferred comprises the fair value of the assets transferred, the liabilities incurred, the equity interest issued by the acquirer and the amount of any non-controlling interest in the acquiree. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's net identifiable assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, Group's operating or accounting policies and other pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the statement of comprehensive income as a bargain purchase.

Prior to 1 July 2009

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

(e) Foreign currency translation

The functional and presentation currency of iiNet Limited is Australian Dollars. The functional currency of its subsidiaries is Australian Dollars.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the foreign exchange rate ruling at the reporting date. Foreign exchange differences arising on translation are recognised in the Statement of Comprehensive Income. Non-monetary items are measured in terms of historical cost in a foreign currency and are translated using the exchange rate as at the date of the initial transaction.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value and generally have a maturity of three months or less.

For the purpose of the Statement of Cash Flows, cash and cash equivalents consist of cash as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest bearing loans and borrowings in current liabilities in the Statement of Financial Position.

(g) Trade and other receivables

Trade receivables, which generally have a 30 day term, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectable are written off when identified. An allowance for impairment is recognised when there is evidence that the Group will not be able to collect the receivable.

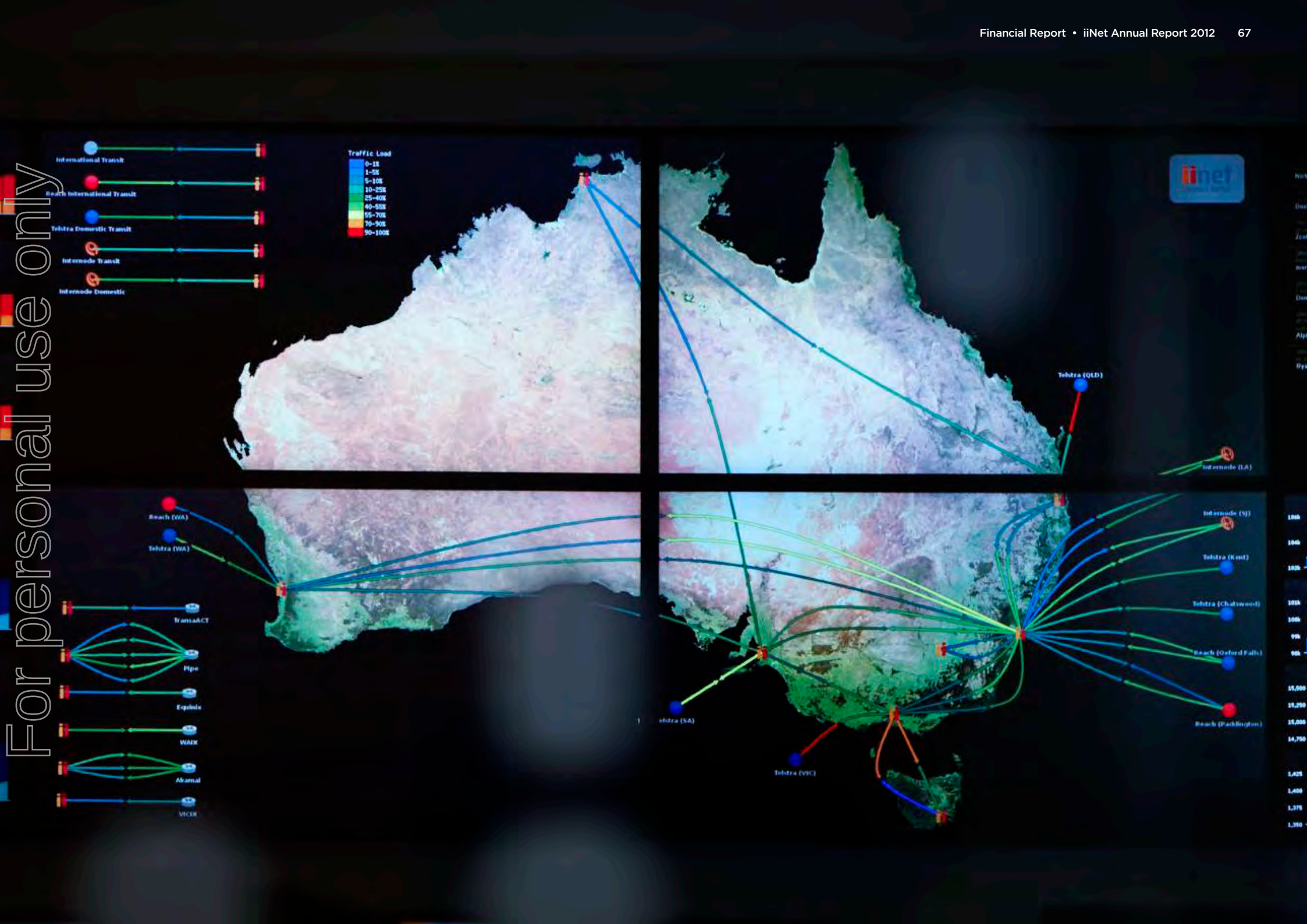
Financial difficulties of the debtor, default payments or debt more than 120 days overdue are considered evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(h) Inventory

Inventories are initially measured and recorded at cost on a first-in, first-out basis and are subsequently 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.

(i) Investments and other financial assets

Investment and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through the statement of comprehensive income, loans and receivables, held to maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories. When financial assets are recognised initially they are measured at fair value, plus, in the case of assets not at fair value through the statement of comprehensive income directly attributable transaction costs. All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are de-recognised when the right to receive cash flows from the financial assets have expired or been transferred. Loans and receivables are non-derivative financial assets with fixed or determinable payments that



are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in statement of comprehensive income when the loans and receivables are de-recognised or impaired, as well as through the amortisation process. The Group does not hold any financial assets or investments as held to maturity investments or available for sale securities.

(j) Plant and equipment

Plant and equipment and leasehold improvements are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and can be measured reliably. All other repairs and maintenance are charged to the Statement of Comprehensive Income during the reporting period in which they are incurred.

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;
- Network Infrastructure assets over 15 – 40 years;
- Equipment under finance lease over 3- 15 years or over the lease term; and
- Leasehold improvements over 3 - 15 years or over the lease term.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the Statement of Comprehensive Income.

An item of plant and equipment is de-recognised upon disposal or when no further economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the Statement of Comprehensive Income in the year the asset is de-recognised.

(k) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent upon the use of a specific asset or assets and the arrangement conveys a right to use the asset. Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases. Finance leases are capitalised at the inception of the lease at the fair value of the leased asset 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. Assets under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

During the period the Group renegotiated an international bandwidth capacity supply agreement. Following renegotiation the agreement was classified as an indefeasible right of use lease and recognised in the statement of financial position.

When the Group is a lessor, leases are classified as either finance leases or operating leases. Under a finance lease, substantially all the risks and rewards incidental to legal ownership are transferred to the lessee. In contrast, an operating lease exists where the leased assets are allocated to the lessor. In its capacity as a lessor, the Group recognises the assets held under finance leases in the Statement of Financial Position, as loans at an amount equal to the net investment in the lease. The recognition of finance income is based on a pattern of reflecting a constant periodic return on the Group's net investment in the finance leases.

(l) Impairment of non-financial assets other than goodwill

Assets that have finite useful lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. iiNet conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors such as changes in technology and economic conditions are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the assets recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less cost to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows that are largely independent of the cash inflows from other assets or Groups of assets

(cash generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(m) Goodwill

Goodwill acquired in a business combination is initially measured at the cost of the business combination, being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired and the liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in the statement of comprehensive income following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units (CGU's) that are expected to benefit from the synergies of the combination. The units to which goodwill is allocated are as follows:

- iiNet CGU – representing the applicable assets and liabilities of the iiNet Group including the AAPT Consumer Division, Netspace Group and Westnet Pty Ltd;
- TransACT CGU – representing TransAct Group as a standalone cash generating unit; and
- Internode CGU – representing Internode Pty Ltd as a standalone cash generating unit.

Impairment is determined by assessing the recoverable amount of the cash generating unit, to which the goodwill relates. The Group performs its impairment testing each financial year and calculates the recoverable amount of each CGU to which goodwill has been allocated using fair value less cost to sell based on discounted cash flow methodology. This method calculates the best estimate that an independent third party would pay to purchase the cash generating units less applicable selling costs at the reporting date. Pre-tax discount rates are used to discount the cash flow to present value. For further details on the methodology and assumptions used please refer to note 10.

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of the cash-generating unit and an 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 manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. Impairment losses recognised for goodwill are not subsequently reversed.

(n) Intangible assets other than goodwill

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset 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. Intangible assets, excluding capitalised development costs which are created within the business, are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful 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 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 useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite useful life is reviewed each reporting period to determine whether the indefinite useful life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis. No intangible assets with indefinite useful lives are held other than goodwill which is discussed in note 2(m).

(i) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects are recognised as intangible assets when it is probable that the project will, after considering its commercial and technical feasibility, be completed and generate future economic benefits and its costs can be measured reliably. Expenditure capitalised comprises all directly attributable costs including costs of materials, services and direct labour. Other development expenditure that does not meet these criteria is recognised as an expense as incurred. The carrying value of an intangible asset arising from development expenditure is tested for impairment annually or more frequently when an indication of impairment arises during the period.

(ii) A summary of the policies applied to the Group's intangible assets are as follows:

	Development Costs	Software Licenses	Subscriber Bases	Subscriber Acquisition cost	Patents and Trademarks	Beneficial Lease Contract including IRU's
Useful life	Finite	Finite	Finite	Finite	Finite	Finite
Amortisation method	Straight line over the period of the expected benefit	Straight line over the period of the expected benefit	Straight line over the period of the expected benefit	Straight line over the period of the expected benefit	Straight line over the period of the expected benefit	Straight line over the period of the expected benefit
Amortisation period	2 – 5 years	2 - 3 years	5 years	2 years	5 years	Up to conclusion of the lease
Acquired (A) or internally generated (IG)	(IG)	(A)	(A)	(A)	(A)	(A)
Impairment testing	When an indicator of impairment exists	When an indicator of impairment exists	When an indicator of impairment exists	When an indicator of impairment exists	When an indicator of impairment exists	When an indicator of impairment exists

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between net disposal proceeds and the carrying amount of the asset, and are recognised in the Statement of Comprehensive Income when the asset is de-recognised.

(o) Pension plans

The Group's commitment to pension plans is limited to making contributions in accordance with the minimum statutory requirements. There are no legal or constructive obligations 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 Statement of Comprehensive Income as the contributions become payable.

(p) Trade and other payables

Trade payables and other payables are carried at amortised cost 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Interest bearing loans and borrowings

Interest bearing loans and borrowings are recognised initially at fair value, net of transaction cost incurred. Subsequent to initial recognition, interest bearing borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds. Borrowing costs directly associated with a qualifying asset will be capitalised.

(r) Provisions

A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event and 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.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation using a discounted cash flow methodology. If the effect of the time value of money is material, the provision is discounted using a current pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

(s) Employee benefits

(i) Wages, salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave due 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 due 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. 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.

(iii) Long term incentive plan
The gross base pool LTI for the Managing Director is determined at grant date and discounted to its present value at the risk free interest rate of 3.7%, adjusted for the relevant terms and conditions upon which the specific performance rights are granted. The present value is recognised in the Statement of Comprehensive Income together with interest accretion expense resulting in an increase in provisions. The fair value of the award is recognised in the Statement of Comprehensive Income over the vesting period. At each reporting date, the current best estimate of the total value of the award will be re-assessed based on the likelihood of the Managing Director achieving his objectives. All changes in the liability are recognised in the Statement of Comprehensive Income.

(t) Share based payment transactions

(i) Share option plans
The Group provides benefits to employees (including KMP) in the form of share-based payments, whereby employees render services in exchange for share options or rights over shares ("equity settled transactions"). The Group has used the 2005 iiNet Employee Share Option plan to provide these benefits.

The 2005 iiNet Employee Option Plan provides benefits to executives and eligible employees. Options have been issued to specified directors and executives outside this plan. These are accounted for on the same basis as those options issued from the 2005 iiNet Employee Share Option plan. The cost of these equity settled transactions for employees is measured by reference to the fair value of the equity instrument at the date they were granted. The fair value is determined by an external valuer using the Black-Scholes model, further details of which are given in note 27. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of iiNet Limited (market conditions) if applicable.

The cost of equity settled transactions is recognised together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the Statement of Comprehensive Income is the product of:

- the grant date fair value of the award;
- the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- the expired portion of the vesting period.

