2005 was a momentous year for the iiNet Group, with significant company, product, subscriber and earnings growth

connect better

contents

our history

2005
iiNet acquires OzEmail and becomes Australia's third largest ISP with over 690,000 services.

iiNet launches fast broadband2 products and full phone service, with attractive bundled options offering speeds of up to 12000kbps.

iiNet expands deployment of its DSL network to the Eastern States of Australia.

iiNet launches Australia's first large-scale Voice over Internet Protocol (VoIP) service.

2004
iiNet acquired Virtual Communities, to increase its subscriber base to over 400,000. iiNet acquired the FlowCom ISP, incorporating Froggy Internet.

iiNet announces the rollout of its own DSL broadband infrastructure (DSLAM) following the successful completion of a three month customer pilot and feasibility study.

iiNet releases bundled telephony service offering (iiphone).

2003
iiNet makes a series of acquisitions in Victoria, Tasmania, Northern Territory, Queensland, New South Wales and the Australian Capital Territory, making it a truly national company. bliink services are made available nationwide.

iiNet acquires ihug, a significant ISP boasting over 170,000 customers in both Australia and New Zealand.

2002
iiNet releases second generation DSL products for home and business under the bliink brand name. bliink provides flat rate broadband Internet access at an affordable price.

2001
iiNet launches Chime Communications, a wholly owned telecommunications carrier. Chime's focus is to provide wholesale telephony and data services to corporate clients and ISPs.

2000
iiNet launches broadband services: Cable Internet Access, Cityspan Wireless Internet Access and DSL Internet Access. The Australian Consumers Association again ranks iiNet number one in the country for customer service.

1999
iiNet acquired Wantree and listed on the ASX. Directly following listing, Networx and a number of other metropolitan and regional ISPs are acquired. The company starts 24 hours a day, 7 days a week support, as well as opening new services in Gingin, Margaret River and Toodyay in Western Australia.

1998
iiNet increases its market position and acquires fourteen ISPs.

1997
Within the space of 10 months, iiNet South Australia becomes the third largest dial up ISP in South Australia and the operation was sold at a profit. iiNet acquires one of its largest competitors, Online Information Systems, as well as Access Communications.

1996
iiNet expands services into rural Western Australia.

1995
iiNet expands to South Australia. iiNet introduces a $400pa unlimited download premium dial up account, now called Explorer.

1994
The number of Internet users in Australia starts to explode, as does the number of ISPs. iiNet is one of only five or six ISPs in Western Australia.

1993
iiNet commences business in Padbury, Western Australia.

highlights 2005

2005 was a momentous year for the iiNet Group, with significant company, product, subscriber and earnings growth

highlights 2005

29 August 2005

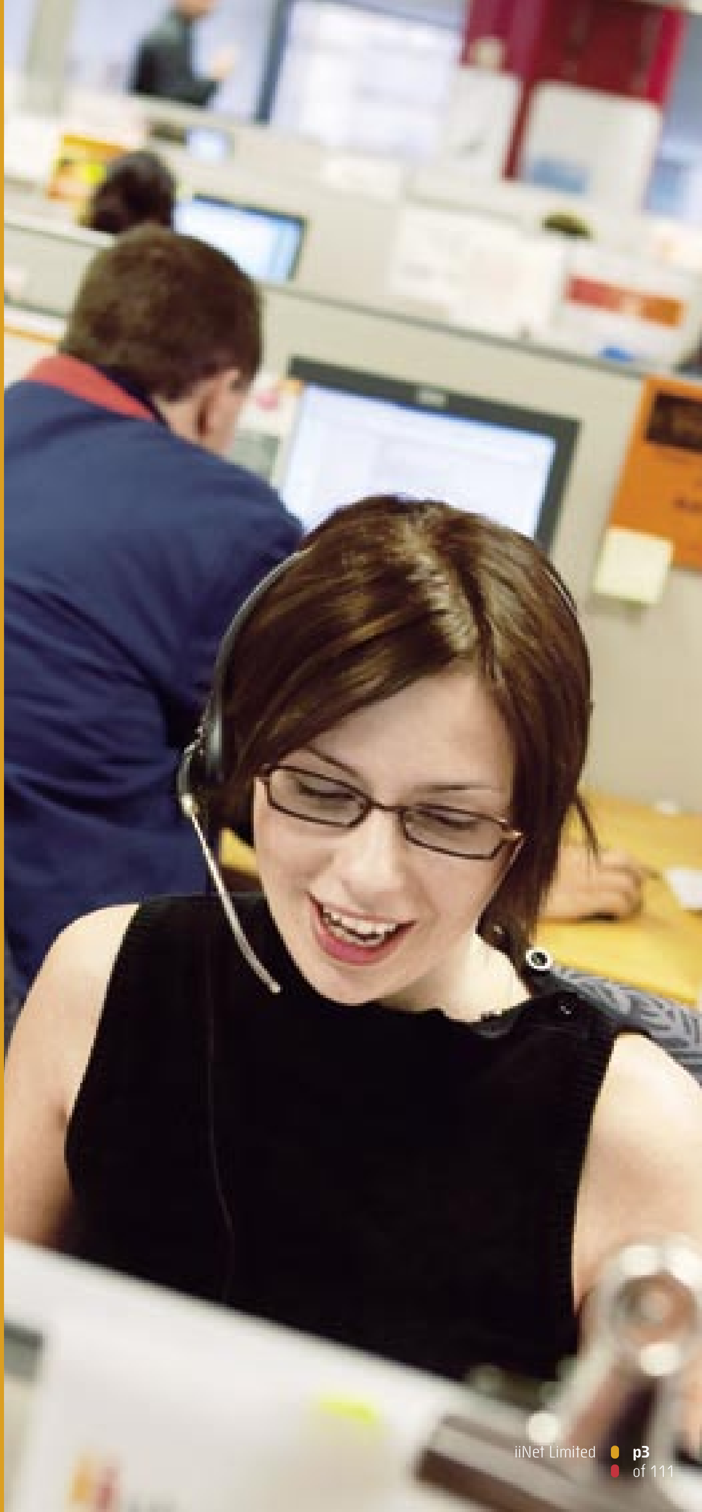
VoIP is launched
iiNet is the first Australian company to provide a large-scale, premium-grade Voice over Internet Protocol (VoIP) service. iinetphone enables customers to save money by making and receiving calls via the Internet instead of over the traditional copper telephone network.

10 June 2005

New business plans and 12000kbps speeds arrive
iiNet unveils new business plans including the addition of the iibusiness pack, an optional add-on designed to provide all the necessary features a growing business needs, including priority support. ADSL2 is also launched with speeds of up to 12000kbps, allowing for effective transmission of voice, video and data over the Internet, commonly known as Triple Play. Customers on an iiNet DSLAM receive the super fast speed at no extra cost.

4 March 2005

Expanded DSL network deployment
iiNet announces it will expand the rollout of its DSL infrastructure (DSLAM) to include 86 sites in the Sydney metro area, and plans to have over 200 exchanges enabled by the end of 2005.



1 March 2005

iiNet acquires OzEmail

iiNet completes the acquisition of the Internet service business of OzEmail, making iiNet the third largest ISP in Australia. iiNet now has more than 620,000 services nationwide, and an increased customer base in the Eastern states of Australia which allows for acceleration of its DSLAM deployment in those regions.

1 February 2005

Next Generation Broadband and Full Phone

iibroadband2 is launched with speeds starting where other providers' plans finish - at 1500 kbps. Additionally, customers on iiNet's DSLAM infrastructure can receive super fast speeds of up to 8000kbps (now 12000kbps). iiphone is now a full phone service including line rental, local calls and competitively-priced calls to mobiles, national and international calls.

4 November 2004

Brand New Day

iiNet rebrands to "ii Connect Better". The new name and tagline is developed to keep pace with an increasingly competitive marketplace, and to allow for a broader product direction. A defined set of brand values is associated with the new ii brand.

5 October 2004

iiNet acquires Virtual Communities

iiNet completes the acquisition of the Internet services business of Virtual Communities to increase its subscriber base to over 400,000.

financial calendar

Annual General Meeting

The Annual General Meeting of iiNet Limited will be held at the Sheraton Hotel, 207 Adelaide Terrace, Perth, Western Australia, on Tuesday 29 November, 2005 at 12.00 noon.

Annual General Meeting	29 November 2005
Half-year results	February 2006
Half-year Shareholder brochure	February 2006
Full-year results	August 2006
Full-year Shareholder brochure	September 2006
Annual report and Notice of Annual General Meeting mailed to shareholders	October 2006
Annual General Meeting	November 2006

corporate governance

OzEmail's St Leonards, NSW office is now a key customer service centre for the iiNet Group.

corporate governance

iiNet operates under the following corporate governance principles:

- 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;
- We will maximise the value of shareholders' investment in the Company.

The iiNet Board aims for best practice in the area of corporate governance and we are continually reviewing and updating our corporate governance practices. As new corporate governance requirements and guidance notes are issued by the ASX, the Board evaluates and, where appropriate, implements the relevant proposals with the aim of ensuring that we maintain best practices in corporate governance.

iiNet complies with the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" released in March 2003, unless otherwise stated.

Our main corporate governance and board practices in place during the 2005 financial year are described in this section. Further information regarding our corporate governance practices can also be found on our company website, www.iinet.net.au

The Board of Directors

Board Membership, Composition and Nomination

On the day on which the directors' report is made out, the board consisted of one executive director, being the Managing Director and four non-executive directors, including the Chairman.

The names, qualifications and other details of the directors are set out in the Director's Report on pages 25 - 31.

The role of the Board in relation to nomination and membership is to:

- review the size and composition of the Board;
- review the range of skills available and determine the appropriate balance of skills required for future board membership;
- review and consider the succession planning of the Managing Director, the Chief Financial Officer, Company Secretary and succession of Company Officers generally.

Identification of potential Board candidates includes consideration of the skills, experience, personal attributes and capability to devote the necessary time and commitment to the role. Non-executive directors are expected to review their membership of the Board from time to time, taking into account their length of service, age, qualifications and experience, together with other criteria considered desirable for composition of a balanced Board and the overall interests of the Company.

The relevant provisions in the company's Constitution and the Corporations Act 2001 determine the terms and conditions relating to the appointment and termination of directors. All directors, with the exception of the Managing Director, are subject to re-election by rotation every three years.

Director Independence

The majority of the Board of Directors of iiNet Limited, including the Chairman are required to be independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with the exercise of the director's unfettered and independent judgment. In considering whether a Director is independent, the Board considers:

(a) the criteria for assessing the independence of a director in the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations";

(b) any information, facts or circumstances that the Board considers relevant; and

(c) any materiality thresholds, standards or guidelines that the Board may adopt from time to time.

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 or less than 5 percent of the appropriate base amount.

In accordance with the established criteria of independence above, and the materiality thresholds set, the following directors of iiNet Limited are considered to be independent:

P. C. Harley - Chairman, Non-Executive Director

K. N. Goodall - Deputy Chairman, Non-Executive Director

P. R. James - Non-Executive Director

Conflicts of Interest

In accordance with the Corporations Act 2001 and the Company's constitution, directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes a significant conflict exists, the director concerned does not receive the relevant Board papers and is not present at the Board meeting whilst the item is considered.

Details of directors' related entity transactions with the Company and Consolidated Entity are set out in the directors' disclosure note in the financial statements.

Role of the Chairman

The Chairman is appointed by the Board and is required to be a non-executive director who satisfies the criteria for independence.

The Chairman is responsible for:

- leadership and effective performance of the Board;
- setting the agenda for Board meetings, in consultation with the Managing Director and Company Secretary;
- overseeing the provision of information by management to the Board, and ensuring the adequacy of that information; and
- arranging regular evaluation of the performance of the Board, Board committees and all directors.

Responsibilities and Functions of the Board

The Board considers that the essential responsibilities of the directors are to oversee the Company's business operations and its management for the benefit of its shareholders, employees and other stakeholders and to protect and enhance shareholder value.

The primary responsibilities of the Board include the following:

- charting the direction, strategies and financial objectives for the Company and monitoring the implementation of those policies, strategies and financial objectives;
- monitoring compliance with regulatory requirements and ethical standards;
- to oversee the Company's control and accountability systems;
- to appoint the Managing Director, the Company Secretary and ratify the appointment of the Chief Financial Officer. To set criteria for, and evaluate at least annually, their performance;
- to monitor and assess management's performance in carrying out any strategies, meeting any objectives and observing any budgets approved by the Board, and to ensure that sufficient resources are available to management for those purposes;
- to approve and monitor financial and other reporting;
- to monitor the Company's continuous disclosure policy and procedures, and in particular to ensure the Company's Market Disclosure Policy is complied with, and adequately reviewed and updated;
- to ensure that appropriate internal and external audit arrangements are in place and operating effectively;
- to issue any shares or other securities of the Company;
- to approve the strategic plan, performance objectives and the budget;
- to approve the remuneration and conditions of service including financial incentives for any executive directors;
- to approve significant changes to organisational structure and the appointment of such senior officers as the Board may determine;
- to approve the acquisition, establishment, disposal or cessation of any significant business of the Company;
- to approve any public statements which reflect significant issues of the Company's policy or strategy;
- to approve any changes to the discretions delegated from the Board;
- to review on a regular and continuing basis the executive succession planning, in particular for the Managing Director and executive development activities.

The Board has adopted a charter and operating principles that detail the role and responsibilities of the Board and its members.

The Board delegates responsibility for day-to-day management of the Company to the Managing Director.

The Board has also established committees to assist in the carrying out of its responsibilities in an effective and efficient manner. The committees currently formed by the board are: Audit Committee and Remuneration Committee. For each committee the Board adopts a formal charter which sets out the matters relevant to the composition, responsibilities and administration of the Committee.

Independent Professional Advice and Access to Company Information

Each director has the right of access to all relevant Company information and to the Company's executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A copy of advice received by the director is made available to all other members of the Board.

Performance Evaluation

The performance of all directors, the Board as a whole and the Managing Director will be reviewed at least annually by the Board. Within a structured format, individual director performance reviews are conducted by the Chairman, whilst the Chairman is reviewed by the Deputy Chairman. In confidence, feedback on the performance of each individual directors' performance is sought from all directors of the Board.

The Board also seeks feedback from the Chief Financial Officer, Company Secretary and selected executives on the performance of the Board as a whole.

The Chairman provides feedback to the Board and each individual director following completion of the Board performance evaluation.

A review was performed during the year ended 30 June 2005.

Remuneration Committee

The Board has established a remuneration committee consisting of the following non-executive directors:

Name
P. R. James (Chairman)
P. C. Harley
K. N. Goodall
A. L. Milner

The committee is required to have at least three directors, the majority being independent directors including the Chairman of the board. The Chairman of the committee will be appointed annually by the Board and must be an independent non-executive director and may be the Chairman of the Board. The Managing Director shall not be a member of the committee.

The role of the committee in relation to remuneration is to:

- Review and recommend to the Board as appropriate; remuneration policy, including employee share option plans and superannuation;
- Review and evaluate recommendations made by the Managing Director concerning remuneration and other conditions of appointment for executives reporting directly to the Managing Director;
- Determine the broad structure and objectives of the remuneration policy and its relationship to company performance;
- Review prior to implementation any new executive incentive schemes and any proposed changes to existing executive incentive schemes, including the appropriateness of performance hurdles and the total payments proposed; and
- Advise the Board on remuneration of non-executive Directors.

The committee is to meet as required, but at least twice a year. Committee members must not be present at any part of any meeting and must not participate in any of the committee in relation to their own remuneration or the specific remuneration policies applicable to them.

Committee members may be present at meetings and may participate in the development, review and formulation of recommendations to the Board in relation to the remuneration of non-executive directors. Directors who are not members of the committee, other executives and/or parties external to the Company may attend meetings of the committee at the invitation of the Committee Chairman.

Fees paid to non-executive directors are determined by the Board within the aggregate amount approved by shareholders currently standing at $400,000. In determining fees, the Board seeks appropriate external advice. Board fees are not paid to executive directors since the responsibility of Board membership is considered in determining the remuneration provided as part of their normal employment conditions.

The committee also approves invitations to employees to subscribe for options under the terms of the 2002 iiNet Limited Employee Share Option Plan.

Particulars concerning directors' and executives' remuneration and the company's employee share option plans are set out in notes 19, 27 and 28 to the financial statements.

For directors' attendance at meetings of the remuneration committee, please refer to the Directors' Report. For additional details regarding the remuneration committee, please refer to our website.

Audit Committee

The Board has established an audit committee, which operates under a charter approved by the Board. The audit committee assists the Board in fulfilling its overseeing and reviewing responsibilities. The audit committee reviews the financial reporting process, the system of internal control and management of financial risks, and the audit process. In performing its duties, the committee maintains effective working relationships with the Board of Directors, management, and the internal and external auditors.

The audit committee reviews the scope and performance of the external audit and makes recommendations regarding reappointment of the external auditors to the Board. The independence of the external auditors is also reviewed, including the range of services provided in the context of all consulting services bought by the company.

Meetings are conducted as often as is required to undertake its role effectively, but must be held at least three times per annum. Meetings are held prior to the release of half-yearly and preliminary results to the Australian Stock Exchange.

All members of the audit committee are required to be non-executive directors and must comprise at least three directors, of which the majority are independent. The committee shall also have an independent chairperson who is not chairperson of the Board.

The members of the audit committee during the year were:

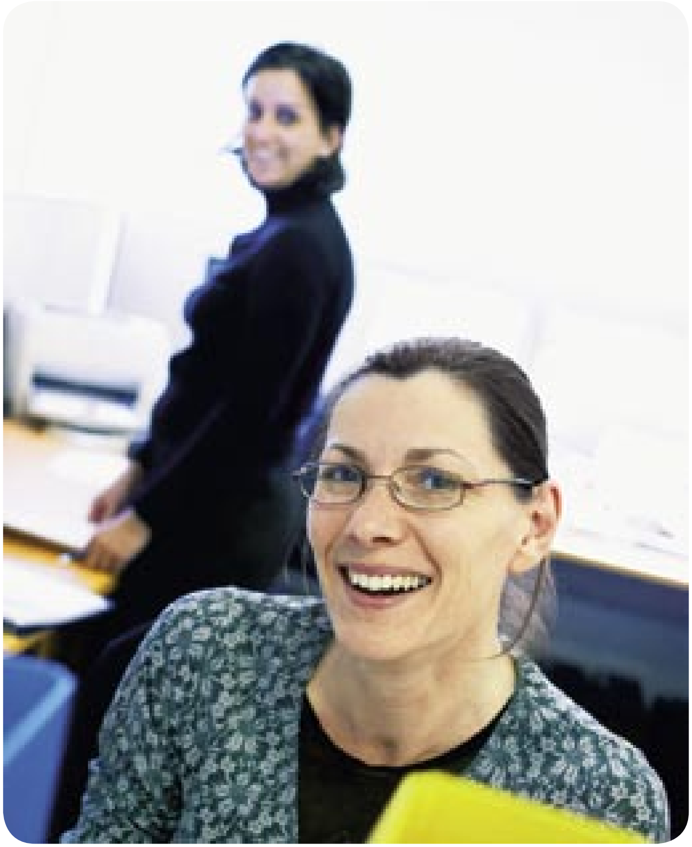
K. N. Goodall (Chairman)
P. C. Harley
P. R. James
A. L. Milner

The company's external audit representative, Managing Director, Chief Financial Officer and Company Secretary are invited to attend the audit committee meetings.

For details of directors' qualifications and their attendance at meetings of the audit committee, refer to the Directors' Report. For additional details regarding the audit committee, please refer to our website.

Risk Management

The Board acknowledges that it is responsible for the overall internal control framework but recognises that no cost effective internal control system will preclude all errors and irregularities.



The Board periodically undertakes a review of business risks using the assistance of outside specialists and internal management to identify the source of the risk and loss, quantify the impact of these sources and control and reduce the risks through practical and effective control mechanisms.

These mechanisms include establishing procedures, guidelines, and organisational structures that provide an appropriate division of responsibility, a program of external audit, and the careful selection and training of qualified personnel.

The Board assigns the responsibilities for the operation and conduct of the business to the Managing Director who is directly accountable to the Board through established policies and authority levels.

Market Disclosure

The Board has established market disclosure policies and procedures intended to ensure that we comply with our market disclosure obligations.

The aim of this procedure is designed to ensure timely and full disclosure of price sensitive information to shareholders and the required stock exchanges on which our securities are listed.

Communication with Shareholders

iiNet Limited aims to have transparent and effective communications with shareholders. Easy access to company information is an important part of the Company's communication strategy.

Information is communicated to shareholders regularly through various publications and forums as follows:

- The annual financial report;
- The Chairman's address and Managing Director's presentation at the Company's Annual General Meeting;
- Notices and explanatory memoranda of annual general meetings;
- Bi-annual shareholder brochures covering performance; and
- Announcements to relevant stock exchanges and the Australian Securities Investment Commission.

iiNet also posts all reports, Australian Stock Exchange and media releases and copies of significant business presentations and speeches on the investor relations page of the Company's website at *www.iinet.net.au*

Share Trading

The Company has in place a share trading policy which restricts all employees or contractors of the Company from dealing in shares of the Company whilst in the possession of market sensitive information or similarly passing information to other parties in order to buy or sell iiNet shares. At no time may an employee or contractor trade in iiNet shares whilst subject to a non-disclosure agreement.

In addition to insider trading prohibitions arising from the Corporations Act, directors, executive officers 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. The Chairman reserves the right to approve share dealings outside of this policy after evaluating the relevant circumstances.

Before trading in the Company's shares, directors and employees must:

- Advise the Company Secretary of their intention to trade in the company's shares;
- Confirm they are not aware of any unpublished market sensitive information; and
- Have been advised by the Company Secretary that there is no reason to preclude trading in the company's shares.

In addition to obligations under the law in relation to inside information, directors and employees have a duty of confidentiality to the company in relation to confidential information they possess.

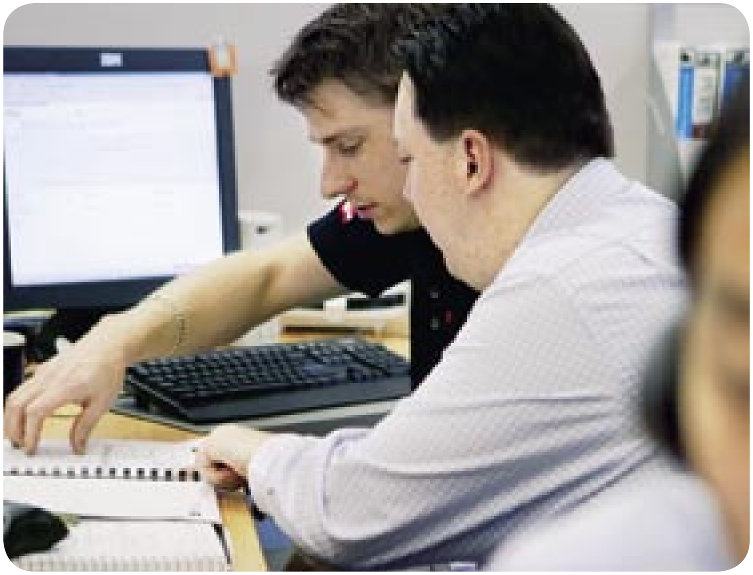
Code of Conduct

All directors, executives and employees are charged with the responsibility to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the company.

iiNet Limited has established a code of conduct which aims to develop a consistent understanding of, and approach to, the desired standards of conduct and behaviour of the directors, officers, employees and contractors in carrying out their roles for the Company.

Through this code, iiNet seeks to encourage and develop a culture of professionalism, honesty and responsibility in order to maintain and enhance our reputation as a valued employer, business operator and "corporate citizen".

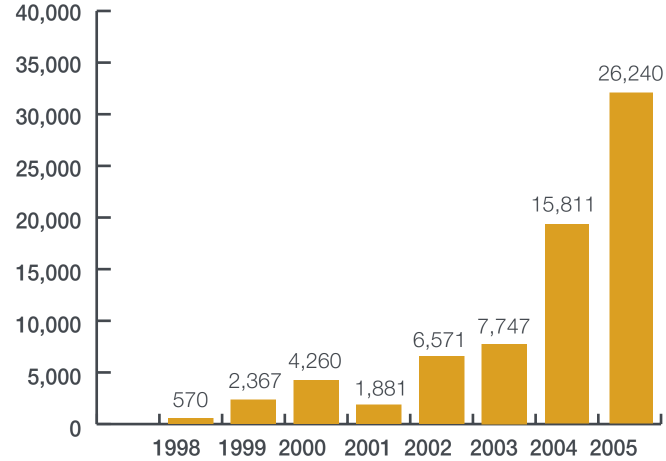
The Company's principles of business ethics are instilled into employees at a formal induction process.



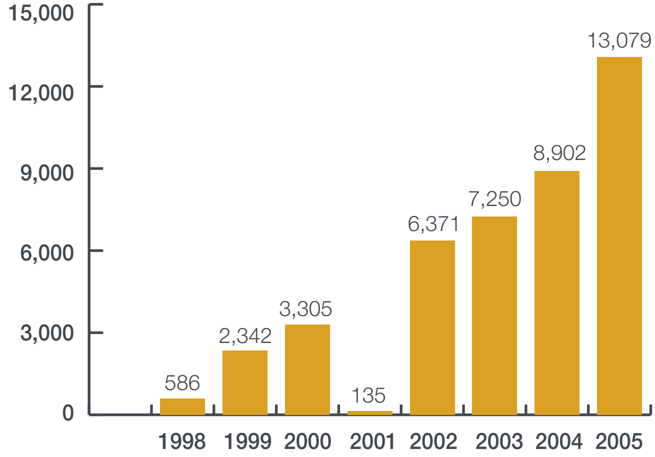
financial overview

Financial Overview		2005	2004	% Change
Sales revenue	$'000's	155,821	94,704	+64
Earnings before goodwill and subscriber base amortisation, interest and tax (EBITA)	$'000's	26,240	15,811	+66
Earnings before interest and tax (EBIT)	$'000's	13,079	8,902	+47
Profit from ordinary activities after tax and before goodwill and subscriber base amortisation	$'000's	16,844	10,857	+55
Profit from ordinary activities after tax	$'000's	3,686	3,950	-7
Total assets	$'000's	291,810	119,056	+145
Borrowings	$'000's	65,799	4,554	+1345
Capital expenditure on property, plant and equipment	$'000's	19,152	11,118	+72
Depreciation and goodwill amortisation	$'000's	23,458	13,572	+73
Shareholders' equity	$'000's	170,484	87,285	+95
Earnings per share before goodwill amortisation	cents	10.0	14.4	-31
Earnings per share	cents	4.2	5.3	-21
Net tangible assets per share	cents	-27.39	2.3	-1291
operating cash flow per share	cents	20.3	21.9	-7

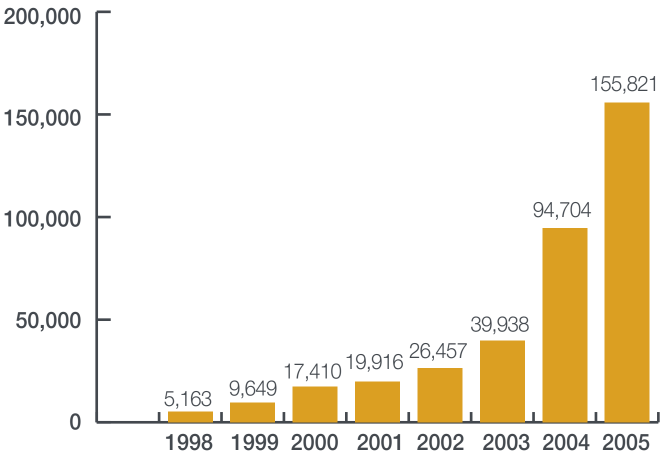
Earnings before goodwill amortisation, interest and tax
$000's



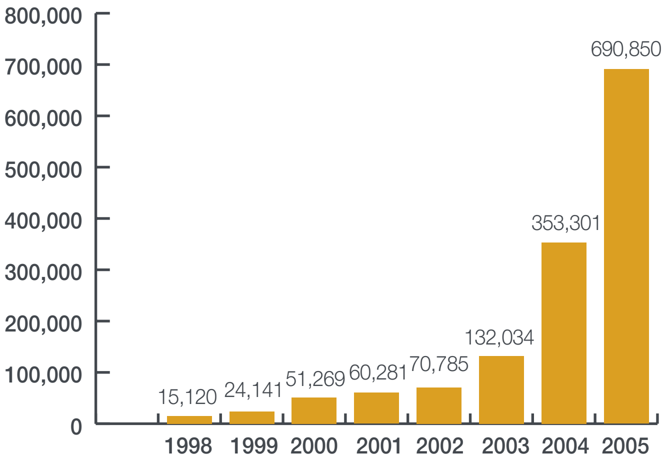
Earnings before interest and tax
$000's



Sales revenue
$000's



Active accounts



chairman's review

2005 has been a tremendous year for the iiNet Group with significant developments and growth throughout the organisation

chairman's review

Peter Harley
Chairman

On behalf of the Board, I am pleased to present the iiNet Limited 2005 Annual Report.

2005 has been a tremendous year for the iiNet Group with significant developments and growth throughout the organisation. From a company growth perspective, the key highlight was the acquisition of OzEmail, one of Australia's Internet pioneers, in early March, which enabled iiNet to become the third largest ISP nationwide. With OzEmail's services base of 295,000, including casual customers, largely in the Eastern states, this was a strategic opportunity for iiNet to grow its presence across Australia and use the newly acquired customer mass to expand DSL deployment to the Eastern region.

The integration of previously acquired brands such as Froggy, ihug Australia and Virtual Communities has been completed, and the expanding iiNet Group is benefiting from these new revenue streams, purchasing economies of scale and an experienced team of employees Australia-wide.

Product highlights for the year include the mid-year launch of the market-leading broadband2 product range with speeds starting at 1500kbps – and with iiNet's DSL network – going up to 12000 kbps. The dialup product was also upgraded, and with the simultaneous introduction of a full phone service, bundling has become an attractive service with 73 percent of new customers bundling their phone and Internet service with iiNet. Revamped business plans in both New Zealand and Australia, and the August launch of a premium-grade Voice over Internet Protocol (VoIP) service rounded out an exciting time in product innovation for the Group.

The ihug NZ business also had a productive year with the launch of high speed broadband plans, new business plans and new bundled Internet and toll call plans.

Once again iiNet has reported a healthy net profit, before goodwill amortisation – $16.9 million – for fiscal year 2005, representing a 55 percent increase over last year. The Board declared a fully franked dividend of four cents per share, giving a full year dividend of 6.5 cents per share. Further details about iiNet's financial performance and the company's outlook for 2006 are provided in the Managing Director's review and in this annual report.

I would like to thank the entire iiNet workforce for their continued hard work and loyalty. On behalf of the iiNet Group, I also express our sincere appreciation of our customers' support and assure them of our continued efforts to provide the highest quality, value and innovative communication products and customer service possible for years to come.

Peter Harley
Chairman

managing director's report

iiNet will morph into a true telecommunications and Internet provider, and can offer customers a high quality, diverse and highly cost effective total communication solution

managing director's report

Michael Malone
Managing Director

Fiscal year 2005 was a standout year for the iiNet Group, with key milestones encompassing a significant acquisition, industry-recognised product innovation, and the evolution of a new kind of company as iiNet tracks to become a telecommunications and Internet provider.

On March 1, iiNet acquired OzEmail, a well-known Australian Internet pioneer. The OzEmail acquisition was a strategic move for us as it provided a solid customer base in Australia's East, and by adding 295,000 services, including casual customers, it enabled iiNet to become the nation's third largest ISP.

On the product front, we had a very productive year launching six new product or technology offerings ranging from our award-winning broadband2 product to a home phone service and our new Voice over Internet Protocol (VoIP) offering.

Our next generation broadband2 products set a new standard in the market. These plans start at speeds where other provider's plans finish - 1500kbps - and go as fast as the customer's line can handle. At the same time, iiNet began its evolution from an ISP to a telecommunications provider when it launched its full home phone service.

In New Zealand, while endeavouring to retain the quality of service that has set us apart from the other telecommunication providers in the past, we also launched new broadband products for both residential and business customers.

ihug's dedication to providing better products, service and value to customers was recognised in August 2005 when it was voted ISP of the year in the Telecommunications Users Association of New Zealand (TUANZ) awards. Additionally, Mark Rushworth was appointed General Manager of the New Zealand business in July 2005 and will spearhead our operations in New Zealand as we continue to innovate in that market.

Financial Performance

iiNet reported another record net profit, before goodwill amortisation, of $16.9 million for the year ended June 30 2005 – an increase of 55 percent over the previous year. Earnings before interest, taxation, depreciation and amortisation were $36.5 million, an increase of 63 percent over the $22.4 million from the previous year.

Operating revenue of $158 million was 66 percent higher than last year. The company has declared a fully franked dividend of 4 cents per share, making a full year dividend total of 6.5 cents per share.

The result includes four months of contribution from OzEmail and the company expects further improvements in its 2006 earnings as OzEmail and other previously acquired ISPs contribute to earnings for a full year.

Acquisitions and Dispositions

iiNet's acquisition of OzEmail, at the beginning of March, raised much media, analyst and industry interest. In a transaction valued at $110 million, it was the biggest acquisition in the company's history both in dollar value, subscriber count and overall market strategy and position.

It moved us into the number three spot of Australia's largest ISPs, and gave us the customer mass in the Eastern States to deploy our own DSL network in those areas.

We quickly offered OzEmail customers the same innovative Internet plans that iiNet customers enjoy, under the OzEmail brand, while still supporting those who remain on original OzEmail plans. OzEmail's St Leonards NSW office is now a key customer service centre for the iiNet Group. The integration of OzEmail customers and systems onto the iiNet Group network and systems is progressing on schedule.

Previously acquired companies, such as Froggy, ihug Australia and the Virtual Communities brands have been integrated into the iiNet network and billing system, and these customers are already enjoying the benefits of belonging to a larger, innovative communications provider.

On 31 December, iiNet completed an agreement to sell its satellite Internet business to Bordernet, a rural Australian ISP that specialises in satellite Internet access. iiNet took ownership of the business when it acquired ihug in October 2003.

iiNet's broadband2 product continues to attract new customers. As of June 30, 2005, iiNet had almost 160,000 DSL users

The decision to sell the business was based on our desire to focus on our core competencies of delivering innovative dialup, broadband and voice services.

Products

iiNet's broadband2 product continues to attract new customers. As of June 30, 2005, iiNet had almost 160,000 DSL users. The broadband2 product recently won the Excellence in Innovation and Competition award at the Service Providers Association (SPAN) and CommsDay 2005 awards.

While the future of communications lies with high speed broadband, we recognise that not everyone has access to DSL. Therefore, we also launched next generation dialup plans with features such as our free Web Accelerator which increases download speeds by up to five times faster than regular dialup.

On June 10, iiNet launched the ADSL2 standard, which enables customers connected to an exchange enabled with iiNet DSL equipment to receive speeds of up to 12000kbps.

New business plans, modelled on our popular broadband2 range, were also launched on June 10 and incorporate key features designed to run a growing small-to-mid-sized business.

iiNet has made tremendous progress with the deployment of its own DSL infrastructure (DSLAM), and this was recognised when we won the WA Information Technology and Telecommunication Award (WAITTA) in early 2005 for the telecommunications project of the year.

iiNet's Broadband2 product won the Excellence in Competition and Growth award at the Service Providers Association Inc (SPAN) and Comms Day 2005 awards.

Over 100 exchanges have been enabled Australia-wide, with over 40,000 customers connected in just over one year.
By bundling broadband with our phone service, customers on a DSLAM-enabled exchange can receive some of the fastest

Our next generation broadband2 products set a new standard in the market

speeds in Australia. Coupled with the newly launched VoIP service, customers can make significant savings on Internet-based calls.

New Zealand has also enjoyed success with its new 1MB and 2MB broadband plans for residential and business customers, with the business plans providing larger data allowances than other providers. We did not forget its dialup customers, as it also provided the "Get All" plan with flat rate dialup bundled with a toll call package for great savings.

Outlook

2005 was a momentous year for the iiNet Group, with significant company, product, subscriber and earnings growth. As we move into the next fiscal year our focus is on the continued rollout of our DSLAM network, with a concentration on major metropolitan areas in the Eastern states. We plan to have over 200 exchanges enabled by the first quarter of 2006. The DSLAM strategy will lower our cost base allowing iiNet to offer more innovative products at competitive prices, while faster broadband speeds enable effective transmission of data, voice and video over the Internet often referred to as "Triple Play," – a potential growth area for iiNet.

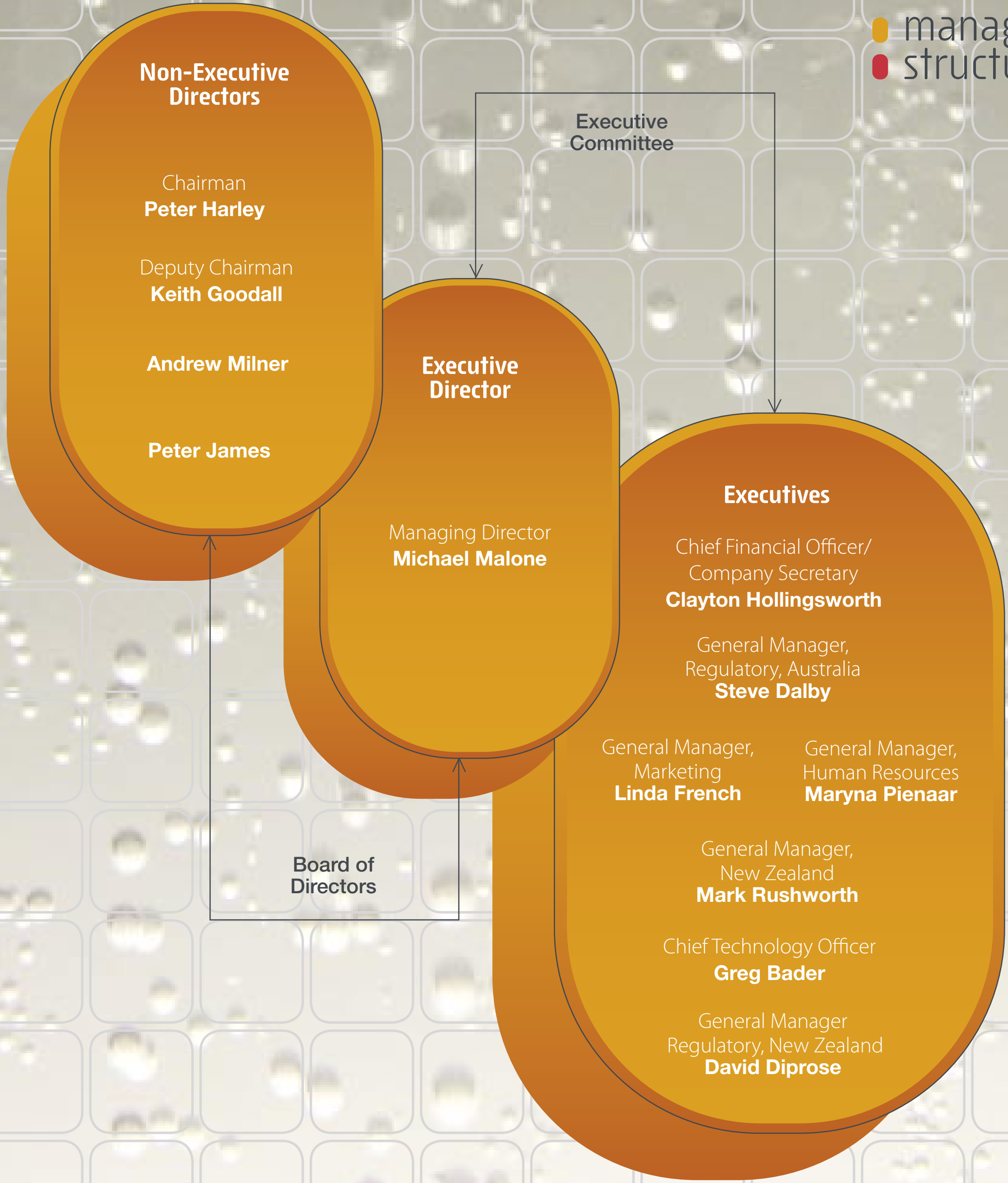
iiNet's telephony future lies with the Unbundled Local Loop (ULL) move and MSAN technology.