The charge to the Statement of Comprehensive Income for the period is the cumulative amount as calculated above less the amount already charged in previous periods. There is a corresponding entry to equity. Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that the market condition is fulfilled, provided that all other conditions are satisfied. If the terms of the equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification. If 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 it is granted, the cancelled and new award are treated as if they were a modification of the original award. The dilutive effect if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share. There is no impact from Group transactions as all employees are employed by the parent.

(ii) Long term incentive share plan – equity settled
The Group established a share based incentive plan to provide benefits to specific executives. The plan is designed to motivate executives to achieve corporate objectives over the long term. The 2009 plan commenced on 1 July 2009 and had a 24 month performance period with a retention period of 3 to 6 months. The 2012 plan commenced

on 1 July 2011 and had a 36 month performance period with a retention period of 3 to 6 months. The plans are accounted for as follows:

A base pool LTI value is determined for each executive at the start of each performance period. Each 'performance right' represents an executive's right to receive one iiNet share in the future for no consideration, subject to meeting the specific performance targets. The fair value of the equity settled performance rights to be granted are calculated at the grant date. The fair value of the equity settled LTI transaction is recognised in the Statement of Comprehensive Income together with a corresponding increase in equity. The fair value is recognised in the Statement of Comprehensive Income over the vesting period. The assessment date will be at the end of the performance period. At each reporting date the current best estimate of the total number of performance rights will be re-assessed based on the likelihood of executives achieving their objectives and all changes recognised in the Statement of Comprehensive Income.

(u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(v) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent 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:

(i) Rendering of services
Revenue from the provision of telecommunications services includes the provision of internet and data services and other services, such as telephone calls. iiNet records revenue earned from:

- internet and data services over the period of service provided; and
- telephone calls on completion of the call.

Unearned revenue represents the component of cash received from the customer for the period from reporting date to the expiry date of the customer's subscription in advance of their subscription period.

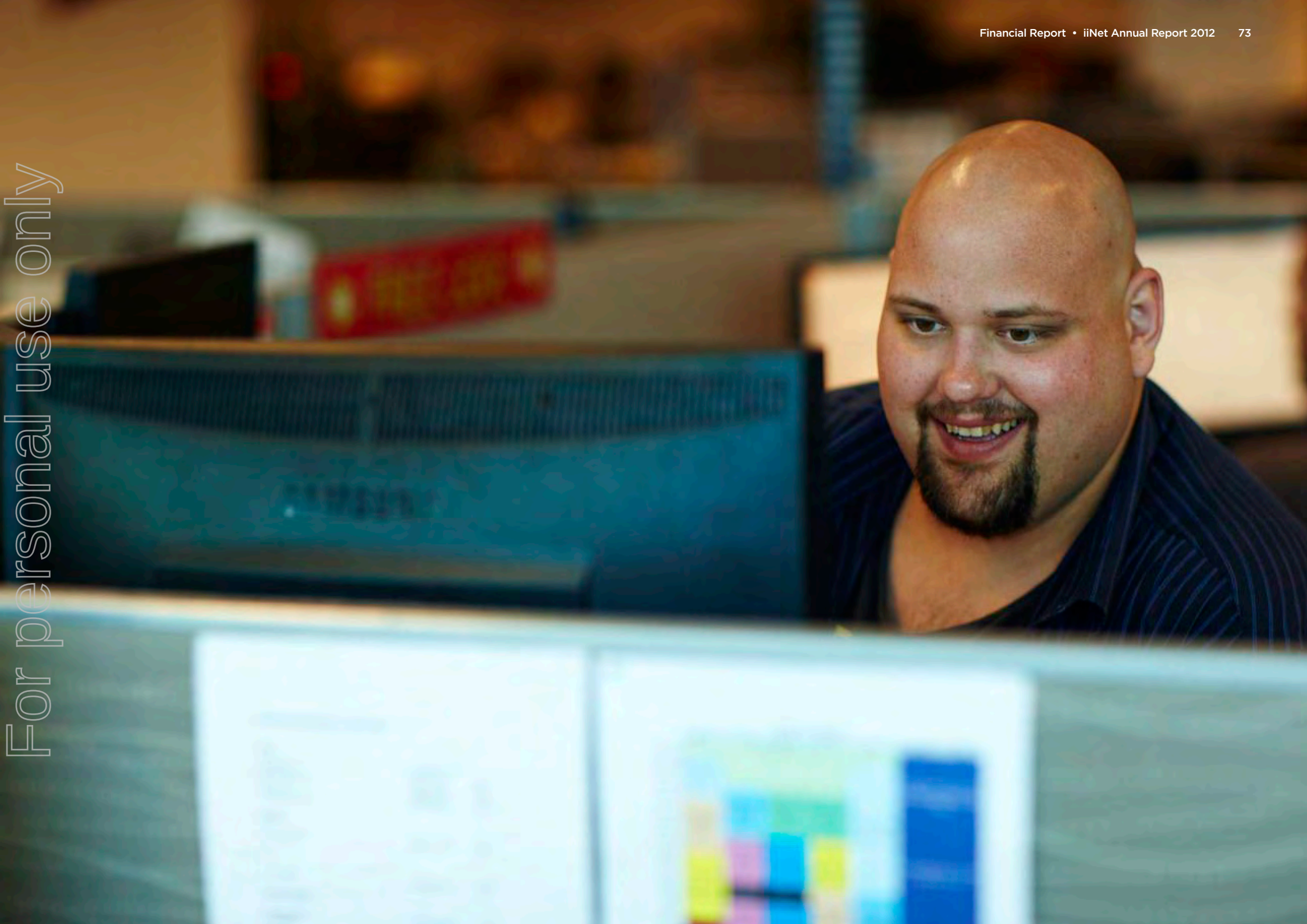
(ii) Sale of hardware
Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the customer and the revenue can be measured reliably. Risks and rewards are considered passed to the customer at the time of delivery of the goods to the customer.

(iii) Interest income
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(w) Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify for hedge accounting, are taken to the statement of comprehensive income. The fair values of forward currency contracts are calculated by reference to current forward exchange rates. The fair values of interest rate swaps are determined using valuation techniques that discount cash flows to present value using current market interest rates. Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges
Cash flow hedges are hedges of the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. The effective portion of the gain or loss on the hedging instrument is recognised directly in Other Comprehensive Income, while the ineffective portion is recognised in the statement of comprehensive income. Amounts taken to Other Comprehensive Income are transferred to the Statement of Comprehensive Income when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised, or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability. The Group tests the designated cash flow hedge for effectiveness and ineffectiveness at each reporting date both retrospectively and prospectively. If the hedge testing falls within the 80-125% range, the hedge is considered highly effective and continues to be designated as a cash flow hedge. If the forecast transaction or firm commitment is no longer expected to occur, amounts recognised in equity are transferred to the Statement of Comprehensive Income. If the hedging instrument expires or is sold, terminated or



exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in Other Comprehensive Income remain in Other Comprehensive Income until the forecast transaction occurs.

(x) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Deferred income tax is provided on all temporary differences at the reporting 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:

- when the deferred income tax liability arises from the initial recognition of goodwill or 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; or
- when the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary differences can be controlled and it's 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 and tax losses, 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 credits and unused tax losses can be utilised except:

- when 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; or
- when the deductible temporary difference is associated with investments in subsidiaries, in which case a deferred tax asset is 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 utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that 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. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. 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 reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to off-set current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

(i) Tax consolidation legislation

iiNet Limited and its wholly-owned Australian controlled entities have elected to implement the requirements of the tax consolidation legislation. The head entity, iiNet Limited and the controlled entities in the tax consolidated Group continue to account for their own current and deferred tax amounts.

(ii) Goods and service tax

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position. Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, that taxation authority.

(y) Segmental reporting

An operating segment, is a distinguishable component of an entity that engages in business activities from which it may earn revenue and incur expenses, whose operating results are regularly reviewed by the entities chief operating decision maker to make decisions about how resources should be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision maker – being the executive management team of the iiNet Group. The Group aggregates two or more operating segments when they have similar economic

characteristics, and the segments are similar in each of the following respects:

- nature of the products and services provided;
- nature of the production process;
- type or class of customer for the products and services;
- methods used to distribute the products or provide the services; and
- nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. An operating segment that does not meet the quantitative criteria is still reported separately where the information about the segment would be useful to the users of the financial statements.

Information relating to other business activities and operating segments, below the quantitative criteria, as prescribed by AASB 8 are combined and disclosed in a separate category for "all other segments".

(z) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares, adjusted for any bonus element. Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for the cost of servicing equity (other than dividends) and the after tax effects of dividends and interest associated with dilutive potential ordinary shares that have been recognised as an expense, divided by weighted average number of ordinary shares and dilutive ordinary shares adjusted for any bonus element.

3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Management has identified the following critical accounting policies for which significant accounting judgments, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect the financial results or the financial position reported in future periods.

Significant accounting judgments

(i) Amortisation of intangibles with finite useful lives
In relation to the amortisation of intangibles with finite useful lives, management's judgments are used to determine the estimated useful lives. Details of the useful lives are disclosed in note 10(b).

(ii) Capitalised development costs
Development costs are only capitalised by the Group when it can demonstrate the technical feasibility of completing the asset so that the asset will be available for use or sale, how the asset will generate future economic benefits and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

(iii) Indefeasible Right of Use ("IRU")
Where the capacity purchased under IRU arrangements represents an exclusive right over a separately identifiable asset, the Group has concluded that these IRU arrangements contain a lease. The classification of the lease component of the IRU as an operating or finance lease is assessed in accordance with the Group's stated accounting policy on leases. In the case of finance leases, the right of use asset is presented as an intangible asset.

(iv) Taxation
The Group's accounting policy for taxation requires management's judgments as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgments are also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the Statement of Financial Position. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Judgments about the generation of future taxable profits and repatriation of retained earnings depend upon management's estimates of future cash flows. These depend on estimates of future sales, cost of sales, operating costs, capital expenditure, dividends and other capital management transactions. Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the Statement of Financial Position and the amount of other tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of recognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the Statement of Comprehensive Income.

Significant accounting estimates and assumptions

(i) Impairment of goodwill and intangibles with indefinite useful lives
The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires estimation of the recoverable amount of the cash generating units to which goodwill and intangibles with indefinite useful lives

have been allocated. The assumptions used in this estimation of recoverable amount and the amount of goodwill and intangibles with indefinite useful lives are discussed in note 10.

(ii) Share based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black-Scholes model, using the assumptions detailed in note 27. The accounting estimates and assumptions relating to equity settled share based payments would have no impact on the carrying amounts of assets and liabilities within the annual reporting period but may impact expenses and equity.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks. These include interest rate risk, liquidity risk, foreign currency risk and credit risk. The Group manages its exposure to these risks in accordance with its risk management policy. This policy seeks to minimise the potential adverse effects these risks may have on the financial performance of the Group.

The Group uses derivative financial instruments, such as foreign currency forward contracts and interest rate swaps, to manage the currency and interest rate risks that arise on the Group's overseas activities and its sources of finance. Derivatives are used for risk management purposes and not as trading or other speculative instruments. The Group uses different methods to measure the different types of risk to which it is exposed, including sensitivity analysis in the case of interest rate and foreign exchange risk, ageing analysis for credit risk and cash flow forecasts for liquidity risk.

Risk management is carried out by executive management and the Audit and Risk Committee, both of whom act under the authority of the board of directors. There have been no significant changes in the Group's policy for managing interest rate risk, liquidity risk, foreign currency risk and credit risk from 30 June 2011.

The Group's financial assets and liabilities comprise cash and cash equivalents, receivables, payables, bank loans, finance leases and derivatives.

(a) Interest rate risk

At the reporting date the Group had the following financial assets and liabilities exposed to Australian variable interest rates that are not designated in a cash flow hedge:

	Consolidated	
	2012 $'000	2011 $'000
Financial Assets		
Cash and cash equivalents	6,606	5,498
Financial Liabilities		
Bank loan (unhedged)	106,000	52,000

Interest rate swap contracts outlined in note 29 are exposed to fair value movements if interest rates change. An analysis of maturities is provided in (b).

Borrowings and cash held at variable rates expose the Group to cash flow interest rate risk. The Group's policy to manage cash flow interest rate risk includes:

- Performing sensitivity analysis, where the Group calculates the impact on profit for a defined interest rate shift;
- Investigation into alternative financing and the renewal of existing borrowing positions to obtain more favourable terms; and
- The use of interest rate swaps to ensure at least 50% of net debt is hedged to fixed interest rates.