ULL involves gaining access to the 'last mile' of the copper telephony network, and MSAN equipment installed into exchanges enables a converged voice and data offering that gives customers the benefits and quality of a landline at the price of a VoIP service. By building our own telephony network using MSAN technology, iiNet will morph into a true telecommunications and Internet provider, and can offer customers a high quality, diverse and highly cost effective total communication solution. The first phase of iiNet's MSAN rollout is expected to commence the first quarter of 2006.

Michael Malone
Managing Director

The OzEmail acquisition moved us into the number three spot of Australia's largest ISPs

management structure



board of directors & executive committee

Peter Harley
Greg Bader
Andrew Milner
Linda French
Michael Malone
Clayton Hollingsworth

Peter James

Mark Rushworth

David Diprose

Steve Dalby

Maryna Pienaar

Keith Goodall

Peter Harley B.Comm, FCPA, FAICD.
Chairman, Age 55
Director since 1999. Appointed Chairman 2002.

Peter has significant and wide-ranging commercial experience, particularly in relation to growth focused companies, with which he has worked closely over the past 27 years. For several years, Peter has been a senior consultant to a number of organisations providing advice on areas including: business planning, strategic marketing and acquisitions and investments. Peter holds a number of Board positions including Chairman of the Australian Telecommunications Cooperative Research Centre as well as director of the following listed companies over the last three years:

- Gunson Resources Ltd (January 2000 to present)
- Perilya Ltd (November 2003 to present)
- Blaze International Ltd (September 2005 to present)

Greg Bader
M.Sc TM
Chief Technology Officer, Age 40

Greg is responsible for the network services division and IT department, overseeing all aspects of the operation, design and deployment of iiNet's retail and wholesale networks, and internal IT solutions. One of his team's key projects is the current deployment of iiNet's own DSL network Australia-wide. Greg brings over 20 years experience in the communications industry to the iiNet team, having worked on a variety of international and local projects with companies such as Lucent, Nokia and Ericsson.

Andrew Milner B.Bus, (IT)
Non-Executive Director, Age 34
Director since 1999

Prior to its acquisition by iiNet Limited, Andrew was the founder, Managing Director and principal shareholder of WA-based Wantree Internet. Andrew was an executive director between 1999 and 2003.

Andrew held the role of Manager of Chime Communications, iiNet's wholly-owned telecommunications subsidiary, prior to his appointment to the iiNet Board as a non-executive director in 2003. Andrew is also Chairman of IT Consulting group L7 Solutions Pty Ltd.

Lindsay Fergusson L.L.B., Life FNZIM, FInstD
Non-executive Director Age 64. Lindsay acted as Non-Executive Director from 27 November 2003 until his resignation from the Board on 26 November 2004.

Linda French
B. Bus
General Manager, Marketing, Age 41

Linda leads the strategic marketing direction and is responsible for marketing operations for the iiNet Group including consumer and market research, customer relationship management, product development, marketing communications, advertising and public relations.

Linda initiated and drove the re-branding of iiNet to position for significant growth as a full service Internet and telecommunications provider. This encompassed both customer service and product development initiatives to differentiate iiNet in a competitive marketplace.

Under Linda's guidance the marketing team has recently launched several innovative products ranging from new dialup plans to award-winning broadband2 products, and bundled telephony and Voice over Internet Protocol (VoIP) services.

Michael Malone B.Sc, DipEd.
Managing Director, Age 36
Director since 1993.

One of the founding partners of iiNet Limited, Michael has been responsible for driving the rapid growth and innovation which has seen iiNet develop from a small WA-based Internet pioneer into the third largest Internet Service Provider (ISP) in Australia and New Zealand. Michael is active in all facets of the company and has managed to maintain his strong rapport with staff even as the company continues to grow.

Recognised for his dedication and achievements in the industry, Michael has received several industry awards, presented at numerous events and conferences and is widely quoted in the national press.

Clayton Hollingsworth
B.Bus, M.Ec, ACA, ASIA.
Chief Financial Officer/
Company Secretary , Age 36

Clayton joined iiNet in December 1999 after successful tenures with Wesfarmers' Business Development division and Ernst & Young's Corporate Finance department. During his time with iiNet, Clayton led the growth of the business through several strategic acquisitions, managing the acquisition process from initiation through to execution in-house.

He oversees the corporate finance, business development, financial analysis, corporate services and company secretary activities for iiNet.

Peter James BA, FAICD
Non-Executive Director, Age 55
Appointed Director 28 November 2003

Peter is Managing Director of Adcorp Australia Limited, a publicly listed advertising and communications company. Based in Sydney, Peter has a successful track record across a range of complex businesses including technology, outsourcing, services, recruitment, education and manufacturing. He has over 14 years experience as a Board member of public companies and nine years as CEO/Group Managing Director.

Peter brings significant experience in business development, strategic planning and marketing and has over 30 years experience in the communication and information technology industries.

Peter holds a number of Board positions including director of the following listed companies over the past three years:

- AdCorp Australia Limited (January 2004 to present)
- Ainsworth Game Technology Limited (June 2002 to August 2003)
- Harvest Road Limited (December 1999 to January 2003)

Mark Rushworth
BE (Elec) ME (Mgmt)
General Manager, New Zealand Age 34

Mark was appointed General Manager for the ihug New Zealand business, part of the iiNet Ltd Group, in August 2005. His responsibilities include sales and marketing, customer service and business development for ihug.

Mark brings over seven years experience in NZ's telecommunications industry, after holding a variety of marketing and management roles for Telecom NZ from 1996 and 2002.

Prior to joining ihug, Mark was Group Operations Manager for Aquiline Holdings Ltd (AHL), a privately-owned management and investment company, with an annual turnover of $200 million and over 350 staff.

David Diprose
B. E (Elec)
General Manager, Regulatory
New Zealand, Age 47

David is responsible for industry and government liaison. A key focus is lifting ihug's profile, including championing Local Loop Unbundling and supporting the NZ Commerce Commission's regulatory activities. David has recently been elected President of the Internet Service Providers Association of NZ (ISPANZ). Additionally he oversees ihug's interconnect and wholesale supplier agreements.

David has 25 years experience in the telecommunications industry, having held management positions with Clear Communications and Telecom New Zealand, prior to joining ihug in 1999.

Steve Dalby

General Manager,
Regulatory Australia, Age 53

Steve has been involved in the telecommunications industry for over 30 years, including a long tenure with the Telstra Corporation in various roles including establishing Telstra's WA/SA wholesale business in 1995.

Steve's responsibilities include regulatory affairs, the wholesale business and quality assurance for the group. He has extensive experience and a deep understanding of the regulatory environment and its impact on the industry.

Maryna Pienaar

General Manager, Human Resources
New Zealand, Age 30

Maryna oversees all human resources (HR) and administration functions for the Australian and New Zealand operations. Maryna and her team is responsible for developing sound HR strategies and policies for attracting new employees, retaining existing staff and providing ongoing training and development to assist employees in achieving the company's business goals and objectives.

Maryna joined ihug in 1998 and assumed her current role in October 2003, as a result of iiNet's merger with ihug.

Keith Goodall CA(PP), CMA, FCIS

Non-Executive Director, Age 59
Appointed Director 21 October 2003

Keith is an Auckland-based chartered accountant who has extensive experience in business consulting on merger and acquisition strategies. Keith operates two successful businesses of his own and joined ihug, now part of the iiNet Group, as Chairman in 2002.

Keith is also Chairman of Bayswater Marina Group, St Marks Group Ltd, RX Plastics Ltd, United Flower Auction Ltd and Deputy Chairman of Multi-Serve Education Trust Ltd. Keith heads up the iiNet Audit Committee and is Deputy Chairman of the iiNet Board.

directors' report

as we move into the next fiscal year our focus is on the continued rollout of our DSLAM network, with a concentration on major metropolitan areas in the Eastern States

directors' report

The directors of iiNet Limited submit their report for the financial year ended 30 June 2005.

Directors

The names and particulars of the directors of the Company during or since the end of the financial year are detailed on pages 25 to 31. Directors were in office for the entire year unless stated otherwise.

Directors' shareholdings

The following table sets out each directors' relevant interest in shares or options of iiNet Limited as at the date of this report.

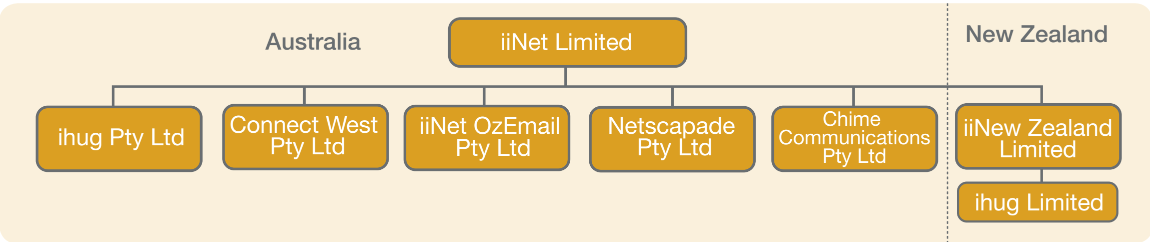
	Fully Paid Ordinary Shares	Share Options
Non-Executive Directors	**No.**	**No.**
P. C. Harley	140,000	-
A. L. Milner	2,300,000	100,000
P. R. James	15,000	100,000
K. N. Goodall	40,000	100,000
Executive Directors		
M. M. Malone	18,078,167	-

Earnings per share	Cents
Basic earnings per share	4.2
Diluted earnings per share	4.1

Corporate information

Corporate Structure

iiNet Limited is a company limited by shares that is incorporated and domiciled in Australia. The Company has prepared a consolidated financial report incorporating the entities that it had 100 percent control of during the year, which are outlined in the following illustration of the group's corporate structure:



Principal Activities
The consolidated entity's principal activities in the course of the financial year were the provision of Internet and telephony services in Australia and New Zealand.

Operating and financial review

Performance Indicators
Management and the Board monitor the group's overall performance, from its implementation of the strategic plan through to the performance of the Company against operating plans and financial budgets.

The Board, together with management, have identified key performance indicators (KPIs) that are used to monitor performance. Key management monitor KPIs on a regular basis. Directors receive the KPIs for review prior to each monthly Board meeting allowing all directors to actively monitor the group's performance.

Operating Results for the Year
Operating revenue of $158 million was 66 percent higher than that reported for the previous year. Earnings before interest, taxation, depreciation and amortisation, were $36.5 million, an increase of 63 percent on the $22.4 million achieved in the previous period.

Dividends
During the year, two dividend payments were paid. On 5 November 2004, the final declared dividend for 2004 was paid amounting to $3,217,278 (4 cents per share) fully franked at 30 percent. An interim dividend of $2,030,824 (2.5 cents per share) fully franked at 30 percent was paid to holders of fully paid ordinary shares on 25 February 2005.

In respect of the financial year ended 30 June 2005, the directors recommend the payment of a final dividend of $4.4 million (4 cents per share) fully franked at 30 percent to the holders of fully paid ordinary shares on 14 October 2005, with a record date of 9 September 2005.

Review of Operations
Earnings before interest, taxation, depreciation and amortisation (EBITDA), was $36.5 million for the financial year, representing an increase of 63 percent on the $22.4 million in the corresponding period last year. The second half of the 2005 financial year contributed $21.4 million of EBITDA compared to the first half EBITDA return of $15.1 million.

Operating revenue of $158 million was 66 percent higher than last year and cash holdings significantly increased to be at $25.4 million.

The company continued to achieve solid growth in its customer base, through both acquisitions and organic growth in broadband services. As at 30 June 2005, the company had 690,000 services of which almost 160,000 were on DSL and a further 71,000 utilising telephony services. Growth in ADSL customer numbers have remained strong and the group launched the first Australian wide-scale VoIP (Voice Over Internet Protocol) service. This innovative service will enable customers to save money by making and receiving calls via the Internet instead of over traditional copper telephone networks.

Earnings per share of 4.2 cents represents a 21 percent decrease from the prior year and net cash flow from operating activities of 20.3 cents per share, was 7 percent lower than reported last year.

Review of Financial Condition

Capital Structure
During the period, $85 million was raised through the issue of 27,870,000 ordinary shares via a public equity raising. The proceeds were used towards the OzEmail acquisition and for general working capital purposes.

Cash from Operations

Net cash flows from operating activities rose from $17.4 million in the previous year to $22.2 million in the current year. The increase in cash from operating activities was largely due to increased receipts from customers.

There was an increase in receipts from customers of approximately 54 percent and the ratio of payments to suppliers as a percentage of receipts from customers remained fairly consistent.

Risk Management

Refer to corporate governance section on page 13.

Significant changes in the state of affairs

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

OzEmail Acquisition

On 1 March 2005, iiNet acquired the OzEmail business. iiNet's investment in the OzEmail business comprised $109.3 million as consideration.

The OzEmail business added 295,000 services to the iiNet group and, with OzEmail's customer base being largely on the east coast, allowed for acceleration of the DSLAM (Digital Subscriber Line Access Multiplexer) deployment in the Eastern states of Australia.

Virtual Communities Acquisition

On 20 September 2004, iiNet announced that it had entered a contract to purchase the Internet service component operated by Virtual Communities comprising primarily of the Bigblue and vtown customer bases. Consideration for the acquisition comprised $7.8 million cash. iiNet took control of the Virtual Communities customer base on 11 October 2004.

Subsequent events

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Future developments

2005 was a momentous year for the iiNet Group, with significant company, product, subscriber and earnings growth. As the group moves into the next fiscal year its focus is on the continued rollout of the DSLAM network, with a concentration on major metropolitan areas in the Eastern states. The Group plans to have over 200 exchanges enabled by the first quarter of 2006. The DSLAM strategy will lower the Group's cost base allowing iiNet to offer more innovative products at competitive prices, while faster broadband speeds enable effective transmission of data, voice and video over the Internet often referred to as "Triple Play," - a potential growth area for iiNet.

iiNet's telephony future lies with the Unbundled Local Loop (ULL) move and MSAN technology. ULL involves gaining access to the 'last mile' of the copper telephony network, and MSAN equipment installed into exchanges enables a converged voice and data offering that gives the customer the benefits and quality of a landline at the price of a VoIP service. By building our own telephony network using MSAN technology, iiNet will morph into a true telecommunications and Internet provider, and can offer customers a high quality, diverse and highly cost effective total communication solution. The first phase of iiNet's MSAN rollout is expected for the first quarter of 2006.

Indemnification of directors and officers

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named previously), the company secretaries, all executive officers of the Company and of any related body corporate against a liability incurred as such a Director, company secretary, or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Remuneration report

This report outlines the remuneration arrangements in place for directors and executives of iiNet Limited (the Company).

Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the company must attract, motivate and retain highly skilled directors and executives.

To this end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives
- Link executive rewards to shareholder value
- Significant portion of executive remuneration is "at risk", dependent upon meeting pre-determined performance benchmarks
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration

Remuneration committee

The remuneration committee of the Board of directors of the Company is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the senior management team.

The remuneration committee assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive director and senior manager remuneration is separate and distinct.

Non-executive director remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

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. An amount not exceeding the amount determined is then divided by the directors as agreed. The latest determination was at the Annual General Meeting held on 28 November 2003 when shareholders approved an aggregate remuneration of $400,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the company. The Board may also approve additional fees to be paid to directors, where it believes the director concerned can add significant value to the particular activity of the Group.

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 stake in the company whose Board he or she sits.

The non-executive directors of the company can participate in the Employee Share Incentive Plan which provides incentives where specified criteria are met.

The remuneration of non-executive directors for the period ending 30 June 2005 is detailed on page 42 of this report.

Senior manager and executive director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of executives with those of shareholders;
- link reward with the strategic goals and performance of the company; and
- ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the remuneration committee seek independant advice in the form of a written report detailing market levels of remuneration for comparable executive roles.

Remuneration packages contain the following key elements:

a) Base pay;
b) Benefits – including the provision of superannuation; and
c) Incentive schemes – including performance related bonuses and share options.

Base pay
Structured as a total employment cost package which may be delivered as a mix of cash and prescribed non-financial benefits.

Executives are offered a competitive fixed base pay. The remuneration committee obtain relevant comparative information to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases for any senior executives.

Benefits
Executives can salary sacrifice to receive benefits such as motor vehicles and expense payment plans. Retirement benefits are delivered under the Superannuation Guarantee Legislation.

Performance Related Bonuses
The objective of the performance related bonuses is to link the achievement of the company's operational targets with remuneration received by executives charged with meeting those targets. The total potential bonus available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure
Actual bonus payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consistent of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance.

Typically included are measures such as contribution to net profit after tax, customer service, risk management, product management, and leadership/team contribution. The company has predetermined benchmarks which must be met in order to award payments under the performance related bonus scheme.

The aggregate of annual bonus payments available for executives across the company is subject to the approval of the remuneration committee. Payments are usually delivered as a cash bonus.

iiNet Employee Share Option Plan
This long term incentive component of the remuneration package is to reward executive directors and senior managers in a manner which aligns a proportion of their remuneration package with the creation of shareholder wealth over a longer period than the short term incentives.

The long term incentive benefits are delivered in the form of options to acquire ordinary shares in the Company. The use of options that are issued with an exercise price at market price ensures that the executive director or senior manager only receives a benefit where shareholder wealth has increased though an increase in the market value of the Company's shares.

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.

The options do not entitle the holder to voting or dividend rights. Options that have not vested are cancelled if the executive director or senior manager ceases to be an employee of the Company.

The options are allocated to executive directors and senior management personnel on the basis of the incumbent's position and responsibilities on the recommendation of the Managing Director and the approval of the Board. Options issued to the Managing Director are on the recommendation of the Chairman and are approved by the Board and Shareholders. All options granted to executive directors are approved in advance by shareholders.

No options were granted or issued to directors during the year.

Employment Agreements

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

- M. M. Malone (Executive Director)
- C. W. Hollingsworth
- L. French
- G. Bader
- S. Dalby

The agreements for all but L. French started operating on 23 December 2004 and will expire on 31 October 2007, while the agreement for L. French started operating on 2 June 2004 and will expire on 1 June 2007.

If no new agreements are made prior to the expiry of the agreements, the agreements will continue under the same terms and conditions that existed under the expired agreements until the parties sign a new AWA.

Under the terms of the AWAs:

- The Executive Director and officers may resign from their positions and thus terminate their contracts by giving two weeks notice if tenure is less than two years or three weeks notice if tenure is greater than two years. On resignation discriminatory options will be forfeited.
- The company may terminate their employment agreement by providing the following notice or provide payment in lieu of the notice period:

Period of Service	Period of Notice
Up to 1 year	2 weeks
More than 1 year but not more than 3 years	3 weeks
More than 3 years but not more than 5 years	4 weeks
5 years and over	6 weeks

The period of notice is increased by one week if the Employee is over 45 years of age and has completed at least two years of 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 policy 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.

On termination on notice by the Company, any options that have vested or will vest during the notice period will be released. Options that have not yet vested will be forfeited.

The following executives (all New Zealand based) are permanent employees employed under New Zealand Employment Agreements. Their agreements commenced on the stated dates and are ongoing (ie. have no expiry date):

- M. Pienaar
  (1 April 2003 commencement)
- D. Diprose
  (1 April 2003 commencement)
- G. Nelson
  (21 October 2003 to resignation on 29 April 2005)

Under the New Zealand Agreement:

- Either party may terminate the agreement by providing four weeks notice, provided that nothing shall prevent the summary termination of employment for serious misconduct.
- Where due notice is given all money due shall be paid at the time of termination. If the employee is dismissed, the employee will be entitled to be paid for work up to the time of the employee's dismissal only.

On resignation any discriminatory options will be forfeited.

Options that have not yet vested will be forfeited.

Relationship between remuneration policy and the performance of iiNet

iiNet's remuneration policy aims to achieve a link between the remuneration received by executives, increased earnings and the creation of shareholder wealth.

Shareholder wealth

The total return to an investor over a given period consists of the combination of dividends paid, the movement in the market value of their shares over that period and any return of capital to shareholders, not including buy-backs. During the fiscal 2005 the share price has fluctuated between a low of $2.38 and a high of $3.59.

Over the four years to 30 June 2005, iiNet has paid fully franked dividends to shareholders. Total dividends paid per share for the last four years are shown on page 42.

	Year ended 30 June 2001	Year ended 30 June 2002	Year ended 30 June 2003	Year ended 30 June 2004	Year ended 30 June 2005
Share price ($)	0.32	0.75	1.85	2.89	2.85
Total dividends paid per share (cents)	0.0	5.0	6.0	6.5	6.5
Earnings per share (cents)	-18.1	11.4	13.5	5.3	4.2

Earnings

Our Company's earnings over the five years to 30 June 2005 are summarised below.

	Year ended 30 June 2001	Year ended 30 June 2002	Year ended 30 June 2003	Year ended 30 June 2004	Year ended 30 June 2005
Sales revenue	19,915,996	26,457,258	39,938,186	94,704,284	155,820,853
Net profit available to iiNet shareholders	(6,856,690)	4,304,017	5,156,854	3,949,984	3,685,529
EBITDA	(4,174,017)	7,746,700	11,680,244	22,474,664	36,536,976

Details of Remuneration

The following table discloses the remuneration of the directors of the Company and the seven highest remunerated executive officers of the Company and consolidated entity:

	Primary			Post Employment		Equity (i)		
	Base salaries /fees $	Benefits $	Bonuses $	Retirement Benefit $	Super-annuation $	Incentive Schemes $	% of Remuneration	Total $
Non-Executive Directors								
P. C. Harley	89,500	-	-	-	8,055	-	-	97,555
A. L. Milner	52,500	-	-	-	8,213	44,067	42.1	104,780
P. R. James	52,500	-	-	-	4,725	44,067	43.5	101,292
K. N. Goodall	62,500	-	-	-	5,625	44,067	39.3	112,192
A. L. Fergusson (resigned 26 November 2004)	36,589	-	-	-	-	-	-	36,589

(i) Basis of calculations outlined on page 43 and further details are provided in note 27.

Details of Remuneration (continued)

	Primary			Post Employment		Equity		
	Base salaries /fees $	Benefits $	Bonuses $	Retirement Benefit $	Super-annuation $	Incentive Schemes $	% of Remuneration	Total $
Executive Directors								
M. M. Malone	245,512	12,913	-	-	14,481	-	-	272,906
Executive Officers								
C. W. Hollingsworth	255,577	-	-	-	14,389	207,932	43.5	477,898
L. French	146,115	-	37,500	-	13,593	46,674	19.1	243,882
G. Bader	153,404	13,924	30,000	-	13,856	174,287	45.2	385,471
M. Pienaar	103,502	-	9,940	-	-	17,293	13.2	130,735
S. Dalby	105,193	4,278	10,000	-	10,350	18,056	12.2	147,877
D. Diprose	138,480	-	17,037	-	-	25,110	13.9	180,627
G. Nelson (resigned 29 April 2005)	143,515	-	17,337	-	-	74,294	31.6	235,146

Equity remuneration of Directors and Executives

Options granted to directors during the current year: No options were granted to directors during the current year.

Options granted to executive officers during the current year (all discretionary):

Executive	Issue Date	Expiry Date	Share Price at Issue Date	Exercise Price	Value per Option at grant date	Number Granted
C. W. Hollingsworth	29 Jul 2004	29 Jul 2009	$2.89	$2.80	$1.02	250,000
G. Bader	2 Jul 2004	2 Jul 2009	$2.84	$4.00	$0.84	200,000
G. Bader	2 Jul 2004	2 Jul 2009	$2.84	$5.00	$0.64	200,000
L. French	2 Jul 2004	2 Jul 2009	$2.84	$2.88	$1.18	80,000
G. Nelson*	8 Nov 2004	8 Nov 2009	$2.78	$2.75	$0.88	50,000

* Now Lapsed

These options were issued in accordance with the 2002 iiNet Employee Share Option Plan, which was approved by shareholders at the 2002 Annual General Meeting.

Value Per Option – Issue to Specified Executives
The value of options granted during the year has been determined based on the Black-Scholes option pricing model. The model inputs included the following:

(a) options are granted for no consideration,
(b) share price at grant date as set out in the table above,
(c) option exercise price as set out in the table above,
(d) a risk free rate of 5.9 percent per annum,
(e) a volatility factor of between 20.2 percent and 35.8 percent which have been determined with reference to the historical trading of the Company's shares on ASX, and
(f) the exercise dates as set out in the table above.

Share options
As at the date of this report, there were 3,050,800 unissued ordinary shares under options (3,050,800 at 30 June 2005). Refer to note 19(c) of the financial statements for further details of options outstanding. These options do not entitle the holder to participate in any share issue of the Company.

During the financial year the Company issued 1,662,200 ordinary shares as a result of the exercise of options. Since the end of the financial year, no further options have been exercised. Refer to note 19(c) of the financial statements for further details.

Shares Issued On Exercise Of Remuneration Options During The Year

Name	Shares issued Number	Exercise Price per share $	Paid $ per share	Unpaid $ per share
Directors of iiNet Limited				
P. C. Harley - Employee Share Plan options	60,000	$1.00	$1.00	-
P. C. Harley - Director/Executive options	100,000	$1.50	$1.50	-
D. J. Banks - Director/Executive options	100,000	$1.50	$1.50	-
M. M. Malone - Director/Executive options	500,000	$1.50	$1.50	-
Specified Executives of iiNet Group				
C. W. Hollingsworth - Director/Executive options	500,000	$1.50	$1.50	-
C. W. Hollingsworth - Employee Share Plan options	100,000	$0.48	$0.48	-
C. W. Hollingsworth - Employee Share Plan options	31,500	$1.42	$1.42	-

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, 12 board meetings, one remuneration committee meeting and two audit committee meetings were held.

Directors	Board of Directors		Remuneration Committee		Audit Committee	
	Held	Attended	Held	Attended	Held	Attended
P. C. Harley	12	12	1	1	2	2
M. M. Malone	12	12	1	1	2	2
A. L. Milner	12	12	1	1	2	2
P. R. James	12	12	1	1	2	2
K. N. Goodall	12	11	1	1	2	2
A. L. Fergusson	6	6	-	-	1	1

The directors received the following declaration from the auditors of iiNet Limited which is outlined on page 46.

Signed in accordance with a resolution of the directors.

On behalf of the directors

M. M. Malone
Managing Director
Milan, Italy
30th September 2005

P. C. Harley
Chairman
Perth, Western Australia
30th September 2005

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

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 2005, to the best of my knowledge and belief; there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

G H Meyerowitz
Partner
Perth
30 September 2005

ERNST & YOUNG

The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

GPO Box M939
Perth WA 6843

Tel 61 8 9429 2222
Fax 61 8 9429 2436

Independent audit report to members of iiNet Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for iiNet Limited and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of pro□

than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Independence
We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion
In our opinion, the financial report of iiNet Limited is in accordance with:

(a) the Corporations Act 2001, including:
  (i) giving a true and fair view of the financial position of iiNet Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

G H Meyerowitz
Partner
Perth
30 September 2005

directors' declaration

In the opinion of the directors:

(a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
- (ii) complying with Accounting Standards and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

(c) 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 period ending 30 June 2005.

(d) in the opinion of the directors, as at the date of the declaration, there are reasonable grounds to believe that the members of the closed group identified in note 9 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

Signed in accordance with a resolution of the directors.

On behalf of the directors

M. M. Malone
Managing Director
Milan, Italy
30th September 2005

P. C. Harley
Chairman
Perth, Western Australia
30th September 2005

financial statements

iiNet reported another record net profit, before goodwill amortisation, of $16.9 million for the year ended June 30, 2005 – an increase of 55 percent over the previous year

statement of financial performance

For the financial year ended 30 June 2005	Note	**Consolidated 2005 $**	Consolidated 2004 $	Company 2005 $	Company 2004 $
Revenue from ordinary activities	2	**157,668,201**	95,236,271	77,665,902	56,953,260
Network costs		**(80,268,676)**	(44,943,707)	(49,127,236)	(26,740,653)
ADSL customer modem and set up costs		**(1,921,733)**	(4,153,977)	(1,921,733)	(3,807,507)
Customer Service Charges		**(16,838,947)**	(11,801,213)	(11,552,729)	(6,916,581)
Amortisation Expense on Goodwill and Client Databases		**(13,161,418)**	(6,908,407)	(899,878)	(974,780)
Marketing Sales expenses		**(6,592,345)**	(3,684,180)	(2,180,386)	(1,178,383)
Borrowing costs expensed	3(a)	**(2,671,164)**	(176,135)	(2,594,250)	(93,763)
Administration costs		**(14,351,445)**	(7,592,036)	(7,784,548)	(5,006,185)
Office costs		**(8,171,034)**	(6,466,045)	(4,384,670)	(4,284,780)
Other expenses from ordinary activities		**(2,656,956)**	(592,272)	(1,301,169)	182,001
Intercompany Dividends		**-**	-	11,922,785	-
Other Internal Charges		**-**	-	(614,000)	-
Profit from ordinary activities before income tax expense		**11,034,483**	8,918,299	7,228,088	8,132,629
Income tax (expense)/ benefit relating to ordinary activities	4	**(7,348,953)**	(4,968,315)	985,808	(2,759,658)
Net Profit attributable to members of iiNet Limited	20	**3,685,530**	3,949,984	8,213,896	5,372,971
Net exchange difference on translation of financial statements of foreign controlled entities	20	**(12,655)**	543,393	-	-
Share issue costs	19	**(2,337,596)**	(1,077,085)	(2,337,596)	(1,077,085)
Total revenues and expenses attributable to members of iiNet Limited and recognised directly in equity		**(2,350,251)**	(533,692)	(2,337,596)	(1,077,085)
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of iiNet Limited		**1,335,279**	3,416,292	5,876,300	4,295,886
Basic earnings per share (cents per share)	21	**4.2**	5.3		
Diluted earnings per share (cents per share)	21	**4.1**	5.2		
Franked dividends paid per share (cents per share)	22	**6.5**	6.5		

statement of financial position

As at 30 June 2005	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Current Assets					
Cash assets		**25,387,373**	6,241,685	20,095,048	817,176
Receivables	5	**21,835,649**	4,473,138	13,146,131	1,263,869
Inventories	6	**497,087**	397,458	185,978	147,438
Other	7	**5,680,654**	803,160	1,535,856	209,521
Total Current Assets		**53,400,763**	11,915,441	34,963,013	2,438,004
Non-current Assets					
Receivables	8	**375**	375	200,072,367	89,130,476
Other financial assets	9	**-**	-	10,004	10,002
Property, plant and equipment	10	**24,769,159**	17,075,855	18,555,131	10,228,221
Intangible assets	11	**200,369,595**	85,486,063	2,503,649	3,313,012
Deferred tax assets	4(a)	**4,301,219**	2,039,937	2,795,304	652,055
Other	12	**8,968,947**	2,537,917	7,942,638	1,927,562
Total Non-current Assets		**238,409,294**	107,140,147	231,879,093	105,261,328
Total Assets		**291,810,057**	119,055,588	266,842,106	107,699,332
Current Liabilities					
Payables	13	**31,211,105**	12,518,860	10,688,054	6,112,900
Unearned revenue	14	**16,529,856**	7,034,196	11,303,545	5,053,188
Interest-bearing liabilities	15	**11,994,823**	3,041,174	11,947,802	2,853,128
Current tax liabilities	4(a)	**851,405**	4,208,669	1,630,557	3,140,087
Provisions	16	**5,875,891**	2,385,941	1,383,059	700,322
Total Current Liabilities		**66,463,080**	29,188,840	36,953,017	17,859,625
Non-current Liabilities					
Interest-bearing liabilities	17	**53,804,061**	1,512,608	53,800,555	1,459,708
Deferred tax liabilities	4(a)	**930,899**	375,061	605,478	510,841
Provisions	18	**128,328**	694,317	61,554	187,605
Total Non-current Liabilities		**54,863,288**	2,581,986	54,467,587	2,158,154
Total Liabilities		**121,326,368**	31,770,826	91,420,604	20,017,779
Net Assets		**170,483,690**	87,284,762	175,421,502	87,681,553
Equity					
Contributed equity	19	**169,171,268**	84,397,113	169,171,268	84,397,113
Reserves	20	**530,738**	543,393	-	-
Retained profits	20	**781,684**	2,344,256	6,250,234	3,284,440
Total Equity		**170,483,690**	87,284,762	175,421,502	87,681,553

statement of cash flows

For The Financial Year Ended 30 June 2005	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Cash Flows from Operating Activities					
Receipts from customers		**145,274,870**	94,281,499	70,456,013	56,321,792
Payments to suppliers and employees		**(115,924,057)**	(75,562,737)	(57,612,876)	(43,257,455)
Interest received		**839,677**	192,143	371,718	130,884
Interest and other costs of finance paid		**(952,330)**	(176,135)	(861,458)	(93,763)
Net income tax paid		**(7,068,674)**	(1,302,248)	(2,572,335)	(1,364,682)
Net cash provided by operating activities	23(c)	**22,169,486**	17,432,522	9,781,062	11,736,776
Cash Flows From Investing Activities					
Payment for establishment of exchange space		**(3,849,588)**	-	-	-
Payment for subscriber acquisition costs		**(2,364,927)**	-	(1,633,481)	-
Payment for property, plant and equipment		**(19,152,044)**	(11,118,236)	(17,138,622)	(7,560,374)
Proceeds from sale of property, plant and equipment		**76,959**	13,000	918	13,000
Proceeds from sale of intangibles		**431,204**	-	-	-
Payment for controlled entities	23(f)	**-**	(31,185,288)	(2)	-
Payment for subscriber bases	23(g)	**-**	(7,867,000)	-	-
Payment for acquisition of businesses	23(h)	**(117,475,308)**	-	-	-
Payment for other development costs		**(50,706)**	(10,244)	(906,137)	(10,243)
Net cash used in investing activities		**(142,384,410)**	(50,167,768)	(19,677,324)	(7,557,617)
Cash Flows From Financing Activities					
Proceeds from issues of equity securities	19	**87,111,751**	31,369,535	87,111,751	31,369,535
Payments for capital raising costs	19	**(2,337,596)**	(1,077,085)	(2,337,596)	(1,077,085)
Net loans advanced to related parties		**-**	-	(111,162,418)	(41,225,729)
Proceeds from borrowings		**94,286,276**	5,290,342	91,435,520	5,290,342
Repayment of borrowings		**(33,041,174)**	(1,563,199)	(30,000,000)	(977,506)
Dividends paid	22	**(5,248,102)**	(3,584,076)	(5,248,102)	(3,584,076)
Net cash provided by/(used in) financing activities		**140,771,155**	30,435,517	29,799,155	(10,204,519)
Net increase/(decrease) in cash held		**20,556,231**	(2,299,729)	19,902,893	(6,025,360)
Cash at the beginning of the financial year		**6,241,685**	8,575,816	817,176	6,842,536
Impact of foreign currency translation		**(12,655)**	(34,402)	12,829	-
Cash at the end of the financial year	23(a)	**26,785,261**	6,241,685	20,732,898	817,176

Note 1 Summary of Significant Accounting Policies
Financial Reporting Framework

This financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, which includes applicable accounting standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

Summary of Significant Accounting Policies
The financial report has been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year.

Significant Accounting Policies
The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) **Principles of Consolidation**
The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company, (the parent entity, iiNet Limited) and its controlled entities. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the company ceases to control such entity. Controlled entity acquisitions are accounted for using the purchase method of accounting.

The financial statements of the 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, and unrealised profits arising within the consolidated entity are eliminated in full.

(b) **Taxes**
Income taxes
Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense as applicable.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities that are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

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

(c) **Revenue Recognition**
Rendering of Services
Revenue is recognised over the period of service provided.

Unearned revenue represents that component of cash received from the customer for the period from balance date to the expiry date of the customer's subscription. Unearned revenue also includes amounts received from customers in advance of their subscription period.

Sale of Goods and Disposal of Assets
Revenue from the sale of goods and the disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Interest Revenue
Interest revenue is recognised on an accrual basis.

(d) **Foreign Currency**
Translation of foreign currency transactions
All foreign currency transactions during the year are brought to account using the exchange rate in effect at the date of the transaction. Amounts that are outstanding at year end and denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

Foreign currency monetary items that are outstanding at the reporting date are translated using the spot rate at the end of the financial year. All resulting exchange differences arising from translation of foreign translation transactions are recognised as revenue and expenses for the financial year.

Translation of financial reports of overseas operations
All overseas operations are deemed self-sustaining, as each is financially and operationally independent from iiNet Limited. The financial reports of overseas operations are translated using the current rate method and any exchange differences are taken to the Foreign Translation Reserve.

(e) **Cash**
Cash includes cash on hand and in banks and investments in money market instruments. These balances are stated at their nominal value.

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

Receivables from related parties are recognised and carried at the nominal amount due. Interest, when charged by the consolidated entity, is taken up as income on an accrual basis.

(g) **Inventories**
Inventories are valued at the lower of cost and net realisable value and recognised at purchase cost on a FIFO basis.

(h) **Prepayments**
Prepayments relate to certain goods and services whereby the payment has been made and the resultant benefit is derived over future periods.

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

(j) **Recoverable Amounts of Non-Current Assets**
The carrying amounts of all non-current assets are reviewed to determine whether they are in excess of their recoverable amount at year end. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts, the relevant cash flows are not discounted to their present value.

(k) **Investments**
Non-current investments are carried at the lower of cost and recoverable amount.

(l) **Plant and Equipment**
Property, plant and equipment are carried at cost or recoverable amount.

Depreciation is calculated on a straight line basis so as to write off the net cost or other relevant amount of each asset over its expected useful life. Leasehold improvements are depreciated over the estimated useful life of the asset using the straight line method. The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment
2-5 years
Equipment under Finance Lease
3-15 years or the lease term whichever is shorter
Leasehold improvements
3-15 years or the lease term, whichever is shorter

(m) **Leases**
Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating Leases
The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight -line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Finance Leases
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as equipment under lease. A lease liability of equal value is also recognised.

Capitalised leased assets are amortised over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

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

(n) **Intangible Assets**

Goodwill
Goodwill, representing the excess of the purchase consideration over the fair value of identifiable net assets acquired including any directly attributable integration related expenses, is amortised on a straight-line basis over a period of 20 years.

Subscriber Bases
Subscriber bases are amortised over a 5 year period.

Patents, Trademarks and Licences
Patents, trademarks and licences are recorded at cost and amortised on a straight line basis over a period of 20 years.

(o) **Development Costs**
Development costs are recognised as an expense when incurred, except to the extent that such costs, together with unamortised deferred costs in relation to that project, are expected, beyond any reasonable doubt, to be recoverable.

Any deferred development costs are amortised over the period in which the corresponding benefits are expected to arise, commencing with the commercial application of the product, currently 2 to 5 years.

The unamortised balance of development costs deferred in previous periods is reviewed regularly and at each reporting date, to ensure the criterion for deferral continues to be met. Where such costs are no longer considered recoverable, they are written-off as an expense in the statement of financial performance.

(p) **Accounts Payable**
Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(q) **Interest-Bearing Liabilities**
Loans are measured at the principal amount. Interest expense is recognised on an accrual basis.

(r) **Employee Benefits**
Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave and sick leave expected to be settled within 12 months and director retirement benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made in respect of long service leave, which are not expected to be settled within 12 months, are measured at the present value of the estimated future cash flow to be made in respect of services provided by employees up to reporting date. In determining future cash outflows, the market yield as at reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

The value of the equity based compensation scheme described in note 28 is not being recognised as an employee benefits expense.

(s) **Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that the recovery will be received and the amount of the receivable can be measured reliably.

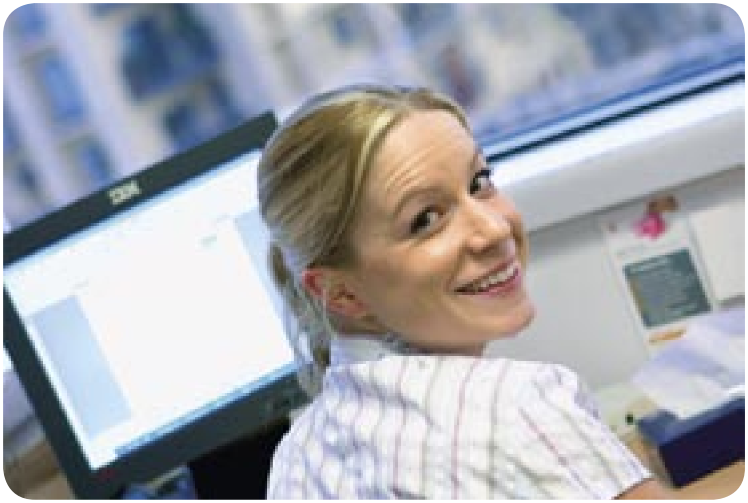
The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation.