Based on the results of the reviews performed, the Group considers its main interest rate risk arises from its variable interest rate exposure on its long term borrowings. To manage this risk the Group uses interest rate swaps. Such swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group had borrowed at fixed rates directly.

Under the interest rate swap, the Group agrees with a financial institution to exchange at monthly intervals, the difference between the fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amount. At the reporting date, 47% (2011: 51%) of the Group's bank loan facility outstanding was at a variable rate of interest.

The following sensitivity analysis is based on the net cash flow interest rate exposure in existence at the reporting date. At 30 June 2012 if interest rates had moved as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post tax profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
Judgments of reasonably possible movements:	**2012 $'000**	**2011 $'000**	**2012 $'000**	**2011 $'000**
Consolidated				
+ 0.50% (2011: + 0.50%) (i)	(351)	(164)	337	146
- 0.25% (2011: - 0.25%)	176	80	(168)	(73)

(i) The rates applied in 2012 and 2011 are based on management expectations.

The movements in profit are due to higher / lower interest costs from variable rate debt and cash balances. The movement in other comprehensive income is due to an increase / decrease of the fair value of the derivative instrument designated as a cash flow hedge. Profit sensitivity is comparable to 2011. Management consider +50 basis points and -25 basis points as reasonably possible movements for the next twelve months based on management's expectations of future interest rate movements.

(b) Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meets its financial liabilities as they fall due. The Group's strategy in managing liquidity risk is to ensure that the Group has sufficient funds to meet all its potential liabilities as they fall due, in both normal and abnormal market and trading conditions. This ensures that the Group avoids any risk of incurring contractual penalties or damage to its reputation.

Cash flow is monitored on a daily basis to ensure the utilisation of current facilities is optimised, on a monthly basis to ensure that long term liquidity is maintained and on a long term projection basis for the purpose of identifying long term funding requirements. Senior management assesses the balance of capital and debt funding of the Group as part of its monthly internal reporting. The Group has access to undrawn borrowing facilities totalling $59 million (2011: $98 million) at the reporting date. The remaining facility may be drawn down at anytime. Details of the loan facility are provided in note 15 and 22(e).

The tables to the right analyse the Group's financial liabilities and net and gross settled derivative financial instruments into the relevant maturity periods. The remaining maturities of the Group's financial liabilities at the reporting date are as indicated in the tables.

Management has based the analysis on the contracted maturity terms included in the Group's bank loans, finance lease and derivative financial instruments agreements. Maturity of the Group's trade creditors is based on the payment terms to suppliers.

Refer to note 29 for details relating to the Group's derivative financial instruments.

(i) 30 June 2012	Consolidated		
	6 months or less $'000	6 – 12 months or less $'000	1 – 3 years $'000
Non-derivative			
Trade and other payables	80,440	-	-
Bank loan (principal and interest)	6,983	6,983	246,950
Finance lease liabilities	1,590	433	1,081
IRU lease liabilities	8,116	8,116	42,666
Total non-derivative	97,129	15,532	290,697
Derivative			
Interest rate swap (settled net)	357	62	
Foreign currency forward contracts (settled gross)			
- Outflow	4,685	3,904	-
- Inflow	(4,585)	(3,786)	-
Total - derivative	457	180	-
Total	97,586	15,712	290,697

(ii) 30 June 2011	Consolidated		
	6 months or less $'000	6 – 12 months or less $'000	1 – 3 years $'000
Non-derivative			
Trade and other payables	68,477	-	-
Bank loan (principal and interest)	4,595	4,595	115,785
Finance lease liabilities	1,008	314	52
Total non-derivative	74,080	4,909	115,837
Derivative			
Interest rate swap (settled net)	(68)	(18)	-
Foreign currency forward contracts (settled gross)			
- Outflow	3,934	656	-
- Inflow	(3,699)	(615)	-
Total - derivative	167	23	-
Total	74,247	4,932	115,837

(c) Foreign currency risk

The Group operates internationally through its call centre operations in New Zealand and South Africa and its international bandwidth supply agreements and is therefore exposed to foreign currency risk arising from the New Zealand Dollar, the South African Rand and United States Dollar. Foreign exchange risk arises from future commercial transactions that will require the Group to make payment for services in currencies other than Australian Dollars and recognise financial assets and liabilities denominated in a currency other than Australian Dollars. Foreign currency risk is measured using sensitivity analysis and cash flow forecasting.

The Group considers its key foreign currency risk relates to the South African Rand, due to the high value of current and forecast South African Rand transactions and the volatile nature of that currency. The Group has managed its exposure to this risk by entering into a foreign exchange forward contract. Details of the foreign exchange forward contract are disclosed in note 29. The Group considers its exposure to fluctuations in the New Zealand Dollar and United States Dollar not to be a significant risk, due to the low value of transactions in New Zealand Dollars and United States Dollars and the current low volatility of these currencies. In this regard the Group has chosen not to enter into a foreign exchange forward contract to manage its New Zealand and United States Dollar exposure. The Group has applied hedge accounting for the forward contract. The South African Rand contract is subject to fair value movements through Other Comprehensive Income as the South African Rand/Australian Dollar ratio fluctuates.

The Group's exposure to foreign currency risk at the reporting date expressed in Australian dollars is as follows:

	Consolidated	
	2012 $'000	2011 $'000
Foreign exchange forward contract (liability) / asset	(213)	(271)
South African Rand cash balance	795	49
New Zealand Dollar cash balance	16	478
Total	598	256

At 30 June 2012, if exchange rates had moved as illustrated in the table, with all other variables held constant, post tax profit would have been affected as follows:

	Consolidated			
	Post Tax Profit Higher/(Lower)		Other Comprehensive Income Higher/(Lower)	
Judgments of reasonably possible movements:	2012 $'000	2011 $'000	2012 $'000	2011 $'000
Exchange rate movement (i)				
+ 10% (2011: + 10%)	(74)	(48)	(745)	(386)
- 10% (2011: - 10%)	90	59	678	472

(i) The 10% applied to the analysis is based on management's expected movement for the South African Rand and the New Zealand Dollar exchange rate over the next financial year.

The movements in profit are due to the appreciation/ depreciation of the exchange rates impacting foreign currency cash balances. Profit sensitivity is lower in 2012 due to lower foreign currency cash balances held by the Group as at 30 June 2012. There is also an impact on Other Comprehensive Income due to the application of hedge accounting for the South African Rand foreign exchange forward contract. Management considers +10% and -10% as reasonable possible movements for the next twelve months based on management's expectations of future South African Rand and New Zealand Dollar exchange rate movements.

(d) Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk arises from its financial assets which include cash and cash equivalents, deposits held with financial institutions, derivative financial instruments and trade receivable balances from customers.

Customer credit risk is managed by the Group's credit team subject to established policies, procedures and controls relating to credit risk management. Other debtor balances which arise from transactions outside the usual operating activities of the Group and related party receivables do not contain impaired assets and are not past due date. For further information about the Group's trade receivables and other debtors refer to note 7.

It is the Group's policy to only enter into derivative contracts and hold its cash and deposits with high credit quality financial institutions that have a credit rating of A and above as assessed by Standard and Poor's.

In the 2012 and 2011 financial years the Group has not requested any collateral to limit its exposure to credit risk nor has the Group securitised its trade and other receivables. The maximum exposure to credit risk is equal to the carrying amount of the asset and in the case of derivatives, their fair value. Exposure at the reporting date is addressed in each applicable note to the financial statements. There are no significant concentrations of credit risk within the Group in 2012 or 2011.

(e) Fair value of financial instruments

AASB 7 Financial Instruments: Disclosures, which requires disclosure of fair value measurement inputs by level using the following fair value measurement hierarchy:

(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).

The following table presents the Group's assets and liabilities measured and recognised at fair value.

	30 June 2012		30 June 2011	
	(Level 2) $'000	Total $'000	(Level 2) $'000	Total $'000
Derivative Asset				
Interest rate swap contracts – cash flow hedge	-	-	86	86
Derivative Liability				
Foreign currency forward contracts – cash flow hedge	(213)	(213)	(271)	(271)
Interest rate swap contracts – cash flow hedge	(419)	(419)	-	-
Total	(632)	(632)	(185)	(185)

The derivative contracts held by the Group are not traded on a recognised exchange and therefore their fair value has been determined using valuation techniques which are based on observable inputs such as forward interest and foreign currency rates. The fair values of foreign currency forward contracts have been calculated by reference to forward market exchange rates for contracts with similar maturity profiles. The fair values of interest rate swap contracts are based on the present value of the estimated future cash flows.

5. REVENUE AND EXPENSES

	Consolidated	
	2012 $'000	2011 $'000
(a) Other revenue		
Bank and other interest received	1,184	1,935
(b) Other income includes the following:		
Commissions received	400	897
Gain on acquisition (i)	3,279	-
(c) Employee expenses		
Wages and salaries	98,650	72,949
Superannuation expense	7,003	5,204
Expense arising from share based payments	743	346
Other employee benefits expense	4,288	3,489
Total	110,684	81,988
(d) Depreciation and amortisation expense		
Plant, equipment and leasehold improvements	35,337	28,876
Subscriber bases	10,988	9,241
Capitalised development costs	1,763	920
Subscriber acquisition costs	4,988	2,231
Patents, trademarks and other intangible assets	12,382	2,379
Total	65,458	43,647
(e) Finance costs		
Bank and other interest charges	12,878	7,938
Finance lease interest charges	84	55
Indefeasible right of use lease interest charges	3,726	-
Other borrowing costs	874	485
Total	17,562	8,478
(f) Lease payments included in the statement of comprehensive income		
Minimum lease payments – operating leases	8,273	5,755

(i) Refer to note 30 for details of gain on acquisition under Business Combinations.

6. INCOME TAX

(a) Income tax expense

The major components of income tax are:

	Consolidated	
	2012 $'000	2011 $'000
Current income tax		
Current income tax charge	18,357	13,367
Adjustments in respect of current income tax of previous years	10	(525)
Current income tax adjustment for rights to future income tax	3,029	-
Deferred income tax		
Relating to the origination and reversal of temporary differences	(714)	2,095
Adjustments in respect of deferred income tax of previous years	498	(152)
Deferred income tax adjustment for rights to future income tax	4,775	-
Total	25,955	14,785

(b) Amounts charged or credited directly to equity

	Consolidated	
	2012 $'000	2011 $'000
(Loss) / gain on cash flow hedge	(134)	(102)
Other	(28)	5
Total	(162)	97

(c) Numerical reconciliation between tax expense and pre-tax profit

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

	Consolidated	
	2012 $'000	2011 $'000
Profit before income tax	63,009	48,159
At the Group's statutory income tax rate of 30% (2011: 30%)	18,903	14,448
Adjustments in respect of previous years	508	(677)
Non-taxable items	(1,588)	(270)
Expenditure not allowable for income tax purposes	328	1,284
Income tax adjustments for rights to future income (i)	7,804	-
Income Tax Expense	25,955	14,785

(i) Due to charges in the tax consolidation regime enacted in June 2012, the ability of the Group to claim tax deductions for the tax cost base allocated to prior year subscriber bases acquired, was significantly reduced.

(d) Recognised deferred tax assets and liabilities

Deferred income tax at 30 June relates to the following:	Consolidated 2012 $'000	Consolidated 2011 $'000
Statement of financial position		
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(15,160)	(5,310)
Accelerated amortisation of subscriber base for tax purpose	(7,389)	(6,353)
Other	-	(81)
Gross deferred income tax liabilities	(22,549)	(11,744)
Deferred tax assets		
Depreciation rate for tax purposes	-	403
Provisions	4,646	3,223
Creditors and accruals	2,349	132
Leases	8	-
Tax losses recognised (i)	6,298	-
Other	2,010	1,469
Gross deferred income tax assets	15,311	5,227
Net deferred tax liability	(7,238)	(6,517)
Deferred tax as represented on the statement of financial position:		
Deferred income tax asset	235	221
Deferred income tax liabilities	(7,473)	(6,738)
Total	(7,238)	(6,517)
Statement of comprehensive income		
Deferred tax liabilities		
Accelerated depreciation for tax purposes	(1,601)	(2,884)
Accelerated amortisation of intangibles for tax purposes	2,926	(3,689)
Provisions	-	3
Other	54	1
Deferred tax assets		
Depreciation rate for tax purposes	(3,248)	275
Creditors and accruals	2,217	(113)
Provisions	1,423	373
Other (ii)	(6,330)	4,091
Deferred income tax expense	(4,559)	(1,943)

(i) During the 2012 income year, tax losses were transferred into the iiNet tax consolidated group. As at 30 June 2012, the iiNet Group has unrecognised tax losses of $45,848k.
(ii) Includes tax losses recognised during the year ended 30 June 2012 of ($3,279k).