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors.

(t) **Contributed Equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.



(u) **Earnings Per Share**

Basic earnings per share is determined by dividing the net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(v) **Comparatives**
Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

	Note	**Consolidated 2005 $**	Consolidated 2004 $	Company 2005 $	Company 2004 $
2 Revenue from Ordinary Activities					
Operating Revenue					
Sales revenue:					
Rendering of services		**153,208,750**	92,340,759	72,623,446	53,110,741
Sale of goods		**2,612,103**	2,363,525	2,612,103	2,128,176
		155,820,853	94,704,284	75,235,549	55,238,917
Rental revenue		**263,974**	82,985	-	6,619
Interest revenue - other entities		**626,905**	192,143	419,998	130,884
Interest revenue - related entities		**-**	-	1,844,117	1,457,829
Other revenue		**448,306**	243,859	165,320	106,011
Total operating revenue		**157,160,038**	95,223,271	77,664,984	56,940,260
Non-Operating Revenue					
Proceeds from the sale of assets:					
Property, plant and equipment - non-current		**76,959**	13,000	918	13,000
Intangibles		**431,204**	-	-	-
Total non-operating revenue		**508,163**	13,000	918	13,000
Total revenue from ordinary activities		**157,668,201**	95,236,271	77,665,902	56,953,260
3 Expenses and Losses					
(a) Expenses					
Cost of goods sold		**1,921,733**	4,153,977	1,921,733	3,807,507
Borrowing costs expensed:					
Interest - other entities		**2,023,370**	81,538	1,957,091	74,936
Finance lease finance charges		**256,604**	58,264	247,142	-
Other borrowing costs		**391,190**	36,333	390,017	18,827
		2,671,164	176,135	2,594,250	93,763

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Depreciation of non-current assets:					
Plant and equipment		**6,290,957**	5,182,995	2,866,656	2,955,797
Amortisation of non-current assets:					
Goodwill		**5,158,143**	2,044,871	-	-
Subscriber bases		**8,000,021**	4,861,857	896,724	976,330
Equipment under finance lease		**1,886,955**	688,772	1,268,151	69,948
Leasehold improvements		**411,596**	363,140	276,117	358,671
Capitalised development costs		**1,707,307**	429,059	1,053,587	253,875
Trademarks		**3,255**	1,679	3,155	1,550
		23,458,234	13,572,373	6,364,390	4,616,171
Operating lease rentals - minimum lease payments		**2,563,066**	2,370,242	875,757	1,101,312
Net bad and doubtful debts arising from other entities		**1,227,281**	598,661	189,533	100,000
(b) Losses /(gains)					
Net loss/(gain) on disposal of property, plant and equipment		**91,406**	23,755	(918)	23,755
Net (gain) on disposal of intangibles		**(14,023)**	-	-	-
Net foreign exchange losses		**30,640**	51,824	-	-

4 Income Tax

The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Profit from ordinary activities	**11,034,483**	8,918,299	7,228,088	8,132,629
Prima facie income tax calculated @ 30%	**3,310,345**	2,675,490	2,168,427	2,439,789
Permanent Differences:				
Amortisation of intangible assets	**3,948,425**	2,189,523	269,964	292,899
Non-deductible expenses	**40,728**	29,146	39,618	26,467
Non-assessable intercompany dividends	**-**	-	(3,576,836)	-

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Foreign tax differential		**-**	81,902	-	-
Research and Development		**(125,000)**	-	(125,000)	-
Share issue costs		**(204,881)**	-	(204,881)	-
Other movements		**15,414**	-	21,840	-
(Over)/Under provision of income tax in previous year		**363,922**	(7,746)	421,060	503
Income tax expense relating to ordinary activities		**7,348,953**	4,968,315	(985,808)	2,759,658
(a) Deferred tax assets and liabilities					
Current tax payable		**851,405**	4,208,669	1,630,557	3,140,087
Provision for deferred income tax - non-current		**930,899**	375,061	605,478	510,841
Future income tax benefit - non-current		**4,301,219**	2,039,937	2,795,304	652,055

(b) Tax consolidation

Legislation to allow groups, comprising a parent entity and its Australian resident wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

Effective from 1 July 2003, for the purposes of income tax, iiNet Limited and its 100 percent owned subsidiaries formed a tax consolidation group. Members of the group have entered into a tax funding agreement in order to allocate income tax expense to the wholly owned subsidiaries on a pro rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At balance date, the possibility of default is remote. The head entity of the tax consolidated group is iiNet Limited.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
5 Receivables - Current					
Trade receivables		**20,452,724**	5,418,598	12,090,852	1,467,753
Provision for doubtful debts		**(4,360,505)**	(979,986)	(395,914)	(238,410)
		16,092,219	4,438,612	11,694,938	1,229,343
Other debtors		**5,743,430**	34,526	1,451,193	34,526
		21,835,649	4,473,138	13,146,131	1,263,869

Terms and Conditions:

(i) Trade receivables are non-interest bearing and generally on 30 day terms.

(ii) Other debtors are non-interest bearing and have repayment terms between 30 and 90 days.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
6 Inventories - Current					
Finished goods - at the lower of cost and net realisable value		**497,087**	397,458	185,978	147,438
7 Other Current Assets					
Prepayments		**3,183,279**	803,160	1,535,856	209,521
Telstra Exchange Building Access refund receivable		**2,497,375**	-	-	-
		5,680,654	803,160	1,535,856	209,521
8 Receivables - Non-Current					
Other		**375**	375	375	375
Loans advanced to entities in the wholly owned group		**-**	-	200,071,992	89,130,101
		375	375	200,072,367	89,130,476

Terms and Conditions:
Loans receivable from related entities will not be called within the next twelve months. Part of these loans are interest-bearing, refer to note 29(b).

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
9 Other Financial Assets - Non-Current					
Investments - at cost					
Shares in controlled entities - unlisted		**-**	-	10,004	10,002

Controlled Entities	Country of Incorporation	Ownership Interest % 2005	Ownership Interest % 2004
Parent Entity:			
iiNet Limited			
Controlled Entities:			
Held by iiNet Limited			
Chime Communications Pty Limited	Australia	100%	100%
ihug Pty Limited (previously Jiva Online Pty Limited (name changed 25 March 2004))	Australia	100%	100%
Connect West Pty Limited	Australia	100%	100%
Netscapade Pty Limited (incorporated 24 February 2004)	Australia	100%	100%

Controlled Entitles		Country of Incorporation	Ownership Interest % 2005	2004
iiNet New Zealand Limited (incorporated 4 September 2003)		New Zealand	100%	100%
iiNet (OzEmail) Pty Ltd (incorporated 8 February 2005)		Australia	100%	0%
Held by iiNet New Zealand Limited				
ihug Limited	23(f)	New Zealand	100%	100%

(a) Entities subject to class order relief

Pursuant to Class Order 98/1418, relief has been granted to Chime Communications Pty Ltd, iHug Pty Ltd, Netscapade Pty Ltd, Connect West Pty Ltd and iiNet (OzEmail) Pty Ltd from the Corporations Act 2001 requirements for preparation, audit and lodgement of their financial reports.

As a condition of the Class Order, iiNet Limited, Chime Communications Pty Ltd, iHug Pty Ltd, Connect West Pty Ltd and iiNet (OzEmail) Pty Ltd (the Closed Group) entered into a Deed of Cross Guarantee on 29 June 2005. The effect of the deed is that iiNet Limited has guaranteed to pay any deficiency in the event of the winding up of either controlled entity. The controlled entity have also given a similar guarantee in the event that iiNet Limited is wound up.
The consolidated statement of financial performance and statement of financial position of the entities which are members of the closed group are as follows:

	Closed Group 2005 $	2004 $
(i) Consolidated Statement of Financial Performance		
Profit from ordinary activities before income tax	**10,364,843**	11,000,506
Income tax expense relating to ordinary activities	**(5,795,658)**	(4,306,489)
Profit from ordinary activities before income tax	**4,569,185**	6,694,017
Loss from extraordinary items after income tax	-	-
Net profit	**4,569,185**	6,694,017
Retained profits at the beginning of the financial year	**1,878,879**	(1,231,062)
Dividends provided for or paid	**(5,248,102)**	(3,584,076)
Aggregate amounts transferred to reserves	-	-
Retained profits at the end of the financial year	**1,199,962**	1,878,879

9 Other Financial Assets - Non-Current (continued)

	Closed Group 2005 $	Closed Group 2004 $
(ii) Consolidated statement of financial position		
Current Assets		
Cash Assets	**22,146,182**	3,618,979
Receivables	**19,162,671**	2,296,588
Inventories	**269,883**	146,878
Other	**4,995,752**	681,824
Total Current Assets	**46,574,488**	6,744,268
Non-current Assets		
Receivables	**52,478,013**	46,369,731
Property, plant and equipment	**28,256,552**	14,584,606
Intangible assets	**155,223,248**	35,323,274
Deferred tax assets	**2,884,861**	891,962
Other	**2,333,946**	7,820,038
Total Non-current Assets	**241,176,620**	104,989,610
Total Assets	**287,751,108**	111,733,879
Current Liabilities		
Payables	**28,314,115**	10,098,272
Unearned Revenue	**15,428,059**	5,860,088
Interest-bearing liabilities	**11,994,823**	3,041,174
Provisions	**5,467,640**	1,477,255
Current tax liabilities	**1,637,375**	2,661,190
Total Current Liabilities	**62,842,012**	23,137,978
Non-current Liabilities		
Interest-bearing liabilities	**53,804,061**	1,512,608
Deferred tax liabilities	**605,478**	545,996
Provisions	**128,328**	261,305
Total Non-current Liabilities	**54,537,867**	2,319,909
Total Liabilities	**117,379,879**	25,457,886
Net Assets	**170,371,229**	86,275,992
Shareholders' Equity		
Contributed Equity	**169,171,268**	84,397,113
Reserves	**-**	-
Retained Profits	**1,199,961**	1,878,879
Total Shareholders' Equity	**170,371,229**	86,275,992

10 Property, Plant and Equipment

Consolidated - at cost

	Equipment under Finance Lease $	Plant and Equipment $	Leasehold Improvements $	Total $
Gross Carrying Amount				
Balance as at 30 June 2004	5,253,283	27,578,910	1,961,346	34,793,539
Net foreign currency movements arising from self-sustaining foreign operation	-	31,403	276	31,679
Additions	5,751,768	8,121,668	428,788	14,302,224
Disposals	-	(294,729)	-	(294,729)
Acquired through acquisitions	-	2,100,828	-	2,100,828
Balance as at 30 June 2005	11,005,051	37,538,080	2,390,410	50,933,541
Accumulated Depreciation/Amortisation				
Balance as at 30 June 2004	(2,248,085)	(14,505,971)	(963,628)	(17,717,684)
Net foreign currency movements arising from self-sustaining foreign operation	-	16,329	117	16,446
Depreciation Expense	(1,886,955)	(6,290,957)	(411,596)	(8,589,508)
Disposals	-	126,364	-	126,364
Balance as at 30 June 2005	(4,135,040)	(20,654,235)	(1,375,107)	(26,164,382)
Net Book Value				
As at 30 June 2004	3,005,198	13,072,939	997,718	17,075,855
As at 30 June 2005	6,870,011	16,883,845	1,015,303	24,769,159

10 Property, Plant and Equipment (continued)

Company - at cost

	Equipment under Finance Lease $	Plant and Equipment $	Leasehold Improvements $	Total $
Gross Carrying Amount				
Balance as at 30 June 2004	2,090,342	18,023,597	1,917,638	22,031,577
Additions	5,751,768	6,489,636	496,430	12,737,834
Disposals	-	-	-	-
Balance as at 30 June 2005	7,842,110	24,513,233	2,414,068	34,769,411
Accumulated Depreciation/Amortisation				
Balance as at 30 June 2004	(69,948)	(10,778,718)	(954,690)	(11,803,356)
Depreciation Expense	(1,268,151)	(2,866,656)	(276,117)	(4,410,924)
Disposals	-	-	-	-
Balance as at 30 June 2005	(1,338,099)	(13,645,374)	(1,230,807)	(16,214,280)
Net Book Value				
As at 30 June 2004	2,020,394	7,244,879	962,948	10,228,221
As at 30 June 2005	6,504,011	10,867,859	1,183,261	18,555,131

(a) Assets pledged as security
Assets under lease are pledged as security for the associated lease liabilities.
Under the terms of the debt facility (Note 23 (e)), the Westpac Banking Corporation has a fixed and floating charge over the plant and equipment of the iiNet Group.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
11 Intangible Assets					
Subscriber bases - at cost		**53,763,040**	42,414,958	12,685,212	12,632,810
Write down of carrying amount		**-**	(5,378,495)	-	(5,378,495)
Accumulated amortisation		**(21,408,341)**	(8,130,931)	(10,250,220)	(3,975,001)
		32,354,699	28,905,532	2,434,992	3,279,314
Goodwill - at cost		**175,354,770**	58,799,264	-	-
Accumulated amortisation		**(7,410,873)**	(2,254,877)	-	-
		167,943,897	56,544,387	-	-
Patents and Trademarks - at cost		**77,633**	39,523	75,179	37,065
Accumulated amortisation		**(6,634)**	(3,379)	(6,522)	(3,367)
		70,999	36,144	68,657	33,698
		200,369,595	85,486,063	2,503,649	3,313,012
12 Other Non Current Assets					
Capitalised development costs - at cost		**11,737,511**	3,476,851	9,159,829	2,401,072
Accumulated amortisation		**(2,768,564)**	(938,934)	(1,437,715)	(473,510)
		8,968,947	2,537,917	7,722,114	1,927,562
Intercompany loans		**-**	-	220,524	-
		8,968,947	2,537,917	7,942,638	1,927,562
13 Payables - Current					
Trade creditors	13(i)	**32,241,615**	10,809,537	10,651,621	5,119,107
Goods and services tax (GST) (receivable)/payable		**(1,190,005)**	860,737	(345,511)	605,767
Other creditors	13(ii)	**159,495**	848,586	381,944	388,026
		31,211,105	12,518,860	10,688,054	6,112,900

Terms and Conditions:
(i) Trade creditors and GST payable are non-interest bearing and generally on 30 day terms.
(ii) Other creditors are non-interest bearing and have repayment terms between 30 and 180 days.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
14 Unearned Revenue - Current					
Unearned revenue		**16,529,856**	7,034,196	11,303,545	5,053,188
15 Interest-Bearing Liabilities - Current					
Bank Facility	15(i)	**10,000,000**	2,300,000	10,000,000	2,300,000
Finance lease liabilities	24(b)/15(ii)	**1,994,823**	741,174	1,947,802	553,128
		11,994,823	3,041,174	11,947,802	2,853,128

Terms and Conditions

(i) Amounts drawn-down under the bank facility held with the Westpac Banking Corporation are repayable on a quarterly basis with the facility expiring on February 2008. Interest is recognised at an average rate of 7.33 percent (2004: 6.8 percent). The facility has been secured by a fixed and floating charge over the assets of the iiNet group.

(ii) Finance leases have lease terms of between 1 and 5 years with the option to purchase the assets at the completion of the leases. The average discount rate implicit in the leases is 6.3 percent (2004: 7.4 percent). Lease liabilities are secured by a charge over the leased assets. A restriction also exists requiring notification to the lessor of any further finance leases entered into.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
16 Provisions - Current					
Employee entitlements	28	**2,198,993**	1,143,489	1,342,973	573,936
Surplus leased space		**65,428**	526,661	-	21,438
Deferred settlements	23(g)	**-**	565,178	-	-
Off Market Contracts		**2,815,821**	-	-	-
Make Good		**400,000**	-	-	-
Other provisions		**395,649**	150,613	40,086	104,948
		5,875,891	2,385,941	1,383,059	700,322
Movements in provisions:					
(a) Surplus leased space					
Balance as at beginning of the year		**526,661**	51,861	21,438	51,861
Additional provisions		**-**	688,987	-	-
Reductions arising from payments/other sacrifices of future economic benefits		**(461,233)**	(214,187)	(21,438)	(30,423)
Balance at year end		**65,428**	526,661	-	21,438

The provision for surplus leased space represents the future lease payments that the consolidated entity is presently obliged to make in respect of surplus lease space under non-cancellable operating lease operations, less estimated future sub-lease revenue where applicable. The estimate may vary as a result of changes in utilisation of the leased premises and the sub lease arrangements where applicable.

	Note	**Consolidated 2005 $**	Consolidated 2004 $	Company 2005 $	Company 2004 $
(b) Deferred Settlement					
Balance as at beginning of the financial year		**565,178**	-	-	-
Additional provisions		**-**	565,178	-	-
Reductions arising from payments/other sacrifices of future economic benefits		**(565,178)**	-	-	-
Balance at year end		**-**	565,178	-	-
The provision for deferred settlement represents the deferred payment on the purchase of Wavenet					
(c) Off Market Contracts					
Balance as at beginning of the year		**-**	-	-	-
Additional provisions arising from acquisition of OzEmail and Virtual Communities		**5,440,161**	-	-	-
Reductions arising from payments/other sacrifices of future economic benefits		**(2,624,340)**	-	-	-
Balance at year end		**2,815,821**	-	-	-

The provision for off market contracts is a fair value adjustment identified as part of the acquisition of the OzEmail business

16 Provisions - Current (continued)

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(d) Make Good					
Balance as at beginning of the year		**-**	-	-	-
Additional Provisions		**400,000**	-	-	-
Reductions arising from payments/other sacrifices of future economic benefits		**-**	-	-	-
Balance at year end		**400,000**	-	-	-

The provision for make good is a fair value adjustment identified as part of the acquisition of businesses

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(e) Other Provisions					
Balance as at beginning of the year		**150,613**	30,000	104,948	30,000
Additional Provisions		**602,987**	809,600	-	84,948
Reductions arising from payments/other sacrifices of future economic benefits		**(357,951)**	(688,987)	(64,862)	(10,000)
Balance at year end		**395,649**	150,613	40,086	104,948

Other provisions raised include provisions for lease incentives, redundancies and dial utilisation costs

17 Interest-Bearing Liabilities - Non-current

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Bank facility	15(i)	**49,000,000**	-	49,000,000	-
Finance lease liabilities	24(b)/15(ii)	**4,804,061**	1,512,608	4,800,555	1,459,708
		53,804,061	1,512,608	53,800,555	1,459,708

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $

18 Provisions - Non-Current

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Employee entitlements	28	**128,328**	244,820	61,554	187,605
Surplus leased space		**-**	449,497	-	-
		128,328	694,317	61,554	187,605
Movements in provisions - surplus leased space					
Balance as at beginning of the year		**449,497**	4,709	-	4,709
Additional Provisions		**-**	597,502	-	-
Reductions arising from payments/other sacrifices of future economic benefits		**(449,497)**	(152,714)	-	(4,709)
Balance at year end		**-**	449,497	-	-

Refer to note 16(a) for details of the provision for surplus lease space.

19 Contributed Equity

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
109,123,616 fully paid ordinary shares (2004: 79,591,416)	**169,171,268**	84,397,113	169,171,268	84,397,113

(a) Movements in shares on issue

	Note	Company 2005 Number	Company 2005 $	Company 2004 Number	Company 2004 $
Balance at beginning of financial year		**79,591,416**	**84,397,113**	39,921,100	12,548,692
Shares issued to investors to raise funds for ihug acquisition		**-**	**-**	14,453,947	30,594,501
Shares issued as part consideration for acquisition of controlled entities	23(f)	**-**	**-**	23,746,269	41,555,971
Shares issued as part capital raising		**27,870,000**	**85,003,500**	-	-
Costs of capital raising		**-**	**(2,337,596)**	-	(1,077,085)
Other Costs		**-**	**(24,764)**	-	-
Issues of shares under the employee share option plans		**462,200**	**339,871**	1,270,100	575,034
Exercise of Options under Director and executive scheme		**1,200,000**	**1,793,144**	-	-
Exercise of Director options - Wantree		**-**	**-**	200,000	200,000
		109,123,616	**169,171,268**	79,591,416	84,397,113

19 Contributed Equity (continued)

(b) Terms and conditions of contributed equity

Ordinary shares carry one vote per share and carry the right to dividends.

(c) Share options

Options to take up ordinary shares in the capital of the Company as at 30 June 2005 are:

Exercise Period	Exercise Price $	Opening Balance 1 July 2004 Number	Options Granted during 2004/2005 Number	Options Exercised during 2004/2005 Number	Options Cancelled/Expired during 2004/2005 Number	Closing Balance 30 June 2005 Number
Granted to Directors and Executives						
1 December 2003 to 1 December 2004	$1.50	1,200,000	-	(1,200,000)	-	-
1 June 2005 to 1 June 2006 (1st Tranche)	$3.30	150,000	-	-	-	150,000
1 December 2006 to 1 December 2007 (2nd Tranche)	$4.00	150,000	-	-	-	150,000
2 January 2006 to 2 July 2009	$2.88	-	80,000	-	-	80,000
2 January 2006 to 2 July 2009	$4.00	-	200,000	-	-	200,000
2 January 2006 to 2 July 2009	$5.00	-	200,000	-	-	200,000
Granted under employee share option plans (includes Executives)						
2 March 2001 to 31 August 2004	$1.00	103,500	-	(96,000)	(7,500)	-
9 October 2002 to 9 April 2006	$0.61	177,000	-	(75,500)	(6,000)	95,500
6 June 2003 to 6 December 2006	$0.48	250,000	-	(228,700)	-	21,300
2 May 2006 to 3 May 2008 (non-discriminatory)	$1.42	302,000	-	-	-	302,000
2 November 2004 to 3 May 2008 (discretionary)	$1.42	288,000	-	(62,000)	(18,000)	208,000
12 February 2007 to 12 February 2009 (non-discretionary)	$3.01	927,400	-	-	-	927,400
12 August 2005 to 12 February 2009 (discretionary)	$3.01	568,300	-	-	(186,700)	381,600
2 January 2006 to 2 July 2009	$2.88	-	85,000	-	-	85,000
29 January 2006 to 29 July 2009	$2.80	-	250,000	-	-	250,000
8 May 2006 to 8 November 2009	$2.75	-	50,000	-	(50,000)	-
		4,116,200	**865,000**	**(1,662,200)**	**(268,200)**	**3,050,800**

Consideration received on the exercise of options is recognised in contributed equity. During the financial year $2,133,015 (2004: $775,034) was recognised in contributed equity arising from the exercise of director, executive and employee options.

The difference between the total market value of options at the date of grant and the total amount received from executives and employees is not recognised in the financial statements.

Further details of the director and specified director options are provided in note 27, and further details of employee share option plans are contained in note 28 to the financial statements.

	Note	**Consolidated 2005 $**	Consolidated 2004 $	Company 2005 $	Company 2004 $
20 Reserves and Retained Profits					
Retained profits					
Balance at the beginning of the financial year		**2,344,256**	1,978,348	3,284,440	1,495,545
Net profit attributable to members of the parent entity		**3,685,530**	3,949,984	8,213,896	5,372,971
Dividends provided for or paid	22(a)	**(5,248,102)**	(3,584,076)	(5,248,102)	(3,584,076)
Balance at year end		**781,684**	2,344,256	6,250,234	3,284,440
Foreign currency translation reserve					
Balance at the beginning of the financial year		**543,393**	-	-	-
Gain/(loss) on translation of overseas controlled entities		**(12,655)**	543,393	-	-
Balance at year end		**530,738**	543,393	-	-

The foreign currency translation reserve is used to record exchange differences arising from the translation of financial statements of self-sustaining foreign operations.

21 Earnings Per Share

	2005 Cents per share	2004 Cents per share
Basic earnings per share	**4.2**	5.3
Diluted earnings per share	**4.1**	5.2

The following reflects the income and share data used in the calculation of basic and diluted earnings per share:

	2005 $	2004 $
Earnings - as per statement of financial performance	**3,685,530**	3,949,984

	2005 Number	2004 Number
Weighted average number of ordinary shares used to calculate basic earnings per share	**88,595,660**	75,228,125
Add effect of dilutive securities - employee options	**390,130**	1,220,770
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share	**88,985,790**	76,448,895

The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share:

	2005	2004
Employee Share Options	**-**	2,910,430

22 Dividends Provided For or Paid

	2005 Cents per share	2005 Total $	2004 Cents per share	2004 Total $
(a) Dividends paid during the year				
Current year interim dividend - franked to 30 percent	**2.5**	**2,030,824**	2.5	1,988,131
Previous year final dividend - franked to 30 percent	**4.0**	**3,217,278**	4.0	1,595,945
	6.5	**5,248,102**	6.5	3,584,076
(b) Dividends proposed and not recognised as a liability				
Final dividend - franked to 30 percent	**4.0**	**4,364,945**	4.0	3,183,657
	4.0	**4,364,945**	4.0	3,183,657

	Company 2005 $	Company 2004 $
(c) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30 percent (2004: 30 percent)	**8,086,894**	3,285,930
Franking debits that will arise from the payment of recommended final dividends for the end of the financial year	**(1,870,691)**	(1,364,424)
Franking credits that will arise from the payment of income tax payable at the end of the financial year	**698,810**	736,466
	6,951,013	2,657,972

The tax rate at which paid dividends have been franked is 30 percent (2004: 30 percent).
Dividends proposed will be paid at the rate of 30 percent (2004: 30 percent).

23 Notes To The Statement Of Cash Flows

(a) Reconciliation of cash

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Cash balance comprises					
- cash at bank		**4,605,145**	3,972,344	280,957	44,036
- short term deposits - at call		**20,782,228**	2,269,341	19,814,091	773,140
		25,387,373	6,241,685	20,095,048	817,176
- short term deposits included in receivables		**1,397,888**	-	637,850	-
		26,785,261	6,241,685	20,732,898	817,176

23 Notes To The Statement Of Cash Flows (continued)

(b) Cash balances not available for use

As at the end of the financial year $1,397,888 was held in term deposits as security for bank guarantees and is not available for use (2004: $1,974,430 - this balance is included in short term deposits at call in the prior year)

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(c) Reconciliation of net profit after tax to net cash flows from operations					
Net profit after income tax		**3,685,530**	3,949,984	8,213,896	5,372,971
Depreciation and amortisation		**23,458,234**	13,572,373	6,364,390	4,616,171
Net loss/(gain) on sale of non current assets		**91,406**	23,755	(918)	23,755
Changes in net assets and liabilities net of effects from acquisition of businesses:					
(Increase)/decrease in assets:					
- Receivables		**(13,323,978)**	(65,730)	(6,320,391)	(87,190)
- Inventory		**(99,629)**	488,535	(38,540)	200,243
Increase/(decrease) in liabilities:					
- Payables		**10,496,672**	1,558,998	4,562,244	1,460,127
- Provision for employee entitlements		**939,011**	358,718	642,986	299,935
- Provision - other		**1,984,947**	(2,192,751)	(84,463)	32,550
- Income tax payable		**(3,357,263)**	1,830,162	(1,509,530)	41,945
- Other tax balances		**(1,705,444)**	(2,091,522)	(2,048,612)	(223,731)
Net cash flow from operating activities		**22,169,486**	17,432,522	9,781,062	11,736,776

(d) Non-Cash Financing and Investing Activities

(i) During the year, the Group acquired plant and equipment with an aggregate fair value of $5,751,768 (2004: $2,090,342) by means of finance leases.

	Note	**Consolidated 2005 $**	Consolidated 2004 $	Company 2005 $	Company 2004 $

(e) Financing Facilities

During the 2004 financial year the consolidated entity entered into a debt facility with Westpac Banking Corporation. This short term facility expired on 31 December 2004.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
- amounts drawn down		**2,300,000**	3,200,000	2,300,000	3,200,000
- amounts repaid		**(2,300,000)**	(900,000)	(2,300,000)	(900,000)
- amount used as at year end	15	**-**	2,300,000	-	2,300,000
- amount unused as at year end		**-**	1,700,000	-	1,700,000
		-	4,000,000	-	4,000,000

During the 2005 financial year the consolidated entity entered into a debt facility with Westpac Banking Corporation. This facility expires on 25 February 2008.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
- amounts drawn down		**91,500,000**	-	91,500,000	-
- amounts repaid		**(32,500,000)**	-	(32,500,000)	-
- amount used as at year end	15 and 17	**59,000,000**	-	59,000,000	-
- amount unused as at year end		**-**	-	-	-
		59,000,000	-	59,000,000	-

23 Notes To The Statement Of Cash Flows (continued)

(f) Acquisition of controlled entities

On 21 October 2003, the consolidated entity acquired 100 percent of the voting share capital in ihug Limited and IP Factory Limited, companies incorporated in New Zealand, and selected net assets of ihug in Australia (together the 'ihug Group'). The ihug Group are Internet service providers. The components of the acquistion were:

	2004 $
Consideration	
Cash	30,143,500
Shares - 23,746,269 issued to vendors	41,555,971
Other acquisition costs	1,041,788
	72,741,259
Fair Value of net assets acquired	
Receivables - trade debtors	2,600,148
Inventories	538,312
Plant and equipment	2,661,958
Intangible assets	19,384,246
Other assets	2,383,711
Payables - current	(6,157,710)
Unearned income	(1,814,319)
Provision for employee entitlements	(393,573)
Provision - other	(1,454,536)
Net assets acquired	17,748,237
Goodwill arising on acquisition	54,993,022
	72,741,259
Net cash effect:	
Cash consideration paid and costs paid	31,185,288
Less amounts payable at year end	-
Cash paid for acquisition of controlled entities as reflected in the consolidated Statement of Cash Flow	31,185,288

During the 2005 financial year, the Company made a $2 investment to establish iiNet (OzEmail) Pty Ltd to enable the acquisition of the OzEmail business.

(g) Subscriber bases acquired

During the 2004 financial year, the consolidated entity acquired the customers and net assets of the Froggy Internet business in Australia and the Wave Internet Business in New Zealand. During the 2003 year the consolidated entity acquired the customers of Rocknet Internet, Webfront, Country Net Link, Community ISP (Origin Internet), Local Telecom (Ruralnet and TasAccess), Web One and Octa4.

	2004 $
Froggy and Wave Internet	
Consideration	
Cash	7,603,215
Other acquisition costs	828,963
	8,432,178
Fair Value of net assets acquired	
Receivables - current	-
Plant and equipment	436,033
Payables - current	-
Unearned income	(932,259)
Provision for employee entitlements	(174,412)
Provision - other	(1,819,304)
Net liabilities acquired	(2,489,942)
Goodwill on Acquisition	10,922,157
	8,432,215

23 Notes To The Statement Of Cash Flows (continued)

2004 Name of Subscriber bases acquired	Principal Activity	Date of Acquisition	Country of Acquisition	Cost of Acquisition $
Froggy Internet	Internet Service Provider	3 March 2004	Australia	6,300,000
Wave Internet	Internet Service Provider	3 May 2004	New Zealand	1,303,215
				7,603,215
Add: final instalment paid for 2003 acquisition of Octa4				150,000
: Other costs of acquisition				678,963
Less: amounts payable at 30 June 2004 for Wave Internet (NZD: $620,000)				(565,178)
Net cash paid for acquisition of subscriber bases				7,867,000

(h) Businesses acquired

On 9 October 2004 the consolidated entity acquired the customers and net assets of the Virtual Communities business and on 28 February 2005 acquired the customers and net assets of the OzEmail business.

	2005 $
OzEmail	
Consideration	
Cash	103,074,502
Other acquisition costs	6,226,917
	109,301,419
Fair Value of net assets acquired	
Receivables - current	961,889
Inventory	16,136
Prepayments	260,018
Term Deposits	2,000

	2005 $
Client Databases acquired	6,491,675
Deferred Tax asset	2,671,494
Payables - current	(4,005,576)
Unearned income	(4,064,158)
Provision for employee entitlements	(710,849)
Provision - other	(5,650,826)
Net liabilities acquired	(4,028,197)
Goodwill on Acquisition	113,329,616
	109,301,419

Virtual Communities

Consideration

Cash	7,750,000
Other acquisition costs	423,889
	8,173,889

Fair Value of net assets acquired	
Inventory	93,979
Deferred tax asset	631,357
Fixed Assets	2,100,828
Client Databases acquired	5,249,595
Unearned income	(1,372,627)
Provision for employee entitlements	(217,955)
Provision - other	(1,894,068)
Net liabilities acquired	4,591,109
Goodwill on Acquisition	3,582,780
Net Cash Effect	8,173,889

Cash consideration paid for the OzEmail business	109,301,419
Cash consideration paid for the Virtual Communities business	8,173,889
Cash paid for acquisition of businesses as reflected in the consolidated Statement of Cash Flows	117,475,308

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
24 Expenditure Commitments					
(a) Capital expenditure commitments					
Plant and equipment					
Not later than 1 year		**13,080,639**	708,474	12,354,797	250,097
		13,080,639	708,474	12,354,797	250,097
(b) Lease Commitments					
(i) Finance lease liabilities					
Not later than 1 year		**2,413,328**	882,736	2,362,579	680,938
Later than 1 year and not later than 5 years		**5,143,062**	730,399	5,139,556	680,938
Later than 5 years		**-**	912,472	-	910,457
Minimum lease payments		**7,556,390**	2,525,607	7,502,135	2,272,333
Less: Future finance charges		**(757,506)**	(271,825)	(753,778)	(259,497)
		6,798,884	2,253,782	6,748,357	2,012,836
Included in financial statements as:					
Current interest-bearing liabilities	15	**1,994,823**	741,174	1,947,802	553,128
Non-current interest bearing liabilities	17	**4,804,061**	1,512,608	4,800,555	1,459,708
		6,798,884	2,253,782	6,748,357	2,012,836

Finance leases relate to property, plant and equipment with lease terms remaining between 1 and 3 years. The consolidated entity has options to purchase the property, plant and equipment for a nominal amount at the conclusion of the lease agreements.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
(ii) Non cancellable operating leases					
Not later than 1 year		**2,189,454**	1,250,390	651,001	361,511
Later than 1 year and not later than 5 years		**1,053,083**	558,352	-	274,744
Later than 5 years		**187,520**	265,653	-	-
		3,430,057	2,074,395	651,001	636,255

Operating leases relate to premises with lease terms remaining between 1 and 12 years. The consolidated entity does not have an option to purchase the leased asset at the expiry of the lease term.

	Note	**Consolidated 2005 $**	Consolidated 2004 $	Company 2005 $	Company 2004 $
(c) Other Expenditure					
Other Committed Operating Expenditure					
Not later than 1 year		**9,323,065**	5,189,744	-	-
Later than 1 year and not later than 5 years		**3,184,248**	588,620	-	-
		12,507,313	5,778,364	-	-

25 Contingent Liabilities

Under the self assessment provisions and following the receipt of professional advice, certain costs relating to the acquisition of subscriber bases were claimed as deductions for income tax purposes for the years ended 30 June 1998 to 2001. The Australian Tax Office (ATO) has disputed the deductibility of these costs but have confirmed iiNet has a reasonable arguable case. However, as at the date of this report the issue remains unresolved and there is a potential liability for associated general interest charges payable, which have not been fully provided for as an amount cannot be reliably measured by management at this stage.

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
26 Auditor's Remuneration					
Amounts received or due and receivable by Ernst & Young for:					
Auditing the financial report		**439,788**	184,000	354,237	124,000
Other services - tax compliance and corporate advisory		**1,121,576**	456,961	1,031,801	456,961
		1,561,364	640,961	1,386,038	580,961
Amounts received or due and receivable by previous auditors for:					
Auditing the financial report		**-**	-	-	-
Other services - tax compliance and corporate advisory		**-**	22,300	-	22,300
		-	22,300	-	22,300
Total auditors remuneration		**1,561,364**	663,261	1,386,038	603,261

27 Director and executive disclosures

(a) Details of specified directors and specified executives

Chairman
P. C. Harley - Non-Executive
Executive director
M. M. Malone - Managing Director

Non-executive directors
A. L. Milner
P. R. James
K. N. Goodall
A. L. Fergusson - resigned 26 November 2004

Executives (other than directors) with the greatest authority for strategic direction and management
The following persons were the seven executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during financial year.

Name and Position

C. W. Hollingsworth	Chief Financial Officer
L. French	General Manager Marketing
G. Bader	Chief Technology Officer
M. Pienaar	General Manager Human Resources
S. Dalby	General Manager Regulatory Australia
D. Diprose	General Manager Regulatory New Zealand
G. Nelson	General Manager New Zealand (resigned 29 April 2005)

(b) Remuneration of specified directors and specified executives

(i) Remuneration Policy
Non-executive directors' fees are determined by the Board of Directors within the aggregate amount approved by shareholders currently at $400,000 per annum (2004: $400,000).

The remuneration committee reviews the remuneration packages of all directors and executive officers on an annual basis and makes recommendations to the Board. Remuneration packages are reviewed with due regard to the Company's financial and operational performance and other relevant factors.

To assist in achieving these objectives, the remuneration committee links the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance.

All directors and executives have the opportunity to qualify for participation in the Employee Share Option Plan which currently provides incentives where specified criteria are met including criteria relating to profitability, cash flow and share price growth.

In order to retain and attract executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations, the remuneration committee seeks the advice of external advisers in connection with the structure of packages.

Remuneration packages contain the following key elements:

a) Salary/fees;
b) Benefits – including the provision of superannuation; and
c) Incentive schemes – including performance related bonuses and share options.

27 Director and executive disclosures (continued)

(ii) Remuneration of specified directors and specified executives:

	Primary			Post-employment		Equity	
Directors of iiNet Limited - 2005	Cash salary & fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits[1] $	Options $	Total $
P. C. Harley	89,500	-	-	8,055	-	-	97,555
M. M. Malone	245,512	-	12,913	14,481	-	-	272,906
A. L. Milner	52,500	-	-	8,213	-	44,067	104,780
P. R. James	52,500	-	-	4,725	-	44,067	101,292
K. N. Goodall	62,500	-	-	5,625	-	44,067	112,192
A. L. Fergusson - resigned 26 Nov 2004	36,589	-	-	-	-	-	36,589
Total	**539,101**	**-**	**12,913**	**41,099**	**-**	**132,201**	**725,314**

1 Retirement benefits were previously paid to directors upon retirement, being one third of the maximum prescribed benefit by s. 200G of the Corporations Act 2001. These directors benefits terminated as at 28 November 2003. The benefit payable to that time of $74,790 to P. C. Harley on retirement has been fully provided for in note 18, however has not been reflected in the above remuneration table.

	Primary			Post-employment		Equity	
Directors of iiNet Limited - 2004	Cash salary & fees $	Cash bonus $	Non-monetary benefits $	Superannuation $	Retirement benefits $	Options $	Total $
P. C. Harley	80,328	-	-	7,230	-	866	88,424
M. M. Malone	147,323	-	36,676	11,001	-	738	195,738
A. L. Milner	99,100	25,000	-	6,884	-	23,884	154,868
P. R. James - appointed 28 Nov 2003	29,508	-	-	2,656	-	23,333	55,497
K. N. Goodall - appointed 21 Oct 2003	41,639	-	-	3,748	-	23,333	68,720
A. L. Fergusson - appointed 27 Nov 2003	29,645	-	-	2,668	-	-	32,313
D. J. Banks - resigned 28 Nov 2003	16,284	-	-	1,466	58,408	386	76,544
Total	**443,827**	**25,000**	**36,676**	**35,653**	**58,408**	**72,540**	**672,104**

	Primary			Post-employment		Equity	
Executives of iiNet Group (excluding directors) - 2005	**Cash salary & fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Superannuation $**	**Retirement benefits $**	**Options $**	**Total $**
C. W. Hollingsworth	255.577	-	-	14,389	-	207,932	477,898
L. French	146,115	37,500	-	13,593	-	46,674	243,882
G. Bader	153,404	30,000	13,924	13,856	-	174,287	385,471
M. Pienaar	103,502	9,940	-	-	-	17,293	130,735
S. Dalby	105,193	10,000	4,278	10,350	-	18,056	147,877
D. Diprose	138,480	17,037	-	-	-	25,110	180,627
G. Nelson - resigned 29 April 2005	143,515	17,337	-	-	-	74,294	235,146
Total	**1,045,786**	**121,814**	**18,202**	**52,188**	**-**	**563,646**	**1,801,636**

	Primary			Post-employment		Equity	
Specified Executives of iiNet Group Cash (excluding directors) - 2004	**Cash salary & fees $**	**Cash bonus $**	**Non-monetary benefits $**	**Superannuation $**	**Retirement benefits $**	**Options $**	**Total $**
C. W. Hollingsworth	202,431	-	5,713	11,001	-	23,015	242,160
M. Wylie - resigned 28 Feb 2004	220,724	-	-	-	-	2,985	223,709
G. Bader	120,749	10,000	10,396	11,001	-	8,171	160,317
H. Campbell	95,226	-	14,665	9,890	-	7,331	127,112
S. Dalby	95,729	-	4,346	9,000	-	5,683	114,758
G. Nelson	63,663	-	12,845	-	-	7,820	84,328
Total	**798,522**	**10,000**	**47,965**	**40,892**	**-**	**55,005**	**952,384**

27 Director and executive disclosures (continued)

(c) Remuneration options: Granted and vested during the year

During the financial year, options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed below. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in iiNet Limited at the stated exercise price. The options are exercisable in two tranches.