7. CURRENT ASSETS – TRADE RECEIVABLES, OTHER DEBTORS AND PREPAYMENTS

	Consolidated	
Trade and other receivables	2012 $'000	2011 $'000
Trade receivables	68,467	42,541
Allowance for impairment loss (a)	(6,840)	(4,208)
	61,627	38,333
Other debtors	9,209	1,652
Total	70,836	39,985
Prepayments		
Prepayments – other	5,228	5,833
Network IRU contracts (i)	-	12,798
Total	5,228	18,631
Disclosed as follows:		
Current assets	5,228	9,632
Non-current assets	-	8,999
Total	5,228	18,631

(i) In August 2011, the Group entered into a variation agreement to modify the terms of an international bandwidth capacity supply contract. The modified agreement resulted in significant commercial changes to the terms of the agreement and has resulted in the Group reassessing the classification of the lease component within the agreement as an indefeasible right of use finance lease. For consistency, the Group's assets under long-term domestic bandwidth capacity supply contracts were also reclassified to Intangible assets.

(a) Allowance for impairment loss

Trade receivables are non-interest bearing and on 30 day terms. An allowance for impairment is recognised where there is objective evidence that the trade receivable balance is impaired. Financial difficulties of the debtor, default payments or debts more than 120 days overdue are considered evidence of impairment. The allowance recognised excludes GST. Charges for impairment losses have been recognised in administrative expenses in the Statement of Comprehensive Income.

Movement in the allowance for impairment loss was as follows:

	Consolidated	
	2012 $'000	2011 $'000
At 1 July	4,208	1,195
Charge for the year	5,473	5,941
Utilised and released in the year	(2,841)	(2,928)
At 30 June	6,840	4,208

(b) Ageing of trade receivables

At the 30 June 2012 the ageing of trade receivables and excluding accrued income of $13,929k (2011: $10,163k) were as follows:

	Consolidated	
	2012 $'000	2011 $'000
Current debt (i)	43,473	24,901
Past due not impaired (ii)	4,225	3,269
Past due impaired (iii)	6,840	4,208
Total	54,538	32,378

(i) Current debt within the 30 day period and therefore not past due or impaired.
(ii) Past due balances less than 120 days, where there is no evidence of impairment and therefore the debt is considered recoverable and has not yet been provided for.
(iii) Past due balances over 120 days, where there is evidence of impairment and therefore fully provided for.

Other balances within trade and other receivables arise from transactions outside the usual operating activities of the Group and are neither impaired nor past due. It is expected that these other balances will be received in full when due.

(c) Fair value and risk exposures

The carrying value of trade and other receivables approximates their fair value. The maximum exposure to credit risk at the reporting date is the carrying value of receivables. No collateral is held relating to trade, other receivables or prepayments. Further details regarding the Group's credit risk exposure are disclosed in note 4.

8. CURRENT ASSETS – INVENTORY

	Consolidated	
	2012 $'000	2011 $'000
Finished goods	7,579	4,615
Total	7,579	4,615

Inventories recognised as an expense during the year ended 30 June 2012 amounted to $17,494k (2011: $7,499k). This expense has been included in the network and carrier costs line in the Statement of Comprehensive Income.

9. NON-CURRENT ASSETS - PLANT AND EQUIPMENT

Reconciliation of carrying amounts at the beginning and end of the period

(i) At 30 June 2012

Consolidated	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Cost			
Balance at 1 July 2011	179,017	10,472	189,489
Acquisitions	91,246	6,687	97,933
Additions	37,123	72	37,195
Disposals	(4,428)	(24)	(4,452)
Balance at 30 June 2012	302,958	17,207	320,165
Accumulated Depreciation			
Balance at 1 July 2011	(101,518)	(5,976)	(107,494)
Depreciation expense	(34,486)	(851)	(35,337)
Disposals	2,022	8	2,030
Balance at 30 June 2012	(133,982)	(6,819)	(140,801)
Net Book Value			
At 30 June 2012	168,976	10,388	179,364
At 30 June 2011	77,499	4,496	81,995

Assets are encumbered to the extent disclosed in note 15.

(ii) At 30 June 2011

Consolidated	Plant and Equipment $'000	Leasehold Improvements $'000	Total $'000
Cost			
Balance at 1 July 2010	140,376	9,234	149,610
Additions	38,643	1,238	39,881
Disposals	(2)	-	(2)
Balance at 30 June 2011	179,017	10,472	189,489
Accumulated Depreciation			
Balance at 1 July 2010	(73,145)	(5,475)	(78,620)
Depreciation expense	(28,375)	(501)	(28,876)
Disposals	2	-	2
Balance at 30 June 2011	(101,518)	(5,976)	(107,494)
Net Book Value			
At 30 June 2011	77,499	4,496	81,995
At 30 June 2010	67,231	3,759	70,990

10. INTANGIBLE ASSETS AND GOODWILL

(a) Reconciliation of carrying amounts at the beginning and end of the period

(i) At 30 June 2012	Subscriber Acquisition Cost ^	Development Costs ^	Subscriber Bases #	Goodwill #	IRU Asset*	Patents, Trademarks & Other Assets #	Total
Consolidated							
Cost							
Balance at 1 July 2011	20,494	11,175	104,651	257,185	-	12,410	405,915
Acquisitions	-	2,310	6,500	87,189	23,414	1,678	121,091
Reallocations	-	-	-	-	12,798	-	12,798
Additions	4,138	5,710	826	-	58,293	8,528	77,495
Disposals	-	(129)	-	-	-	(60)	(189)
Balance at 30 June 2012	24,632	19,066	111,977	344,374	94,505	22,556	617,110
Accumulated Amortisation							
Balance at 1 July 2011	(14,670)	(6,613)	(70,520)	-	-	(8,580)	(100,383)
Amortisation	(4,988)	(1,762)	(10,988)	-	(6,936)	(5,447)	(30,121)
Disposal	-	(13)	-	-	-	29	16
Balance at 30 June 2012	(19,658)	(8,388)	(81,508)	-	(6,936)	(13,998)	(130,488)
Net Book Value							
At 30 June 2012	4,974	10,678	30,469	344,374	87,569	8,558	486,622
At 30 June 2011	5,824	4,562	34,131	257,185	-	3,830	305,532

^ Internally generated
 # Acquired externally or purchased as part of a business combination
** IRU Assets are under a finance lease*

(ii) At 30 June 2011	Subscriber Acquisition Cost ^	Development Costs ^	Subscriber Bases #	Goodwill #	Patents, Trademarks & Other Assets #	Total
Consolidated	$'000	$'000	$'000	$'000	$'000	$'000
Cost						
Balance at 1 July 2010	13,771	8,215	83,831	212,786	9,218	327,821
Additions	6,723	2,960	-	18	3,192	12,893
Acquisitions	-	-	20,820	44,381	-	65,201
Disposals	-	-	-	-	-	-
Balance at 30 June 2011	20,494	11,175	104,651	257,185	12,410	405,915
Accumulated Amortisation						
Balance at 1 July 2010	(12,439)	(5,693)	(61,279)	-	(6,201)	(85,612)
Amortisation	(2,231)	(920)	(9,241)	-	(2,379)	(14,771)
Balance at 30 June 2011	(14,670)	(6,613)	(70,520)	-	(8,580)	(100,383)
Net Book Value						
At 30 June 2011	5,824	4,562	34,131	257,185	3,830	305,532
At 30 June 2010	1,332	2,522	22,552	212,786	3,017	242,209

^ Internally generated
 # Acquired externally or purchased as part of a business combination

The net book value of software licenses held under finance leases total $2,378k (2011: $1,042k). Software licences are included in Patent Trademarks & Other Assets.

(b) Description of the Group's intangible assets

Subscriber acquisition costs, development costs, subscriber bases, software licences, patents and trademarks, beneficial lease contracts and IRU lease contracts are carried at cost less accumulated amortisation and accumulated impairment losses. These intangible assets have been assessed as having a finite life and are amortised using the straight-line method, refer to note 2(n)(ii) for useful lives.

Subscriber acquisition costs, development costs, subscriber bases, software licences and patents and trademarks and IRU lease contracts are reviewed for impairment annually or whenever there is an indication of impairment. If an impairment indicator arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.

(c) Goodwill impairment tests

(i) Description of the cash generating unit and other information

Goodwill acquired through business combinations has been allocated to three cash generating units (CGUs) for impairment testing. In the 2012 financial year, iiNet, Netspace and AAPT have been aggregated into one CGU, the iiNet CGU, as they no longer generate independent cash flows.

Goodwill	Consolidated	
	2012 $'000	2011 $'000
iiNet	257,185	257,185
Internode	87,189	-
Total	344,374	257,185

The impairment test undertaken on 31 May 2012, involved determining the recoverable amount of each CGU based on their fair value less cost to sell and comparing it to the CGU's carrying amount. Fair value reflects the best estimate of the sums that an independent third party would pay to purchase the CGUs less related selling costs. Carrying value reflects goodwill and the other identifiable assets and liabilities that can be allocated to each CGU and that generate the CGU's cash flows.

Fair value has been calculated using discounted future cash flows which includes a terminal value calculated in accordance with the Gordon Growth Model using a long-term perpetuity growth rate of 0%. The valuation is based on cash flow projections over a five year period using assumptions that represent management's best estimate of the range of business and economic conditions at this time. The valuations have been reviewed and approved by the Board of iiNet Limited.

Discount rates are calculated using a weighted average cost of capital method which is based on market data, reflects the time value of money and includes a risk premium to account for current economic conditions.

The pre-tax discount rates applied to the discounted cash flows were 14% (2011: 14%) for all CGU's. Management consider that as all CGU's operate in the Telecommunications Industry in Australia and provide equivalent products and services in the same markets that the risk specific to each unit are comparable and therefore a discount rate of 14% is applicable to all CGUs.

Based on the results of the tests undertaken no impairment losses have been recognised in relation to goodwill in the 2012 or 2011 financial years.

(ii) Key assumptions used in the fair value less cost to sell for the CGU's for the year ended 30 June 2012.

The models used in the calculation of fair value less cost to sell for the CGUs are sensitive to the following key assumptions:

- Subscriber growth rates;
- Gross margins; and
- Discount rates.

Subscriber numbers are trends from historical data and are adjusted for churn and growth estimates based on the respective products life cycle, market trends and the expected future product mix. An increase in subscriber numbers is forecasted for the iiNet CGU and a decrease for TransAct and Internode CGUs. Subscriber growth is anticipated to be generated by organic growth calculated using historical trends from past experience and market trends from external industry information.

Gross margins are based on historical and projected future average revenue per user (ARPU) and average cost per user (ACPU) and the current and projected future product mix. ARPUs are forecasted to remain at their current levels or change depending on expected product pricing and or service offered. ACPUs are forecasted to inflate at a forecast CPI rate or adjusted for variations to supplier contracts and market pricing. Overall gross margins for each CGU are forecasted to remain largely stable, in line with the market forecasts.

(iii) Sensitivity to changes in assumptions for the CGU's

With regard to the assessment of the fair value less cost to sell of the CGUs, management consider that no reasonably possible change in any of the key assumptions in (ii) above would significantly erode the headroom calculated and cause the carrying value of any CGU to exceed its recoverable amount. This assurance has been obtained by the analysis performed in the fair value less cost to sell model whereby management assessed the results of the Group not meeting subscriber growth targets, applying the highest reasonable possible discount rates and lowest reasonable possible gross margins.

Photograph by Maria Galeano, Customer Service Manager

11. CURRENT LIABILITIES – TRADE CREDITORS, OTHER PAYABLES AND UNEARNED REVENUE

	Consolidated	
	2012 $'000	2011 $'000
Trade creditors	80,440	68,477
Employee benefits	1,450	284
GST payable	2,608	202
Total Trade and other payables	84,498	68,963
Unearned revenue	51,929	29,411

Fair value and risk exposures

Due to the short term nature of trade and other payables, their carrying value approximates their fair value. Details regarding the Group's foreign exchange and liquidity risk exposure are set out in note 4.