Name	Number of options vested	Number of options granted	Grant date	Value per option at grant date $	Exercise Price per share $	First Exercise Date $	Last Exercise Date $
Directors of iiNet Limited							
P. C. Harley	100,000	-	1 Dec 2000	0.0055	1.50	1 Dec 2003	1 Dec 2004
P. C. Harley	60,000	-	1 Sep 1999	0.05	1.00	1 Sep 2002	31 Aug 2004
M. M. Malone	500,000	-	1 Nov 2000	0.0055	1.50	1 Dec 2003	1 Dec 2004
A. L. Milner	50,000	-	1 Dec 2003	0.86	3.30	1 Jun 2005	1 Jun 2006
P. R. James	50,000	-	1 Dec 2003	0.86	3.30	1 Jun 2005	1 Jun 2006
K. N. Goodall	50,000	-	1 Dec 2003	0.86	3.30	1 Jun 2005	1 Jun 2006
Total	**810,000**	**-**					
Specified Executives of iiNet Group							
C. W. Hollingsworth	500,000	-	1 Dec 2000	0.0055	1.50	1 Dec 2003	1 Dec 2004
L. French - (discretionary)	-	80,000	2 July 2004	1.17542	2.88	2 Jan 2006	2 July 2009
G. Bader (discretionary)	-	200,000	2 July 2004	0.84375	4.00	2 Jan 2006	2 July 2009
G. Bader (discretionary)	-	200,000	2 July 2004	0.63897	5.00	2 Jan 2006	2 July 2009
C. W. Hollingsworth - (discretionary)	-	250,000	29 July 2004	1.02441	2.80	29 Jan 2006	29 July 2009
Total	**500,000**	**730,000**					

(d) Shares issued on exercise of remuneration options

Name	Shares issued Number	Exercise Price per share $	Paid $ per share	Unpaid $ per share
Directors of iiNet Limited				
P. C. Harley - Employee Share Plan options	60,000	$1.00	$1.00	-
P. C. Harley - Director/Executive options	100,000	$1.50	$1.50	-
D. J. Banks - Director/Executive options	100,000	$1.50	$1.50	-
M. M. Malone - Director/Executive options	500,000	$1.50	$1.50	-
Total	**760,000**			
Specified Executives of iiNet Group				
C. W. Hollingsworth - Director/Executive options	500,000	$1.50	$1.50	-
C. W. Hollingsworth - Employee Share Plan options	100,000	$0.48	$0.48	-
C. W. Hollingsworth - Employee Share Plan options	31,500	$1.42	$1.42	-
Total	**631,500**			

No amounts are unpaid on any shares issued on the exercise of options.

27 Director and executive disclosures (continued)

(e) Option holdings of directors and specified executives

	Balance at beginning of year	Granted as remuneration during the year	Options exercised during the year: Directors/ Executive Options	Options exercised during the year: Employee Share Options	Other changes during the year	Balance at 30 June 2005	Vested Options: Not Exercisable	Vested Options: Exercisable	Not Vested Not Exercisable
Directors of iiNet Limited									
P. C. Harley	160,000	-	(100,000)	(60,000)	-	-	-	-	-
M. M. Malone	500,000	-	(500,000)	-	-	-	-	-	-
A. L. Milner	100,000	-	-	-	-	100,000	-	100,000	-
P. R. James	100,000	-	-	-	-	100,000	-	100,000	-
K. N. Goodall	100,000	-	-	-	-	100,000	-	100,000	-
A. L. Fergusson	-	-	-	-	-	-	-	-	-
D. J. Banks - resigned 28 Nov 2003	100,000	-	(100,000)	-	-	-	-	-	-
Specified Executives of iiNet Group									
C. W. Hollingsworth	677,700	250,000	(500,000)	(131,500)	-	296,200	-	-	296,200
G. Bader	50,000	400,000	-	-	-	450,000	-	-	450,000
H. Campbell - resigned 3 Sep 2004	35,000	-	-	-	(31,900)	3,100	-	-	3,100
S. Dalby	35,000	-	-	-	-	35,000	-	-	35,000
G. Nelson - resigned 29 April 2005	50,000	50,000	-	-	(91,700)	8,300	-	-	8,300
M. Wylie - resigned 28 Feb 2004	9,500	-	-	-	-	9,500	-	-	9,500
L. French	-	80,000	-	-	-	80,000	-	-	80,000
M. Pienaar	34,900	-	-	-	-	34,900	-	-	34,900
D. Diprose	50,000	-	-	-	-	50,000	-	-	50,000
	2,002,100	**780,000**	**(1,200,000)**	**(191,500)**	**(123,600)**	**1,267,000**	**-**	**300,000**	**967,000**

(f) Shareholdings of Directors and specified executives - shares held in iiNet Limited

	Balance at beginning of year	Granted as remuneration during the year	Options exercised during the year	Shares sold during the year	Other changes during the year	Balance at 30 June 2005
Directors of iiNet Limited						
P. C. Harley	120,000	-	160,000	(140,000)	-	140,000
M. M. Malone	18,078,167	-	500,000	(500,000)	-	18,078,167
A. L. Milner	2,300,000	-	-	-	-	2,300,000
P. R. James	15,000	-	-	-	-	15,000
K. N. Goodall	40,000	-	-	-	-	40,000
A. L. Fergusson	-	-	-	-	-	-
Specified Executives of iiNet Group						
C. W. Hollingsworth	800,000	-	631,500	(631,500)	300,000	1,100,000
G. Bader	-	-	-	-	-	-
H. Campbell - resigned 3 Sep 2004	-	-	-	-	-	-
S. Dalby	-	-	-	-	-	-
G. Nelson - resigned 29 April 2005	1,786,467	-	-	(1,786,467)	-	-
M. Pienaar	-	-	-	-	-	-
D. Diprose	-	-	-	-	-	-
	23,139,634	**-**	**1,291,500**	**(3,057,967)**	**300,000**	**21,673,167**

All equity transactions with directors and specified executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

(g) Other transactions and balances with Directors and specified executives

During the previous financial year, directors and their director-related entities purchased goods and services, which were domestic or trivial in nature, from the company on the same terms and conditions available to other employees and customers. Total amount of sales to iiNet Limited from these transactions were $nil (2004: $nil).

	Note	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
28 Employee Benefits					
(a) Employee Benefit Liabilities/Assets The aggregate employee entitlement liability recognised and included in the financial statements is as follows:					
Included in payables - accrued wages, salaries and on-costs		**370,138**	848,586	383,828	388,026
Provisions - current	16	**2,198,993**	1,143,489	1,342,973	573,936
Provisions - non-current	18	**128,328**	244,820	61,554	187,605
Aggregate employee benefit liability		**2,697,459**	2,236,895	1,788,355	1,149,567
The aggregate employee benefit asset recognised and included in the financial statements is a follows:					
Included in prepayments - pre-paid salaries - current		**-**	58,009	-	-

	2005 Number	2004 Number	2005 Number	2004 Number
Number of full time equivalent employees at end of financial year	**721**	370	419	237

(b) iiNet Employee Share Plan pre 2002

The Company has issued options under an established employee share option plan, to persons determined by a committee of at least three directors as eligible persons. Those persons included employees, directors, managers, and part time staff members of the Company. Each option is convertible into one ordinary share, with holders entitled to exercise half their options 18 months after the issue date, with the remaining half exercisable three years after the date of issue.

Options lapse if:

(a) the eligible person ceases to work for iiNet or an associated company, or in the case of directors, ceases to be a director, or

(b) they are not exercised within 5 years.

In the event of a takeover bid where the offeror acquires at least 50 percent of the company's shares the option holders will be able to exercise their options earlier.

No new issues of options will be made from the iiNet Employee Share Option Plan as it has been superseded by the 2002 iiNet Employee Share Option Plan.

(i) Movements in Options - iiNet Employee Share Plan pre 2002

	Exercise Price	Grant Date	Final Vesting Date	Opening Balance at beginning of the year Number	Options Granted during the year Number	Options Exercised during the year Number	Options Cancelled/ Expired during the year Number	Closing Balance at 30 June 2005 Number	Closing balance includes Unvested Options at 30 June 2005 Number
End of reporting period									
2 Mar 2001 to 31 Aug 2004	$1.00	1 Sep 1999	1 Sep 2004	103,500	-	(96,000)	(7,500)	-	-
9 Oct 2002 to 9 Apr 2006	$0.61	9 Apr 2001	9 Apr 2006	177,000	-	(75,500)	(6,000)	95,500	-
6 Jun 2001 to 6 Dec 2006	$0.48	6 Dec 2001	6 Dec 2004	250,000	-	(228,700)	-	21,300	-
				530,500	-	(400,200)	(13,500)	116,800	-
Beginning of reporting period									
1 Sep1999 to 31 Aug 2004	$1.00	1 Sep 1999	1 Sep 2004	274,000	-	(163,000)	(7,500)	103,500	-
2 Jun 2000 to 1 Jun 2005	$0.88	2 Jun 2000	2 Jun 2005	207,500	-	(207,500)	-	-	-
9 Apr 2001 to 9 Apr 2006	$0.61	9 Apr 2001	9 Apr 2006	455,400	-	(179,400)	(99,000)	177,000	-
6 Dec 2001 to 6 Dec 2006	$0.48	6 Dec 2001	6 Dec 2004	687,500	-	(250,000)	(187,500)	250,000	250,000
				1,624,400	-	(799,900)	(294,000)	530,500	250,000

28 Employee Benefits (continued)

(ii) Exercise of Options - iiNet Employee Share Plan pre 2002

	Number of Options Exercised	Exercise Price $	Number of Shares issued	Exercise Date	Proceeds from Shares Issued $	Fair Value of Shares at Issue Date
30 June 2005						
Issued 1 Sep 1999	13,500	$1.00	13,500	16/08/2004	13,500	$2.91
	82,500	$1.00	82,500	2/09/2004	82,500	$2.74
Issued 9 Apr 2001	28,500	$0.61	28,500	3/08/2004	17,385	$3.00
	500	$0.61	500	26/10/2004	305	$2.82
	3,500	$0.61	3,500	9/08/2004	2,135	$3.01
	3,000	$0.61	3,000	16/08/2004	1,830	$2.91
	7,500	$0.61	7,500	2/09/2004	4,575	$2.74
	7,000	$0.61	7,000	2/02/2005	4,270	$3.46
	6,000	$0.61	6,000	22/02/2005	3,660	$3.43
	7,000	$0.61	7,000	4/04/2005	4,270	$3.14
	12,500	$0.61	12,500	4/04/2005	7,625	$3.14
Issued 6 Dec 2001	46,500	$0.48	46,500	21/12/2004	22,320	$3.15
	37,500	$0.48	37,500	23/12/2004	18,000	$3.16
	137,500	$0.48	137,500	21/12/2004	66,000	$3.15
	3,000	$0.48	3,000	1/03/2005	1,440	$3.33
	4,200	$0.48	4,200	15/04/2005	2,016	$2.80
	400,200		**400,200**		**251,831**	
30 June 2004						
Issued 1 Sep 1999	7,500	$1.00	7,500	15/07/2003	7,500	$1.90
	7,000	$1.00	7,000	19/09/2003	7,000	$3.04
	15,500	$1.00	15,500	25/09/2003	15,500	$3.01
	30,000	$1.00	30,000	3/10/2003	30,000	$3.00
	25,000	$1.00	25,000	16/10/2003	25,000	$3.02
	60,000	$1.00	60,000	21/10/2003	60,000	$3.12
	8,000	$1.00	8,000	19/12/2003	8,000	$2.85
	10,000	$1.00	10,000	30/06/2004	10,000	$2.89

(ii) Exercise of Options - iiNet Employee Share Plan pre 2002 (continued)

	Number of Options Exercised	Exercise Price $	Number of Shares issued	Exercise Date	Proceeds from Shares Issued $	Fair Value of Shares at Issue Date
Issued 2 Jun 2000	100,000	$0.88	100,000	26/09/2003	88,000	$2.99
	25,000	$0.88	25,000	13/10/2003	22,000	$3.00
	40,000	$0.88	40,000	16/10/2003	35,200	$3.02
	15,000	$0.88	15,000	21/10/2003	13,200	$3.12
	7,500	$0.88	7,500	28/10/2003	6,600	$3.30
	20,000	$0.88	20,000	30/06/2004	17,600	$2.89
Issued 9 April 2001	3,500	$0.61	3,500	15/07/2003	2,135	$1.90
	3,000	$0.61	3,000	29/07/2003	1,830	$2.05
	3,000	$0.61	3,000	15/08/2003	1,830	$2.20
	3,500	$0.61	3,500	28/08/2003	2,135	$2.46
	5,500	$0.61	5,500	11/09/2003	3,355	$2.50
	7,900	$0.61	7,900	19/09/2003	4,819	$3.04
	3,500	$0.61	3,500	25/09/2003	2,135	$3.01
	22,000	$0.61	22,000	3/10/2003	13,420	$3.00
	27,500	$0.61	27,500	13/10/2003	16,775	$3.00
	3,000	$0.61	3,000	14/10/2003	1,830	$3.01
	20,000	$0.61	20,000	16/10/2003	12,200	$3.02
	15,000	$0.61	15,000	28/10/2003	9,150	$3.30
	2,500	$0.61	2,500	26/03/2004	1,525	$2.48
	2,500	$0.61	2,500	16/04/2004	1,525	$2.47
	16,500	$0.61	16,500	15/05/2004	10,065	$2.39
	32,500	$0.61	32,500	31/05/2003	19,825	$2.70
	8,000	$0.61	8,000	30/06/2004	4,880	$2.89
Issued 6 December 2001	20,833	$0.48	20,833	19/09/2003	10,000	$3.04
	137,500	$0.48	137,500	25/09/2003	66,000	$3.01
	37,500	$0.48	37,500	13/10/2003	18,000	$3.00
	16,667	$0.48	16,667	16/10/2003	8,000	$3.02
	37,500	$0.48	37,500	15/04/2004	18,000	$2.45
	799,900		**799,900**		**575,034**	

28 Employee Benefits (continued)

	Number of Options Exercised	Exercise Price $	Number of Shares issued	Exercise Date	Proceeds from Shares Issued $	Fair Value of Shares at Issue Date
30 June 2003						
Issued 1 September 1999	20,000	$1.00	20,000	5/03/2003	20,000	$1.25
	18,500	$1.00	18,500	1/05/2003	18,500	$1.48
	7,500	$1.00	7,500	11/06/2003	7,500	$1.56
Issued 9 April 2001	50,000	$0.61	50,000	25/11/2002	30,500	$0.95
	38,500	$0.61	38,500	18/12/2002	23,485	$0.97
	25,000	$0.61	25,000	16/01/2003	15,250	$1.18
	6,500	$0.61	6,500	29/01/2003	3,965	$1.19
	12,500	$0.61	12,500	5/03/2003	7,625	$1.25
	6,000	$0.61	6,000	13/03/2003	3,660	$1.20
	2,500	$0.61	2,500	1/05/2003	1,525	$1.48
	1,600	$0.61	1,600	11/06/2003	976	$1.56
	20,000	$0.61	20,000	22/06/2003	12,200	$1.76
Issued 6 December 2001	125,000	$0.48	125,000	11/06/2003	60,000	$1.56
	62,500	$0.48	62,500	22/06/2003	30,000	$1.73
	396,100		**396,100**		**235,186**	

(c) 2002 iiNet Employee Share Option Plan
At the 2002 Annual General Meeting, shareholders approved the adoption of the 2002 iiNet Employee Share Option Plan. The directors may issue options to eligible persons, being employees (other than directors) as either or both of discretionary options or non-discriminatory options, in accordance with the terms of the Plan.

The terms of each of type of option, being discretionary and non-discriminatory, are detailed below.

The maximum number of options capable of being issued under the plan will not exceed 5 percent of the issued capital of the company at any point in time.

In the event of a takeover bid where the offeror acquires at least 50 percent of the company's shares, the option holders will be able to exercise their options earlier.

(c) 2002 iiNet Employee Share Option Plan (continued)

(i) Discretionary Options
Directors may determine from time to time to issue any number of options to eligible persons. Eligible persons are determined at the discretion of the directors.

Each option is convertible into one ordinary share, with holders entitled to exercise half their options 18 months after the issue date, with the remaining half exercisable three years after the date of issue.

Options lapse if:

(a) the eligible person ceases to work for iiNet or an associated company;
(b) they are not exercised within five years.

(ii) Non-discriminatory Plan

Directors may determine from time to time to issue options to eligible persons. The directors must offer to eligible persons on a non-discriminatory basis to at least 75 percent of full time employees (including part time employees).

Each discretionary option is convertible into one ordinary share, with holders entitled to exercise their options 36 months after the issue date.

Options will only lapse if they are not exercised within five years after the issue date.

28 Employee Benefits (continued)

(iii) Movements in Options - iiNet Employee Share Plan post 2002

	Exercise Price	Grant Date	Final Vesting Date	Opening Balance at beginning of the year Number	Options Granted during the year Number	Options Exercised during the year Number	Options Cancelled/ Expired during the year Number	Closing Balance at 30 June 2005 Number	Closing balance includes Unvested Options at 30 June 2005 Number
30 Jun 2005									
2 May 2006 to 3 May 2008 (non-discriminatory)	$1.42	2 May 2003	2 May 2006	302,000	-	-	-	302,000	302,000
2 Nov 2004 to 3 May 2008 (discretionary)	$1.42	2 May 2003	2 May 2006	288,000	-	(62,000)	(18,000)	208,000	104,000
12 Feb 2007 to 12 Feb 2009 (non-discriminatory)	$3.01	12 Feb 2004	12 Feb 2007	927,400	-	-	-	927,400	927,400
12 Aug 2005 to 12 Feb 2009 (discretionary)	$3.01	12 Feb 2004	12 Feb 2007	583,300	-	-	(186,700)	396,600	396,600
2 Jan 2006 to 2 Jul 2009 (discretionary)	$2.88	2 Jul 2004	2 Jul 2007	-	165,000	-	-	165,000	165,000
29 Jan 2006 to 29 Jul 2009 (discretionary)	$2.80	29 Jul 2004	29 Jul 2007	-	250,000	-	-	250,000	250,000
8 May 2006 to 8 Nov 2009 (discretionary)	$2.80	8 Nov 2004	8 Nov 2007	-	50,000	-	(50,000)	-	-
				2,100,700	465,000	(62,000)	(254,700)	2,249,000	2,145,000
30 June 2004									
2 May 2006 to 3 May 2008 (non-discriminatory)	$1.42	2 May 2003	2 May 2006	302,000	-	-	-	302,000	302,000
2 Nov 2004 to 3 May 2008 (discretionary)	$1.42	2 May 2003	2 May 2006	413,000	-	(125,000)	-	288,000	288,000
12 Aug 2007 to 12 Feb 2009 (non-discriminatory)	$3.01	12 Feb 2004	12 Feb 2007	-	927,400	-	-	927,400	927,400
12 Feb 2004 to 12 Feb 2009 (discretionary)	$3.01	12 Feb 2004	12 Feb 2007	-	928,500	(345,200)	-	583,300	583,300
				715,000	1,855,900	(470,200)	-	2,100,700	2,100,700

	Exercise Price	Grant Date	Final Vesting Date	Opening Balance at beginning of the year Number	Options Granted during the year Number	Options Exercised during the year Number	Options Cancelled/ Expired during the year Number	Closing Balance at 30 June 2005 Number	Closing balance includes Unvested Options at 30 June 2005 Number
30 June 2003									
2 May 2006 to 3 May 2008 (non-discriminatory)	$1.42	2 May 2003	2 May 2006	-	302,000	-	-	302,000	302,000
2 Nov 2004 to 3 May 2008 (discretionary)	$1.42	2 May 2003	2 May 2006	-	413,000	-	-	413,000	413,000
				-	**715,000**	**-**	**-**	**715,000**	**715,000**

(ii) Exercise of Options - iiNet Employee Share Plan post 2002

	No. of Options exercised	Exercise Price $	Number of shares issued	Exercise Date	Proceeds from Shares Issued $	Fair Value of Shares at Issue Date
30 June 2005						
Issued 2 May 2003	18,000	$1.42	18,000	21/12/2004	25,560	$3.15
	31,500	$1.42	31,500	22/02/2005	44,730	$3.43
	12,500	$1.42	12,500	1/02/2005	17,750	$3.49
	62,000		**62,000**		**88,040**	

29 Related Party Disclosures

(a) Wholly-owned group

The ultimate parent of the wholly-owned group is iiNet Limited.