12. CURRENT LIABILITIES - INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2012 $'000	2011 $'000
Finance lease obligations	2,355	1,277
Total	2,355	1,277

Refer to note 15(a) for the terms and conditions relating to the finance lease obligations. The carrying amounts of the Group's current borrowings approximate their fair value. Detail regarding the Group's interest rate and liquidity risk exposure is disclosed in note 4.

13. CURRENT LIABILITIES – INDEFEASIBLE RIGHT OF USE LEASE LIABILITY

	Consolidated	
	2012 $'000	2011 $'000
Indefeasible Right of Use Lease Liability	12,565	-
Total	12,565	-

In August 2011, the Group entered into a variation agreement to modify the terms of an international bandwidth IP capacity supply contract. The modified agreement resulted in significant commercial changes to the terms of the agreement and has resulted in the Group reassessing the classification of the lease component within the agreement as an indefeasible right of use finance lease.

14. CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2012 $'000	2011 $'000
Employee benefits	12,113	5,859
Make good relating to leased premises	305	55
Other	179	58
Total	12,597	5,972

For a description of the nature and timing of cash flows associated with the above provisions, refer to 14 (a) and (b). Refer to note 26 for details and movement on the employee benefit provisions.

(a) Movement in provisions

The movement in each class of provision (including non-current) during the financial year, other than provisions relating to employee benefits (refer to note 26), is as follows:

	Make good leased premises $'000	Other $'000	Total $'000
Consolidated			
At 1 July 2011	580	58	638
Acquired during the year (note 30)	250	-	250
Arising during the year	-	(701)	(701)
Utilised or unused amounts reversed	-	822	822
At 30 June 2012	830	179	1,009
Disclosed as follows:			
Current	305	179	484
Non-current	525	-	525
Total	830	179	1,009

(b) Nature and timing of provisions

(i) Make good leased premises

The provision for make good of leased premises relates to a provision identified as part of the Netspace and Internode acquisitions. The provision relates to the contractual commitment to restore leased premises to a non-altered, pre fit-out state at the end of the relevant lease term.

(ii) Other

Other provisions include a provision for fringe benefits tax. The provisions are expected to be utilised in the 2012 financial year.

15. NON-CURRENT LIABILITIES - INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2012 $'000	2011 $'000
Bank facility	224,804	100,522
Finance lease obligations	1,127	50
Financial instruments	-	-
Total	225,931	100,572

(a) Terms and conditions

The Group bank facility consists of a $300 million revolving cash advance facility. Interest on the facility is recognised at the aggregate of the base rate plus a fixed margin of 2.55%. The new facility was received in two tranches, maturing in December 2013 and continues to be secured by a fixed and floating charge over the assets of the Group. Refer to note 22(e) for a breakdown of the Group's utilised and unutilised facilities.

During the current and prior year, there were no defaults or breaches on any of the loans.

The finance lease obligations consist of several finance leases with lease terms up to a period of 3 years. The finance lease liabilities are secured on the assets to which they relate and have maturity dates of November 2014. Refer to note 23.

Total current and non-current borrowings include secured liabilities of $226,000k (2011: $101,849k) for the Group and Company.

(b) Fair value and risk exposures

The carrying amounts of the Group's non-current borrowings approximate their fair value. Details regarding the Group's exposure to interest rate risk and liquidity risk are disclosed in note 4.

16. NON-CURRENT LIABILITIES – INDEFEASIBLE RIGHT OF USE LIABILITY

	Consolidated	
	2012 $'000	2011 $'000
Indefeasible Right of Use Lease Liability	61,135	-
Total	61,135	-

In August 2011, the Group entered into a variation agreement to modify the terms of an international bandwidth IP capacity supply contract. The modified agreement resulted in significant commercial changes to the terms of the agreement and has resulted in the Group reassessing the classification of the lease component within the agreement as an indefeasible right of use finance lease.

17. NON-CURRENT LIABILITIES - PROVISIONS

	Consolidated	
	2012 $'000	2011 $'000
Employee benefits	1,187	94
Make good leased premises	525	525
Total	1,712	619

For a description of the nature and timing of the cash flows associated with the above provisions, refer to note 14 (a) and (b). Refer to note 26 for details and movement on the employee benefit provisions.

18. CONTRIBUTED EQUITY

(a) Ordinary shares

	Consolidated and Company			
	2012 No.	2012 $'000	2011 No.	2011 $'000
Issued and fully paid	160,968,847	250,528	152,149,598	223,557
Movement in shares on issue:				
At 1 July	152,149,598	223,557	151,885,598	223,116
Share buy-back (i)	(3,876,500)	(9,350)	-	-
Exercise of share options (ii)	139,521	103	264,000	-
LTI shares issued (iii)	483,564	-	-	-
Shares issued (iv)	12,072,664	36,218	-	441
At 30 June	160,968,847	250,528	152,149,598	223,557

(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 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.
(ii) 139,521 (2011: 264,000) options were exercised in 2012 for cash under various iiNet employee share option plans. Consideration received is recognised in issued capital.
(iii) Shares issued under the Group's Executive Long Term Incentive Scheme (LTI).
(iv) Refer to note 30 for details on shares issued as part of a business combination.

Fully paid ordinary shares carry one vote per share and the right to dividends. The shares have no par value.

Photograph by Lynton Haggett, Internode Frontline Support Team Leader

(b) Capital Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, in order to provide enduring returns for shareholders, benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, buy-back shares and increase or decrease the Group's long term debt.

The Company paid dividends of $20,312k during 2012 (2011: $16,725k). For further details on dividends paid and proposed, please refer to note 21(a).

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total equity. Net debt is calculated as total interest bearing loans and borrowings less cash and cash equivalents.

The gearing ratio based on continuing operations at 30 June 2012 and 2011 was as follows:

	Consolidated	
	2012 $'000	2011 $'000
Total borrowings	228,286	101,849
Less cash and cash equivalents	(6,606)	(5,498)
Net Debt	221,680	96,351
Total Equity	286,649	242,506
Gearing Ratio	77%	40%

The movement in the gearing ratio when compared to the prior financial year is due to an increase in overall borrowings due primarily to the acquisition of the TransACT Group on 30 November 2011 and Internode Pty Ltd on 31 January 2012.

19. RETAINED EARNINGS AND OTHER RESERVES

(a) Movement in retained earnings were as follows:

	Consolidated	
	2012 $'000	2011 $'000
Balance at 1 July	15,035	(1,614)
Net profit	37,054	33,374
Dividends paid	(20,312)	(16,725)
Balance at 30 June	31,777	15,035

(b) Movements in other reserves were as follows:

	Consolidated		
	Cash Flow Hedge Reserve $'000	Employee Equity Benefits Reserve $'000	Total $'000
Balance at 1 July 2010	109	3,696	3,805
Loss on cash flow hedge taken to equity net of tax	(237)	-	(237)
Share based payments	-	346	346
Balance at 30 June 2011	(128)	4,042	3,914
Loss on cash flow hedge taken to equity net of tax	(313)	-	(313)
Share based payments		743	743
Balance at 30 June 2012	(441)	4,785	4,344

(c) Nature and purposes of reserves

(i) The cash flow hedge reserve records the effective portion of the gain or loss on the hedging instrument that is determined to be an effective hedge.

(ii) The employee equity benefits reserve records the value of the share based payments provided to employees and key management personnel, as part of their remuneration. Refer to note 27 for further details of these share based payment plans.

20. EARNINGS PER SHARE

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

	Consolidated	
	2012 $'000	2011 $'000
Net profit attributable to ordinary equity holders of the Company	37,054	33,374
Weighted average number of shares	Number '000	Number '000
Weighted average number of ordinary shares for basic earnings per share	154,734	152,030
Add effect of dilution		
-Share options (i)	73	157
-Shares allocable under the LTI plan	-	295
Weighted average number of ordinary shares for diluted earnings per share	154,807	152,482

(i) Options granted to employees including key management personnel are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive.

There were 1,001,169 contingently issuable performance rights which were excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are anti-dilutive for either of the years presented.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary share or potential shares outstanding between the reporting date and the date of completion of these financial statements.

21. DIVIDENDS PAID AND PROPOSED

(a) Recognised and un-recognised amounts

	Consolidated and Company			
Recognised amounts	Cents per share	2012 $'000	Cents per share	2011 $'000
Current year fully franked interim dividend	6.0	9,660	5.0	7,608
Previous year fully franked final dividend	7.0	10,652	6.0	9,117
Total	13.0	20,312	11.0	16,725
Unrecognised amounts				
Current year fully franked final dividend (i)	8.0	12,878		

(i) The final dividend was declared on the 15 August 2012. The amount has not been recognised as a liability in the 2012 financial year but will be brought into account in the 2013 financial year.

Photograph by Jane Yeap, Web Designer

(b) Franking credit balance

		2012 $'000	2011 $'000
The amount of franking credits available for the subsequent financial year is:	Franking account balance as at the end of the financial year at 30% (2011: 30%)	30,672	28,083
	Franking debits arising from the payment of the final dividends during the financial year	(4,565)	(3,907)
	Franking debits arising from the payment of the interim dividends during the financial year	(4,140)	(3,261)
	Franking debits arising from the refund of income tax receivable during the financial year	(5,176)	(3,042)
	Franking credits arising from the payment of income tax payable during the financial year	19,066	12,799
	Total	35,857	30,672
The amount of franking credits available for future reporting periods is:	Franking credits that will arise from the payment of income tax payable as at the end of the financial year	6,006	37
	Impact of franking debits that will arise from the payment of recommended final dividends for the end of the financial year	(5,519)	(4,565)
	Total	36,344	26,144

(c) Tax rates

The tax rate at which paid dividends have been franked is 30% (2011: 30%). Dividends proposed will be franked at the rate of 30% (2011: 30%).

22. STATEMENT OF CASH FLOWS RECONCILIATION

(a) Cash and cash equivalents

	Consolidated	
	2012 $'000	2011 $'000
Cash and cash equivalents balance comprises:		
Cash at bank	5,574	4,770
Short term deposits	1,032	728
Total	6,606	5,498

(b) Cash balances not available for use

Cash security deposits totaling $78k (2011: $576k) relating to bank guarantees are not available for immediate use and have been disclosed in other debtors.

(c) Reconciliation of net profit after tax to net cash flows from operations

	Consolidated	
	2012 $'000	2011 $'000
Net profit	37,054	33,374
Adjustments for:		
Depreciation and amortisation	65,458	43,647
Net loss on sale of non-current assets	100	-
Share-based payments	743	346
Customer refunds and credits	3,595	5,608
Foreign exchange (gains)/losses	1,056	275
Decrease/(increase) in assets		
Receivables	(6,196)	(4,310)
Inventory	(2,511)	(3,302)
Prepayments	3,815	691
Others	(40)	2,720
Increase/(decrease) in liabilities		
Payables	(15,668)	14,011
Unearned revenue	1,448	(1,334)
Provisions	(309)	(1,684)
Income tax payable	8,800	234
Deferred tax balance	3,567	1,856
Net cash inflow from operating activities	100,912	92,132

(d) Non-cash financing and investing activities

The Group acquired IRU assets of $58,293k by way of new finance leases during the year.

(e) Finance facilities

iiNet Limited has the following bank facilities available for future use:

	Consolidated	
	2012 $'000	2011 $'000
Facility utilised	226,000	102,000
Facility unutilised	59,000	98,000
Total	285,000	200,000

23. COMMITMENTS AND CONTINGENCIES

(a) Capital expenditure commitments

The Company and Group had the following contractual obligations relating to capital expenditure at the reporting date:

	Consolidated	
	2012 $'000	2011 $'000
Plant and equipment - within 1 year	12,370	8,089
Plant and equipment - Later than 1 year but not later than 5 years	10,142	-
Total	22,512	8,089

The contractual commitments relate to DSLAM builds, site establishment and installation costs.

(b) Finance lease commitments

The Group has used finance leases to acquire software licenses and plant and equipment. Future minimum lease payments under the purchase contracts together with the present value of the net minimum lease payments are as follows:

	Consolidated	
	2012 $'000	2011 $'000
Within 1 year	20,498	1,322
After 1 year but not more than 5 years	54,855	52
More than 5 years	26,100	-
Total minimum lease payments	101,453	1,374
Less amounts representing finance charges	(24,271)	(47)
Present value of minimum lease payments	77,182	1,327
Included in the financial statements as:		
Current liabilities – interest bearing loans and borrowings (note 12)	2,355	1,277
Current liabilities – indefeasible right of use lease liability (note 13)	12,565	-
Non-current liabilities – interest bearing loan and borrowings (note 15)	1,127	50
Non-current liabilities – indefeasible right of use lease liability (note 16)	61,135	-
Total	77,182	1,327

(c) Operating lease commitments

Operating leases relate to premises with lease terms remaining between 1 and 10 years and international bandwidth capacity supply agreements. The consolidated entity does not have an option to purchase the leased assets at the expiry of the lease term.

Future minimum rentals payable under non-cancellable operating leases as at the 30 June are as follows:

	Consolidated	
	2012 $'000	2011 $'000
Within 1 year	17,734	13,800
After 1 year not more than 5 years	41,774	49,427
After more than 5 years	9,528	19,819
Total	69,036	83,046

(d) Other expenditure commitments

The Group had the following other operating expenditure commitments at the reporting date:

	Consolidated	
	2012 $'000	2011 $'000
Within 1 year	44,383	19,192
After 1 year not more than 5 years	21,192	18,960
Total	65,575	38,152

The other expenditure commitments relate to exchange building access costs, tele-housing peering costs and dark fibre access costs.

(e) Contingencies

The Group has issued a number of guarantees totaling $18,256k (2011: $16,845k) for various operational and legal purposes. It is not expected that these will be called upon.

24. AUDITOR'S REMUNERATION

The auditor of the Group is Ernst & Young.

Amounts received or due and receivable by Ernst & Young for:

	Consolidated	
	2012	2011
Audit and review of the annual report of the entity	771,812	508,000
Non-audit services	500,375	372,000
Total	1,272,187	880,000

25. KEY MANAGEMENT PERSONNEL

a) Compensation of key management personnel

	Consolidated	
	2012 $	2011 $
Short-term employee benefits	2,280,835	2,039,463
Long-term employee benefits	826,902	446,439
Post employment benefits	83,515	93,016
Termination benefits	-	9,981
Share-based payment	529,413	472,513
Total	3,720,665	3,061,412

Photograph by Victoria Recaido, CSR

(b) Option holdings of key management personnel

The movement during the reporting period in the number of options over ordinary shares in iiNet Limited, held directly, indirectly or beneficially, by each key management person, including their related parties is as follows:

30 June 2012	Held at 1 July 2011	Granted as remuneration (i)	Options exercised	Held at 30 June 2012	Vested & exercisable	Not vested
Directors						
M. Smith	200,000	-	-	200,000	200,000	-
Executives						
G. Bader	70,000	213,015	(70,000)	213,015	-	213,015
D. Buckingham	70,000	213,015	-	283,015	70,000	213,015
M. Fewster	-	213,015	-	213,015		213,015
Total	340,000	639,045	(70,000)	909,045	270,000	639,045

(i) Relates to LTI Share Plan performance rights.

30 June 2011	Held at 1 July 2010	Granted as remuneration	Options exercised	Held at 30 June 2011	Vested & exercisable	Not vested
Directors						
M. Smith	200,000	-	-	200,000	200,000	-
Executives						
G. Bader	145,000	-	(75,000)	70,000	70,000	-
D. Buckingham	70,000	-	-	70,000	70,000	-
Total	415,000	-	(75,000)	340,000	340,000	-

c) Loans to key management personnel

As at the date of this report no loans have been entered into between the Group and any of its key management personnel. Refer to note 28(d) for details of transactions with director related entities.

(d) Shareholdings of key management personnel

The movement during the reporting period in the number of ordinary shares in iiNet Limited held directly, indirectly or beneficially, by each key management person including their related parties is as follows:

30 June 2012	Held at 1 July 2011	Granted as remuneration (i)	On exercise of options	Net change other	Held at 30 June 2012
Directors					
M. Smith	65,003	-	-	5,426	70,429
M. Malone	18,012,162	-	-	-	18,012,162
D. Grant	63,000	-	-	20,000	83,000
P. James	35,000	-	-	-	35,000
P. Broad	18,596	-	-	30,000	48,596
L McCann	-	-	-	8,000	8,000
Executives					
G. Bader	282,834	139,572	70,000	(100,000)	392,406
D. Buckingham	80,628	130,522	-	(65,000)	146,150
M. Fewster	70,158	122,938	-	-	193,096
S. Hackett (ii)	-	-	-	12,072,664	12,072,664
J. Lindsay	-	-	-	-	-
Total	18,627,381	393,032	70,000	11,971,090	31,061,503

(i) Granted under the 2009 LTI share plan.
(ii) Shares issued as part of the consideration paid for Internode.

30 June 2011	Held at 1 July 2010	Granted as remuneration	On exercise of options	Net change other	Held at 30 June 2011
Directors					
M. Smith	62,933	-	-	2,070	65,003
M. Malone	18,012,162	-	-	-	18,012,162
D. Grant	52,000	-	-	11,000	63,000
P. James	35,000	-	-	-	35,000
P. Broad	-	-	-	18,596	18,596
Executives					
G. Bader	207,834	-	75,000	-	282,834
D. Buckingham	80,628	-	-	-	80,628
S. Dalby	65,497	-	-	-	65,497
M. Fewster	70,158	-	-	-	70,158
Total	18,586,212	-	75,000	31,666	18,692,878

All equity transactions with key management personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted at arm's length.

26. EMPLOYEE BENEFITS

The provision for employee benefits at 30 June is detailed as follows:

	Consolidated	
	2012 $'000	2011 $'000
Included in payables - accrued wages, salaries and on-costs	1,450	284
Employee benefit provision	13,300	5,953
Aggregate employee benefit provision	14,750	6,237
Movement in employee benefit provision:		
Balance at 1 July	5,953	5,105
Arising during the year	6,675	5,753
Utilised or unused amounts reversed	(7,202)	(5,425)
Acquisition of subsidiary	7,874	520
Balance at 30 June	13,300	5,953
Disclosed as follows:		
Current Liability	12,113	5,859
Non-current Liability	1,187	94
Total	13,300	5,953

Refer to note 2(s) for the relevant accounting policy and a discussion of the significant estimations and assumptions applied in the measurement of the provision above.

27. SHARE BASED PAYMENT PLANS AND OTHER LONG TERM INCENTIVE PLANS

(a) Recognised share-based payment expenses

The expense recognised for employee services received during the year is shown in the table as follows:

	Consolidated	
	2012 $'000	2011 $'000
Expense arising from share option plan payments	743	346
Total	743	346

(b) Share-based payment plans on issue in the current and prior financial years

The share-based payment plans are described below. Any cancellations or modifications to the existing plans and details of the new plans are detailed therein. For all the options detailed below, each option on exercise is convertible into one ordinary share. The shares issued will rank equally in all respects with existing shares.

Plan title	Eligibility	Vestment and expiry
2005 ESOP issue 2 (Opt 20)	Offered to employees and executives utilising the exemptions available under ASIC Class Order 03/184 and the Securities Act 2002 (NZ)	Two issues have been made under this plan in January 2006 and August 2006. **Issue 1** 50% of the options vest and are exercisable 18 months after the date of issue, the balance of the options vest and are exercisable 36 months after the date of issue. The options expire after 5 years from the date of issue. The options in this series have an exercise price of $1.74. **Issue 2** The options are exercisable in 1 tranche. The options vest and are exercisable 12 months after the date of issue. The options expire after 5 years from the date of issue. The options in this series have an exercise price of $0.80. For both issues, the options lapse if the person to whom they were issued ceases to be an employee of the company or any associated entity for any other reason than redundancy, permanent disability or death.
Director Options 2008 (Opt 21) (i)	Offered to a specified director	The options were issued in two tranches. The options have an exercise price of $2.00. 50% of the options issued are exercisable after 18 months from the date of issue with the balance exercisable 36 months from the date of issue. The options have a 5 year life and can be exercised at any time after they have vested. The options issued lapse if the director to whom they were issued ceases to be a director of the Company or any associated entity.
Executive Options 2008 (Opt 22) (i)	Offered to a specified executive	The options were issued in two tranches. The options have an exercise price of $2.01. 50% of the total options issued are exercisable after 18 months from the date of issue with the balance exercisable 36 months from the date of issue. The options have a 5 year life and can be exercised at any time after they have vested. The options issued lapse if the executive to whom they were issued ceases to be an executive of the Company or any associated entity.

(i) Share options were offered outside the iiNet Employee Share Option plan pre 2002, the 2002 Employee Share Option Plan and the 2005 iiNet Employee Option Plan.

(c) Summary of options on issue at reporting date

The following table illustrates the number (No.), weighted average exercise prices (WAEP) of and, movements in, share options issued during the year:

	2012		2011	
	No.	WAEP (cents)	No.	WAEP (cents)
On issue at 1 July	389,000	163.5	764,000	166.2
Forfeited/expired	-		(111,000)	174.0
Exercised	(119,000)	80.0	(264,000)	166.9
On issue at 30 June	270,000	200.3	389,000	163.5
Vested	270,000	200.3	389,000	163.5
Unvested	-	-	-	-
On issue at 30 June	270,000	200.3	389,000	163.5

Details of the outstanding balances as at the 30 June 2012 and the range of exercise prices relating to those balances are presented below:

	2012			2011				
Plan/ Series	No. on issue	Vested, unexercised	Unvested	No. on issue	Vested, unexercised	Unvested	Exercise price (cents)	Expiry date
2005 ESOP issue 2 (Opt 20)	-	-	-	119,000	119,000	-	80	8/12/11
Director Options 2008 (Opt 21)	200,000	200,000	-	200,000	200,000	-	200	19/11/12
Executive Options 2008 (Opt 22)	70,000	70,000	-	70,000	70,000	-	201	21/01/13
Total	270,000	270,000	-	389,000	389,000	-		

(d) Weighted average remaining contractual life

The weighted average remaining contractual life of the share options outstanding as at 30 June 2012 is 0.44 years (2011: 1.05 years).

(e) Weighted average fair value

No options were granted during the 2012 and 2011 financial years.

(f) Option pricing model

Equity settled transactions

The fair value of the equity-settled options granted and outstanding at the reporting date was calculated at the grant date using the Black-Scholes models. The models took into account the relevant terms and conditions upon which the specific options were granted. The following table lists the inputs to the model used for the years ended 30 June 2012 and 30 June 2011:

Plan / Series	Expected volatility (%)	Risk free interest rate (%)	Expected life of the options (months)	Exercise price (cents)	Weighted average share price at grant date (cents)
Director Options 2008 (Opt 21)	65.0	6.60	60	200	171
Executive Options 2008 (Opt 22)	65.0	6.60	60	201	233

The expected volatility has been determined with reference to the historical trading of the Company's shares on the ASX. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

(g) LTI share plan

(i) Details of the LTI share plan

A base pool LTI dollar value is determined for each executive at the start of each performance period. Each 'Performance Right' represents an executive right to receive one iiNet share in the future for no consideration or, in the case of the Managing Director, cash, subject to meeting the specific performance targets.

At the end of the performance period, the value of the allocated pool receivable by an executive will be calculated as a percentage of each individual's base pool LTI value approved at the start of the performance period. This percentage will be determined by the Board's Remuneration and Nomination Committee based on their performance against long term targets. The final allocable pool LTI dollar value awarded to an executive will be translated into Performance Rights at the iiNet weighted volume share price. The period over which the iiNet weighted volume share price is calculated, will be determined and approved by the Board's Remuneration and Nomination Committee immediately after the allocation point. If the weighted share price used results in a change in the number of performance rights received, the change in value of the award measured at grant date fair value, is recognised as an adjustment and taken to the Statement of Comprehensive Income. 50% of the rights earned are vested 3 months after the conclusion of the performance period with the remaining 50% vested 6 months after the conclusion of the performance period. At the release date the earned rights are rewarded in equity to executive managers and in cash to the Managing Director.

On termination of the employment of an executive by the Group, the unvested performance rights lapse immediately. On voluntary resignation by an executive, unvested performance rights lapse immediately while vested performance rights are required to be exercised within 30 days of termination. On redundancy, retrenchment, retirement, permanent incapacity, death or non-renewal of a fixed term contract of employment, unvested rights will lapse unless otherwise determined by the Board while vested rights are required to be exercised within 90 days of termination.

(ii) Fair value

Equity settled transactions

The fair value of the equity settled performance rights to be granted to the executive managers is calculated at the grant date. This was determined to be $2.8167 which has not been adjusted for dividends, vesting conditions and other rights.

Cash bonus

The award to be granted to the Managing Director will be paid out in cash. Accordingly, it is recognised as a bonus provision calculated as the base pool LTI dollar value discounted to present value adjusted for the relevant terms and conditions upon which the award is granted.