(b) Wholly-owned group transactions

Loans

During the financial year, $137.9 million of the loans issued to wholly-owned controlled entities bears interest charged at 8.25 percent (2004: 7.5 percent). These loans were specific transactions to facilitate the acquisition of subscriber bases and controlled entities. These loans have no set date of repayment.

The remaining intergroup loans bear no interest and have no set date of repayment.

During the year, iiNet Limited provided accounting and administrative services, at no cost, to entities in the wholly-owned group. Other transactions that occurred during the financial year between entities in the wholly-owned group were sale and purchases of services at cost.

30 Segment reporting

The consolidated entity operates principally in one business segment being the telecommunications industry, and two geographical segments, being Australia and New Zealand based upon the location of both customers and assets.

Segment accounting policies are the same as the consolidated entity's policies described in note 1. Unallocated revenue and expenses include foreign exchange gains and losses, and borrowing expenses. Unallocated assets and liabilities include tax assets, liabilities and borrowings.

Geographic segments - Primary reporting	Australia 2005 $	Australia 2004 $	New Zealand 2005 $	New Zealand 2004 $	Eliminations 2005 $	Eliminations 2004 $	Consolidated 2005 $	Consolidated 2004 $
Segment revenue	124,599,539	73,948,640	31,933,594	21,082,488	-	-	156,533,133	95,031,128
Non Segment revenue								
Interest Revenue							626,905	192,143
Proceeds from sale of assets							508,163	13,000
Total Consolidated Revenue							**157,668,201**	**95,236,271**
Segment Result	13,000,208	6,870,150	705,439	2,224,284	-	-	13,705,647	9,094,434
Non segment expenses								
Interest and borrowing expense							(2,671,164)	(176,135)
Consolidated entity profit from ordinary activities before income tax expense							11,034,483	8,918,299
Tax Expense							(7,348,955)	(4,968,315)
Net Profit							**3,685,528**	**3,949,984**
Segment assets	287,751,110	111,733,879	56,536,586	53,810,380	(52,477,638)	(46,488,671)	291,810,057	119,055,588
Other segment information:								
Acquisition of plant and equipment, intangible assets and other non-current assets	153,542,409	47,188,312	2,334,185	50,453,823	-	-	155,876,594	97,642,135
Depreciation	4,218,996	4,019,678	2,071,961	1,163,317	-	-	6,290,957	5,182,995
Amortisation	12,141,658	5,341,673	5,025,619	3,047,705	-	-	17,167,277	8,389,378
Bad / Doubtful debt expense	311,627	370,565	915,654	228,096	-	-	1,227,281	598,661
Employee entitlements	1,074,947	949,906	-	-	-	-	1,074,947	949,906

31 Financial instruments

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk for classes of financial assets and financial liabilities is set out below:

	Note	Non interest bearing $	Fixed Interest Rate Maturity Floating $	1 year or less $	1 to 5 years $	Total $	Weighted average interest rate
2005							
Financial Assets							
Cash		855,049	24,280,324	252,000	-	25,387,373	3.2%
Receivables	5	21,835,649	-	-	-	21,835,649	-
		22,690,698	**24,280,324**	**252,000**	**-**	**47,223,022**	
Financial Liabilities							
Payables	13	31,211,105	-	-	-	31,211,105	
Bank Facility	15 and 17	-	-	10,000,000	49,000,000	59,000,000	7.3%
Finance Lease Liabilities	15 and 17	-	-	1,994,823	4,804,061	6,798,884	6.3%
		31,211,105	**-**	**11,994,823**	**53,804,061**	**97,009,989**	
2004							
Financial Assets							
Cash		1,891,171	3,286,745	1,063,769	-	6,241,685	3.2%
Receivables	5	4,473,138	-	-	-	4,473,138	-
		6,364,309	**3,286,745**	**1,063,769**	**-**	**10,714,824**	
Financial Liabilities							
Payables	13	12,518,860	-	-	-	12,518,860	-
Bank Facility	15 and 17	-	-	2,300,000	-	2,300,000	6.8%
Finance Lease Liabilities	15 and 17	-	-	741,174	1,512,608	2,253,782	7.4%
		12,518,860	**-**	**3,041,174**	**1,512,608**	**17,072,642**	

(b) Net fair value
The carrying amount of financial assets and financial liabilities recorded in the financial statements represent their respective net fair values, determined in accordance with the accounting policies disclosed in note 1 to the financial statements.

(c) Credit risk
The consolidated entity does not have any significant credit risk exposure to any single counter-party or any group of counter-parties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represent the consolidated entity's maximum exposure to credit risk without taking into account the value of any collateral or other security obtained.

32 Impact of Adopting Australian Equivalents to IFRS

iiNet Ltd is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (A-IFRS) which will be applicable for the financial year ending 30 June 2006. In 2004 the Company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to A-IFRS. As a result iiNet established a project team to address each area and make necessary decisions. The outcomes of this project will form the basis of iiNet's accounting for A-IFRS in the future and is required when iiNet prepares its first fully A-IFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of A-IFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to A-IFRS may differ from the estimates disclosed due to:

- Ongoing work being undertaken by the A-IFRS project team;
- Potential amendments to A-IFRSs and interpretations thereof being issued by the standards-setters and the International Financial Reporting Interpretations Committee (IFRIC); and
- Emerging accepted practices in the interpretation and application of A-IFRS and UIG interpretations.

32 Impact of Adopting Australian Equivalents to IFRS (continued)

a) Reconciliation of equity as presented under AGAAP to that under A-IFRS

	Notes	Consolidated	
		2005**	2004*
		$	$
Total equity under AGAAP		170,483,690	87,284,762
Write-back of goodwill amortisation	(i)	5,158,143	-
Recognition of share-based payment expense	(ii)	(847,265)	(234,406)
Recognition of option premium reserve	(ii)	847,265	234,406
Tax effect of prior business combinations	(iii)	(9,150,262)	(11,550,268)
Writeback of redundancy provision	(iv)	(610,963)	-
Total equity under A-IFRS		**165,880,608**	**75,734,494**

* This column represents the adjustments as at the date of transition to A-IFRS

** This column represents the cumulative adjustments as at the date of transition to A-IFRS and those for the year ended 30 June 2005.

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

(ii) Share-based Payments
Equity settled share-based payments in respect of equity instruments issued after 7 November 2002 that were not vested as at 1 January 2005 would be measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments would be expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest. Share-based payment expenses are not recognised under AGAAP.

Under the transitional exemptions of AASB 1 “First-time Adoption of A-IFRS” the Group have elected not to apply AASB 2 “Share-based payment” to equity instruments issued prior to 7 November 2002.

(iii) Deferred Tax Balances
AASB 112 “Income Taxes” requires the Group to use a balance sheet liability method, rather than the current income statement method, which recognises deferred tax balances where there is a difference between the carrying value of an asset or liability and its tax base.

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

(iv) Provision for Redundancy
The adjustment relates to provisions for redundancies recognised as part of the acquisition of OzEmail and Virtual Communities under AGAAP which are not allowable under A-IFRS. Under A-IFRS, the provisions for redundancies will be required to be expensed as incured.

(v) Business Combinations
Under the transitional exemptions of AASB 1, the Group has the option not to apply AASB “Business Combinations” retrospectively to business combinations that occurred before the transition to A-IFRS (1 July 2004). The Group has chosen this option rather than restate all previous business combinations. The impact of this election under AASB 1 is that the carrying amount of assets acquired and liabilities assumed in prior business combinations will be their deemed costs under AIFRS at the date of acquisition.

b) Reconciliation of net profit under AGAAP to that under A-IFRS

	Notes	Consolidated 2005 $
Net profit under AGAAP		3,685,530
Amortisation of goodwill	(i)	5,158,143
Adjustment to income tax expense (subscriber bases)	(ii)	2,400,006
Share-based payment expense	(iii)	(612,859)
Redundancy costs expensed	(iv)	(610,963)
Net profit under A-IFRS		**10,019,857**

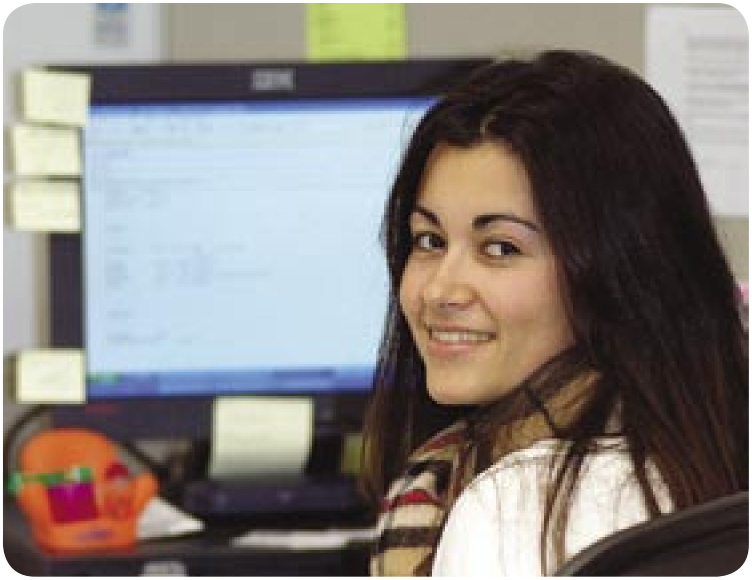
(i) Goodwill
Under AASB 3 “Business Combinations” goodwill is not subject to amortisation, but must be tested for impairment annually and whenever there is an indication goodwill may be impaired. Currently the Group amortises goodwill on a straight-line basis over 20 years. Under the new policy amortisation would no longer be charged, but goodwill would be written down to the extent it is impaired.

32 Impact of Adopting Australian Equivalents to IFRS (continued)

(ii) Income tax expense
(Subscriber bases)
The income tax expense relating to subscriber bases relates to the tax effect of prior business combinations now recognised. As the subscriber base amortisation of these prior combinations is recognised, the tax effect will be recorded through the income tax expense, which reverses the previous recognition through equity.

(iii) Share-based payment
Equity settled share-based payments, in respect of equity instruments issued after 7 November 2002 that were unvested as at 1 January 2005, would be measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments would be expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest. Share-based payment expenses are not recognised under AGAAP. This would result in a decrease in profit from AGAAP to A-IFRS.

(iv) Provision for redundancy
The adjustment relates to



provision for redundancy recognised as part of the acquisition of OzEmail and Virtual Communities under AGAAP which is not allowable under A-IFRS and hence, is a period cost rather than goodwill adjustment.

c) Other Impacts

(i)The Group has decided to apply the exemptions provided in AASB 1 " First Time Adoption of AIFRS" which permits entities not to apply the requirements of AASB 132, " Financial Instruments : Presentation and Disclosures" and AASB 139, " Financial Instruments: Recognition and Measurement."

These standards will be applied from 1 July 2005 and the impact of adopting both standards is currently being assessed.

(ii) The Group is currently assessing the impact of UIG 1042 "Subscriber Acquisition Costs in the Telecommunication Industry", which was released in December 2004. The Group's current accounting policy is to defer subscriber acquisition costs, including the provision of discounted equipment and amortise the deferred costs over the life of the respective customer contracts.

33 Subsequent Events

There has not been any matter or circumstance that has significantly affected or may significantly affect the operations of the consolidated entity, the results of the consolidated entity or the state of affairs of the consolidated entity in future financial periods.

34 Adjustment to Preliminary Financial Statement

The consolidated results of the consolidated entity for the year ended 30 June 2005 differed from those announced in the un-audited preliminary final statement (Appendix 4E) made to the Australian Stock Exchange, as follows:

	Preliminary Financial Statements 2005 $'000's	Consolidated Financial Statements 2005 $'000's
Profit from Ordinary Activities before Income Tax Expense	11,034	11,034
Income Tax Expense Relating to Ordinary Activities	(7,349)	(5,441)
Profit from Ordinary Activities after Income Tax Expense	**3,685**	**5,593**

On the acquisition of OzEmail, iiNet raised certain provisions which will be deductible for tax purposes when incurred. In preparing the Preliminary Final Report iiNet reduced its tax expense for these amounts for a total of $1.9 million. In finalising the Annual Report, it has been determined that while these provisions remain deductible for tax purposes, it is appropriate to reduce the goodwill booked on acquisition by the Future Income Tax Benefit recognised rather than the tax expense.

stock exchange information as at 13 September 2005

Number of Holders of Equity Securities

Ordinary Share Capital

- 109,123,616 fully paid shares are held by 2,984 individual shareholders. All issued ordinary shares carry one vote per share.

Options

- 3,050,800 unquoted options are held by 276 individual option holders. Options do not carry a right to vote.

Distribution of Holders of Equity Securities

			Fully Paid Ordinary Shares	Unquoted Options
1	-	1,000	795	13
1,001	-	5,000	1,584	155
5,001	-	10,000	331	60
10,001	-	100,000	232	46
100,001	-	and over	42	2
			2,984	**276**

Holding less than a marketable parcel 0

Substantial Shareholders

Ordinary Shareholders	Number	Percentage
Perth Internet Pty Limited	18,078,167	16.57
SG Hiscock & Co	7,822,421	7.17
Acorn Capital	6,132,568	5.62
Perpetual Trustees Australia Limited	5,888,867	5.40
Challenger Financial Services Group Ltd	5,733,318	5.25
Portfolio Partners	5,619,765	5.15
	49,275,106	**45.16**

Twenty Largest Holders of Quoted Equity Securities

Ordinary Shareholders	Number	Percentage
J P Morgan Nominees Australia Limited	19,029,815	17.44
Perth Internet Pty Limited	18,078,167	16.57
National Nominees Ltd	14,617,995	13.40
Equity Trustees Limited <SGH PI Smaller Co's Fund>	7,844,208	7.19
Westpac Custodian Nominees Limited	5,540,251	5.08
ANZ Nominees Limited	4,061,426	3.72
RBC Global Services Australia Nominees Pty Limited <GSJBW A/C>	3,533,031	3.24
RBC Global Services Australia Nominees Pty Limited < PI Pooled A/C>	2,968,761	2.72
RBC Global Services Australia Nominees Pty Limited <PIIC A/C>	2,801,850	2.57
Phase Three Pty Ltd	2,300,000	2.11
Queensland Investment Corporation	1,946,346	1.78
Health Super Pty Ltd	1,826,079	1.67
Nicholas John Wood and Timothy Scott Wood <The Mirage A/C>	1,581,250	1.45
Citicorp Nominees Pty Limited	1,315,995	1.21
Cogent Nominees Pty Ltd	1,113,597	1.02
Zero Nominees Pty Ltd	750,000	0.69
RBC Global Services Australia Nominees Pty Ltd <BKCUST A/C>	684,227	0.63
Timothy Scott Wood	447,798	0.41
Tricom Nominees Pty Ltd	384,756	0.35
Fortis Clearing Nominees Pty Ltd	375,987	0.34
	91,201,539	**83.58**

Company Secretary

Mr C. W. Hollingsworth

Principal Place of Business and Registered Office

iiNet Limited
Level 6, Durack Centre
263 Adelaide Terrace
Perth WA 6000

Telephone: 1300 722 545
Facsimile: 1300 785 632
Internet: www.iinet.net.au
Email: iinet@iinet.net.au

Share Registry

Computershare Investor Services Pty Limited
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000

Telephone: +61 8 9323 2000
Internet: www.computershare.com.au

Stock Exchange Listings

iiNet Limited's ordinary shares are quoted by the Australian Stock Exchange Limited.

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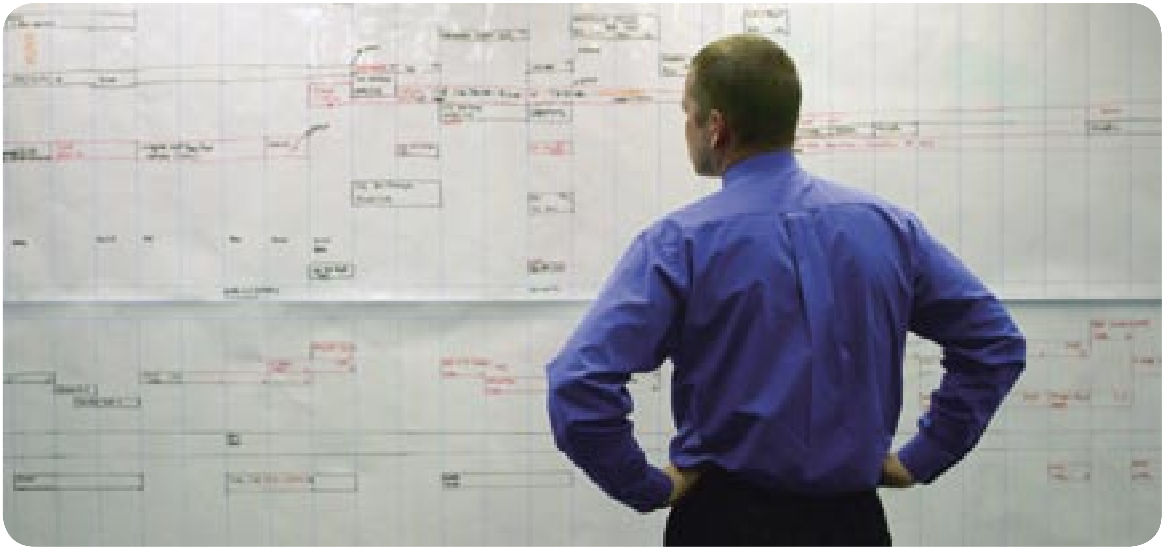

directory

iiNet Limited
A.C.N 068 628 937

Executive Director
M. M. Malone
Managing Director

Non-Executive Directors
P. C. Harley
Chairman

K. N. Goodall
A. L. Milner
P. R. James

Company Secretary
C. W. Hollingsworth

Audit Committee
K. N. Goodall
Chairman

A. L. Milner
P. C. Harley
P. R. James

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Registered Office
Level 6, Durack Centre
263 AdelaideTerrace
Perth WA 6000

Telephone: 1300 722 545
Facsimile: 1300 785 632
Internet: www.iinet.net.au
Email: iinet@iinet.net.au

New Zealand Office
127-131 Newton Road
Newton,
Aukland

Telephone: 0800 847 638
Facsimile: +64 9 359 2777
Internet: www.ihug.co.nz
Email: comments@ihug.co.nz

Share Registry
Computershare Investor
Services Pty Limited
Level 2, Reserve Bank Building
45 St George's Terrace
Perth WA 6000

Telephone: +61 8 9323 2000
Internet: www.computershare.com.au

Auditors
Ernst & Young
The Ernst & Young Building
11 Mounts Bay Road
Perth WA 6000
Australia

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iiNet Limited
ACN 068 628 937
ABN 48 068 628 937

Quality System

Quality
Endorsed
Company
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Standards Australia