The present value is recognised in the Statement of Comprehensive Income together with interest accretion expense resulting in an increase in provisions. The fair value of the award is recognised in the Statement of Comprehensive Income over the vesting period. At each reporting date, the current best estimate of the total value of award will be re-assessed based on the likelihood of the Managing Director achieving his objectives. All changes in the liability are recognised in the Statement of Comprehensive Income.

28. RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of iiNet Limited and those entities detailed in the table following.

Controlled entities

Name	Country of Incorporation	Ownership Interest % 2012	Ownership Interest % 2011
iHug Pty Ltd+	Australia	100	100
Connect West Pty Ltd+	Australia	100	100
Chime Communications Pty Ltd+	Australia	100	100
iiNet Labs Pty Ltd (i) +	Australia	100	100
iiNet (OzEmail) Pty Ltd+	Australia	100	100
Westnet Pty Ltd+	Australia	100	100
iiNet New Zealand AKL Ltd+	New Zealand	100	100
Netspace Online Systems Pty Ltd+	Australia	100	100
Trimar Unit Trust	Australia	100	100
Aspry Unit Trust	Australia	100	100
Netspace Networks Pty Ltd+	Australia	100	100
Spacecentre Pty Ltd+	Australia	100	100
Aspry Pty Limited+	Australia	100	100
Netspace Communications Pty Ltd+	Australia	100	100
TransACT Communications Pty Ltd+	Australia	100	-
TransACT Victoria Holdings Pty Ltd+	Australia	100	-
TransACT Broadcasting Pty Ltd+	Australia	100	-
TransACT Capital Communications Pty Ltd+	Australia	100	-
Transflicks Pty Ltd+	Australia	100	-
ACN 088 889 230 Pty Ltd+	Australia	100	-
Cable Licence Holdings Pty Ltd+	Australia	100	-
TransACT Victoria Communications Pty Ltd+	Australia	100	-
Neighbourhood Cable Unit Trust	Australia	100	-
Internode Pty Ltd+	Australia	100	-
Agile Pty Ltd+	Australia	100	-

(i) Formerly known as Netscapade Pty Ltd.

(b) Ultimate parent

iiNet Limited is the ultimate Australian parent entity and the ultimate parent of the Group.

(c) Closed Group

Pursuant to Class Order 98/1418, relief has been granted to those subsidiaries marked with a "+" from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports. As a condition of the Class Order, iiNet Limited and its subsidiaries (the Closed Group) entered into a Deed of Cross Guarantee. The effect of the Deed is that iiNet Limited has guaranteed to pay any deficiency in the event of the winding up of any of those subsidiaries. Those subsidiaries have also given a similar guarantee in the event that iiNet Limited is wound up. The financial performance and position of the Consolidated Group reflects that of the Closed Group.

(d) Transactions with director related entities

The consolidated Group provides and receives internet services from certain director related entities. Sales to and purchases from these entities are made at normal market prices and on normal commercial terms. Outstanding balances at year end are unsecured, interest free and will be settled in cash. Refer to (g) below.

(e) Other related parties transactions

The Group provides internet services to the directors, employees and other related parties. These services are provided at normal market prices and on normal commercial terms.

(f) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 25.

(g) Transaction with related parties

The following table provides the total amount of transactions that were entered into with related parties for the years ended 30 June 2012 and 30 June 2011:

Related party	Year	Sales $'000	Purchases $'000	Other Transactions $'000
Director related entities				
Amcom Telecommunications Limited (i)	2012	-	1,391	-
	2011	478	803	49
Total	2012	-	1,391	-
Total	2011	478	803	49

(i) Amcom Telecommunications Limited, a Company of which Mr. Grist is a director, made an in-specie distribution of its 20.4% shareholding in iiNet Limited on 18 August 2011 and no longer owns any of the ordinary shares in iiNet Limited (2011: 20.4%). Mr Grist ceased to be a director of iiNet Limited on 7 September 2011.

29. DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2012 $'000	2011 $'000
Current Assets		
Forward foreign exchange contracts – cash flow hedge	-	-
Interest rate swap contracts – cash flow hedge	-	86
Non-current Assets	-	-
Total Assets	-	86
Current Liabilities		
Forward foreign exchange contracts – cash flow hedge	(213)	(271)
Interest rate swap contracts – cash flow hedge	(419)	-
Non-current Liabilities	-	-
Total Liabilities	(632)	(271)
Total	(632)	(185)

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business to manage exposures to fluctuations in interest and foreign exchange rates in accordance with the Group's financial risk management policy.

(i) Interest rate swap contract – cash flow hedge

The 2 bank facilities held by the Group are variable interest rate facilities. It is Group policy to protect a portion of the bank facility from exposure to fluctuations in interest rates. Accordingly the Group enters into interest rate swap contracts, under which it receives interest at a variable rate and pays interest at a fixed rate. The Group adopts hedge accounting to account for the swaps. At the reporting date, $106.0m or 47% (2011: 51%) of the Group's bank loan facility outstanding was at a variable rate of interest. The average fixed interest rate was 3.85% at 30 June 2012.

The swap contracts are settled on a net basis each month. The settlement dates coincide with the dates on which interest is payable on the underlying debt and the swaps are therefore considered highly effective. The gain or loss from measuring the interest rate swap contracts to their fair value is recognised in equity to the extent that the hedges are effective. The effective portion of the hedge recognised in other comprehensive income as a loss was $505k in 2012 (2011: gain of $86k).

(ii) Forward exchange contracts – cash flow hedge

The expenditure arising from the Group's call centre operations in South Africa are required to be settled in South African Rand. In order to protect against unfavourable exchange rate movements, the Group has entered into forward exchange contracts. The Group has applied hedge accounting for the forward exchange contracts.

Total notional amount of the contracts ($'000)	Contract Expiry	Average exchange rate
$8,588	28 May 2013	$0.117: R1

The settlements of the contracts are timed to mature when payments to South African suppliers are scheduled to be made and are therefore considered to be highly effective.

Contracts are settled gross. The effective portion of the hedge recognised in other comprehensive income was a gain of $58k (2011: loss of $425k).

The total loss taken to other comprehensive income in 2012 in relation to the cash flow hedge was $447k (2011: $339k).

(b) Risk exposures

Details about the Group's exposure to interest rate, liquidity, foreign currency and credit risk are provided in Note 4. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of derivative financial asset and liability mentioned above.

30. BUSINESS COMBINATION

TransACT Acquisition

On 30 November 2011, iiNet acquired 100% of the shares of TransACT Communications Pty Ltd and its subsidiaries ("TransACT"). The primary reason for the acquisition was to increase iiNet's network footprint in new regions and its market share in the residential, Corporate and Government telecommunications sectors. The Group has recognised the fair values of the identifiable assets and liabilities of the TransACT Group based upon the best information available as of the reporting date.

Details of the purchase consideration, net assets and goodwill are as follows:

	$'000
Purchase consideration	60,700
Fair value of identifiable net assets acquired	(63,979)
Gain on acquisition (i)	(3,279)

(i) Gain on acquisition arose from deferred tax assets relating to tax losses recognised. This has been recorded as a measurement period adjustment in other income.

The purchase consideration was funded through a drawdown of iiNet's available bank loan facility and existing cash, and iiNet has acquired 100% of the shares in TransACT in accordance with a shareholders agreement.

The fair value of the identifiable assets and liabilities of TransACT at the date of acquisition and the cash flow at acquisition were as follows:

	Fair value at acquisition date $'000
Assets	
Cash & Cash Equivalents	3,918
Trade and Other Receivables	5,895
Prepayments	1,225
Accrued Revenue & Other Debtors	2,760
Inventory	264
Plant & Equipment	61,591
Intangible Assets	455
Deferred Tax Assets	4,674
Total Assets	80,782
Liabilities	
Trade Creditors & Accruals	(10,254)
Unearned Revenue	(2,508)
Provision for Onerous Contracts	(153)
Employee provisions	(3,888)
Total Liabilities	(16,803)
Fair value of identifiable net assets acquired	63,979
Cash flow on acquisition was as follows:	
Purchase consideration paid	60,700
Cash acquired with the subsidiary	(3,918)
Cash outflow on acquisition	56,782

The acquired business contributed revenues of $56,279k and net profit after tax of $4,041k to the Group for the period from acquisition to 30 June 2012. If the acquisition had occurred on 1 July 2011, iiNet Group revenue would have been $868,479k and net profit after tax $40,771k.

Direct costs relating to the acquisition totalling $633k have been recognised as Administrative and Other Expenses in the Statement of Comprehensive Income for the year ended 30 June 2012.

Included in the business assets acquired were receivables with a gross contractual and fair value of $5,895k resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

As part of allocating the cost of the combination, a provision for an onerous contract was assigned a fair value in the Statement of Financial Position as at the acquisition date. This liability had not been booked in the TransACT accounts at the acquisition date.

Internode Acquisition

On 31 January 2012, iiNet acquired 100% of the shares of Internode Pty Ltd and Agile Pty Ltd ("Internode"). The primary reason for the acquisition was to increase iiNet's market share in the residential and corporate telecommunications sectors. The Group has recognised the fair values of the identifiable assets and liabilities of Internode based upon the best information available as of the reporting date.

Details of the purchase consideration, net assets and goodwill are as follows:

	$'000
Purchase consideration	108,441
Fair value of identifiable net assets acquired	(21,252)
Goodwill arising on acquisition	87,189

The purchase consideration was funded through a drawdown of iiNet's available bank loan facility and existing cash as well as the issue of 12,072,664 shares, valued at the market price of iiNet shares on the acquisition date. iiNet has acquired 100% of the shares in Internode in accordance with a shareholders agreement.

Photograph by Ben Jensz, Systems Engineer

The fair value of the identifiable assets and liabilities of Internode at the date of acquisition and the cash flow at acquisition were as follows:

	Fair value at acquisition date $'000
Assets	
Trade and Other Receivables	12,619
Prepayments	1,768
Sundry Debtors	3,855
Inventory	189
Plant & Equipment	37,566
Indefeasible Right of Use Asset	23,414
Acquired Subscriber Base	6,500
Intangible Assets	2,310
Investments	21
Deferred Tax Assets	1,451
Total Assets	89,693
Liabilities	
Trade Creditors & Accruals	(20,950)
Unearned Revenue	(18,562)
Indefeasible Right of Use Lease Liability	(22,150)
Interest Bearing Loans and Borrowings	(843)
Provisions	(3,986)
Deferred Tax Liabilities	(1,950)
Total Liabilities	(68,441)
Fair value of identifiable net assets acquired	21,252
Purchase consideration on acquisition was as follows:	
Cash consideration	72,223
Shares consideration	36,218
Purchase consideration on acquisition	108,441
Cash flows on acquisition was as follows:	
Purchase consideration paid	72,223
Net cash outflow on acquisition	72,223

The acquired business contributed revenues of $80,276k and net profit after tax of $5,248k to the Group for the period from acquisition to 30 June 2012. If the acquisition had occurred on 1 July 2011, iiNet Group revenue would have been $942,348k and net profit after tax $46,145k.

Direct costs relating to the acquisition totalling $2,017k have been recognised as Administrative and Other Expenses in the Statement of Comprehensive Income for the year ended 30 June 2012.

Goodwill	$'000
Opening balance at 1 July 2011	257,185
Goodwill on acquisition of Internode	87,189
Closing Balance at 30 June 2012	344,374

Key factors contributing to the $87,189k of goodwill are the synergies existing within the acquired group, and synergies expected to be achieved as a result of combining Internode with the rest of the group.

Included in the business assets were receivables with a gross contractual and fair value of $12,619k resulting from trade sales with customers. Management expects these amounts to be collected in full and converted to cash consistent with customer terms.

As part of allocating the cost of the combination, a subscriber based asset has been assigned a fair value. This asset had not been booked in the Internode Pty Ltd accounts at the acquisition date.

31. SEGMENT REPORTING

The accounting policies used by the Group in reporting segment information internally, is the same as those contained in note 2 to the 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 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 principle activity is the provision of internet and telephony services to a wide range of residential, regional and corporate customers across Australia. As the Group is aggregated into one reportable segment, there are no inter-segment transactions.

Revenue	2012 $'000	2011 $'000
Internet related services	515,996	419,828
Telephony	267,323	237,931
Wholesale	5,153	6,639
Domains	7,872	6,469
Set up and sale of hardware	33,697	26,284
Other revenue	1,184	1,935
Total revenue	831,225	699,086

32. PARENT ENTITY

Key financial information relating to the parent entity is summarised below.

Statement of Comprehensive Income	2012 $'000	2011 $'000
Profit attributable to the owners of the company	26,989	31,845
Total comprehensive income attributable to the owners of the company	26,676	31,608
Statement of Financial Position		
Total Current Assets	44,638	51,519
Total Non-current Assets	636,053	391,404
Total Current Liabilities	(98,843)	(88,717)
Total Non-Current Liabilities	(330,142)	(136,580)
Net Assets	251,706	217,626
Issued Capital	250,528	223,557
Accumulated losses	(3,271)	(9,951)
Other reserves	4,449	4,020
Total Equity	251,706	217,626

Income tax

(i) Members of the tax consolidated Group and the tax sharing arrangement

iiNet Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated Group from 1 July 2003. iiNet Limited is the head entity of the tax consolidated Group. Members of the Group have entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

(ii) Tax effect accounting by members of the tax consolidated Group

Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences are recognised in the separate financial statements of the members of the tax consolidated Group using the Group allocation method. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated Group are recognised by iiNet Limited, the head entity of the tax consolidated Group.

Members of the tax consolidated Group have entered into a tax funding agreement. Amounts are recognised as payable to or receivable by the Company and each member of the consolidated Group in relation to the tax contribution amounts paid or payable between the parent entity and other members of the tax consolidated Group in accordance with this agreement. Where the tax contribution amount recognised by each member of the tax consolidated Group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the distribution is recognised as a contribution from (or distribution to) equity participants.

iiNet Limited has recognised the following amounts as tax consolidation adjustments:

Tax effect accounting by members of the tax consolidated Group	Company 2012 $'000	Company 2011 $'000
Total (reduction) / increase to the tax benefit of iiNet Limited	3,004	(973)
Total increase / (reduction) to intercompany assets of iiNet Limited	(3,004)	973
Total	-	-

Refer to note 23(a) for details regarding contractual obligations held by the parent entity relating to capital expenditure at the reporting date.
Refer to note 23(e) for details regarding the contingent asset held by the parent entity as at 30 June 2012.

33. EVENTS AFTER THE REPORTING DATE

On 15 August 2012, the Group declared a fully franked final dividend of 8.0 cents per share with respect to the financial year ended 30 June 2012. The dividend will have a record date of 3 September 2012 and a payment date of the 28 September 2012.

On 24 July 2012 iiNet Limited entered into a significant international IP capacity supply agreement with Southern Cross Cables Limited for the upgrade from 20Gbps to 200Gbps of fully protected diverse path international bandwidth capacity.

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:

   (a) The financial statements, notes and the additional disclosures included in the directors' report designated as audited, 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 30 June 2012 and of its performance for the year ended on that date; and
      (ii) Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2; and

   (c) There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2012.

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group comprising the Company and the controlled entities marked "+" as identified in note 28 will be able to meet any obligation or liabilities to which they are or may become subject to by virtue of the deed of cross guarantee referred to in note 28.

On behalf of the Board,

Michael Smith
Chairman
Perth, Western Australia, 20 September 2012

ERNST & YOUNG

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11 Mounts Bay Road
Perth WA 6000 Australia
GPO Box M939 Perth WA 6843

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Independent audit report to members of iiNet Limited

Report on the financial report

We have audited the accompanying financial report of iiNet Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

GHM:MJ:iiNet:2012:013

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of iiNet Limited is in accordance with the *Corporations Act 2001*, including:

   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 30 to 43 of the Directors' Report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of iiNet Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

G H Meyerowitz
Partner
Perth
20 September 2012

GHM:MJ:iiNet:2012:013

SHAREHOLDERS' STATISTICS

Additional information required by the Australian Securities Exchange Limited and not shown elsewhere in this report is as follows. The information is current as at the 10 September 2012.

(a) Distribution of equity securities

161,038,847 fully paid ordinary shares are held by 9,062 individual shareholders. All issued shares carry one vote per share and carry the rights to dividends. 200,000 options are held by 1 individual option holder. Options do not carry a right to vote or to receive dividends.

The number of shareholders, by size of holding, in each class is:

	Fully paid ordinary shares	Options
1 – 1,000	3,605	-
1,001 – 5,000	3,680	-
5,001 – 10,000	1,014	-
10,001 – 100,000	717	-
100,001 and over	46	1
Total	9,062	1
Holding less than a marketable parcel	333	-

(b) Substantial shareholders

	Fully Paid	
	Number	Percentage
J P Morgan Nominees Australia Pty Ltd	20,512,628	12.74%
National Nominees Limited	19,577,838	12.16%
HSBC Custody Nominees (Australia) Limited	14,971,260	9.30%
Perth Internet Limited	14,012,162	8.70%
Mr Simon Walter Hackett	12,072,664	7.50%
Total	81,146,552	50.4%

(c) Twenty largest holders of quoted equity securities

	Fully Paid	
Ordinary Shareholders	Number	Percentage
J P Morgan Nominees Australia Pty Ltd	20,512,628	12.74%
National Nominees Limited	19,577,838	12.16%
HSBC Custody Nominees (Australia) Limited	14,971,260	9.30%
Perth Internet Limited	14,012,162	8.70%
Mr Simon Walter Hackett	12,072,664	7.50%
Citicorp Nominees Pty Ltd	10,118,903	6.28%
Zero Nominees Pty Ltd	9,200,000	5.71%
Value Added Network Pty Limited	6,467,151	4.02%
Blue Call Pty Ltd	2,939,948	1.83%
Osson Pty Ltd	2,533,183	1.57%
BNP Paribas Noms Pty Ltd	2,371,651	1.47%
UBS Nominees Pty Ltd	1,829,444	1.14%
Bell Potter Nominees Ltd	1,352,055	0.84%
Brispot Nominees Pty Ltd	1,333,775	0.83%
AJA Super IW Pty Ltd	698,404	0.43%
Caveo Communications Pty Ltd	567,998	0.35%
Bainpro Nominees Pty Ltd	349,930	0.22%
Mr Bevan Andrew Slattery	310,000	0.19%
Randell Management Services Pty Ltd	300,000	0.19%
Newport Timber & Trading Pty Ltd	300,000	0.19%
Total	121,818,994	75.65%

SHAREHOLDER INFORMATION

Annual General Meeting

The Annual General Meeting of iiNet Limited will be held at Level 2, 502 Hay Street, Subiaco, Western Australia, on the 20 November 2012.

Stock Exchange Listing

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

Major Announcements

iiNet immediately informs the ASX of anything that may affect the Company's share price. All major Company announcements are available on the Company's website following their release to the ASX. Investors can register on iiNet's website to receive email alerts as and when media releases and ASX announcements are posted.

Shareholder enquiries

Shareholders seeking information about their shareholding should contact iiNet Limited Share Registry. Shareholders should have their Security holder reference number (SRN) or Holder Identification Number (HIN) available to assist in responding to their enquiries. The share registry website allows shareholders direct access to their holding information and to make changes to address and banking details online.

Share Register

Link Market Services Limited
Ground Floor
178 St Georges Terrace
Perth, Western Australia 6000

Telephone: 1300 275 410
Telephone (Intl): +61 2 8280 7702
Fascimile: +61 2 9287 0303
Email: info@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

Tax and dividend payments

For Australian registered shareholders who have not quoted their Tax File Number (TFN) or Australian Business Number (ABN), iiNet will be required to deduct tax at the top marginal rate from the unfranked portion of any dividends paid to shareholders. If you have not yet provided your TFN/ABN, you are able to do so by contacting the share registry or by registering your TFN/ABN online. Dividends will be paid in Australian Dollars directly into your nominated bank account. If you have not nominated a bank account, a dividend cheque will be mailed to your address as recorded at the share registry.

Change of name, address or banking details

Shareholders who are issuer sponsored should advise the Share Registry immediately of a change of name, address or banking details. Appropriate forms can be downloaded from the share registry. Shareholders who are CHESS sponsored should instruct their sponsoring broker to notify the Share Registry of any change.

iiNet's Website

iiNet's investor website, http://investor.iinet.net.au/ provides investors with a wide range of information regarding its activities and performance, including its annual reports, share price, interim and preliminary results, investor presentations, major news releases and other Company statements.

CORPORATE INFORMATION

Chairman
M. Smith

Managing Director
M. Malone

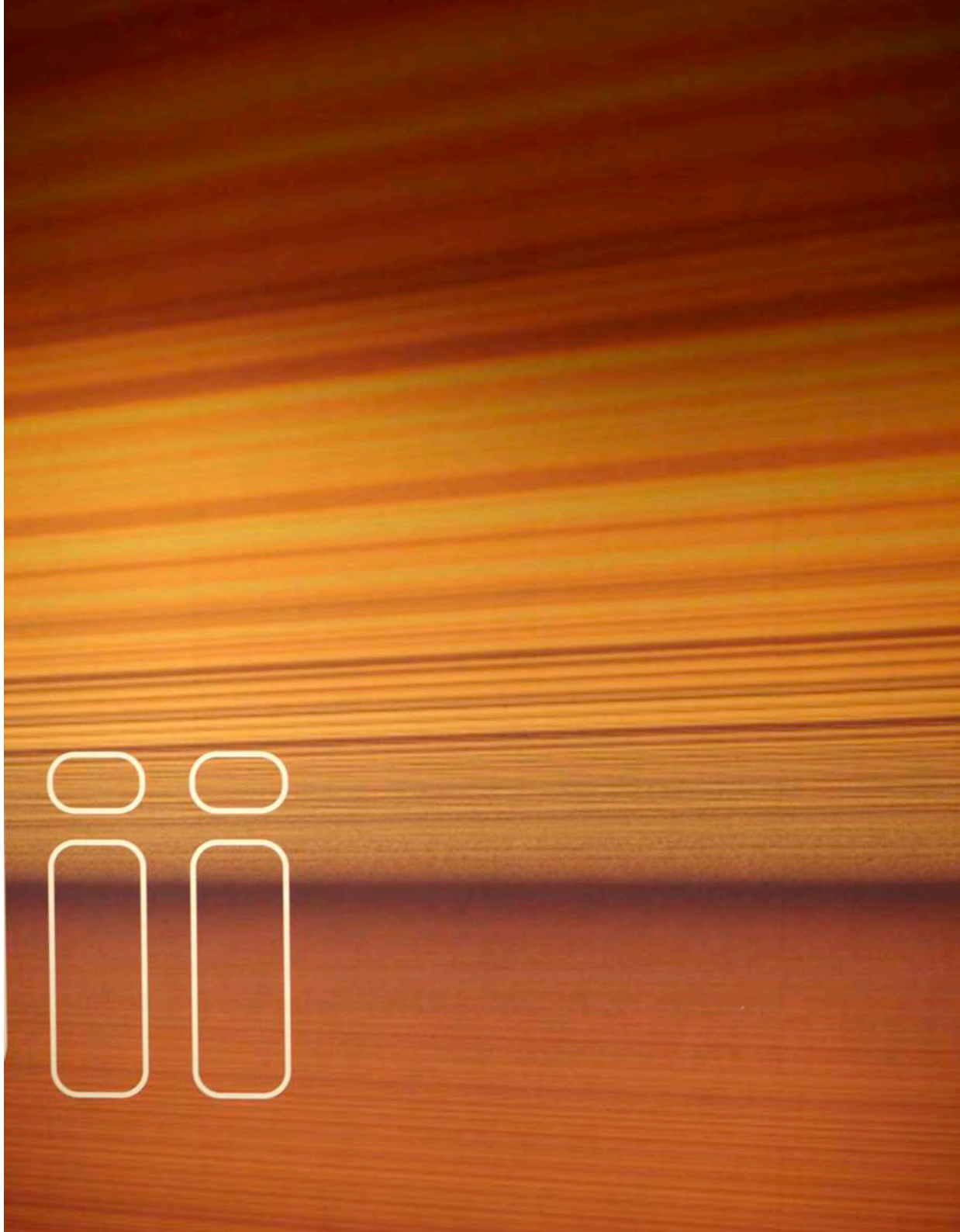
Non-executive Directors
P. James
P. Broad
D. Grant
L. McCann
S. Hackett

Chief Financial Officer and Company Secretary
D. Buckingham

Registered Office and Principal place of business
iiNet Limited
Level 1, 502 Hay Street
Subiaco
Perth WA 6008

Telephone: 1300 722 545
Facsimile: 1300 785 632
Website: www.iinet.net.au

Auditor
Ernst & Young



2012

iiNet would like to thank all of its staff for another successful year.

iiNet Annual Report 2012