



ABN 48 068 628 937

Half-Year Financial Report for 31 December 2008
and ASX Appendix 4D

iiNet Limited
Financial Report for the Half-Year Ended
31 December 2008

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Results for Announcement to the Market

The results reported below are in round thousand dollars.

Current reporting period:

Half-Year ended 31 December 2008

Previous corresponding period:

Half-Year ended 31 December 2007

	Percentage change UP	Amount \$'000
Earnings		
Revenue from continuing operations	75.0%	204,999
Earnings from continuing operations before interest, taxation, depreciation and amortisation (EBITDA)	24.3%	31,086
Profit after tax from continuing operations attributable to members	18.6%	11,403
Profit for the period attributable to members	18.6%	11,403

	Amount per share ¢	Franked amount per share ¢
Dividends		
Interim dividend for 2009	3.0	3.0
Record date for determining entitlements to the dividend	20 March 2009	n/a
Final dividend for 2008 paid	4.0	4.0

	31 December 2008 ¢	31 December 2007 ¢
Earnings Per Share		
Basic earnings per share from continuing operations	7.5	7.7
Diluted earnings per share from continuing operations	7.5	7.6

	31 December 2008 ¢	31 December 2007 ¢
Net Tangible Asset Backing		
Net tangible asset backing per security	(7.1)	23.6

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Directors' Report

The directors present their report on the consolidated entity consisting of iiNet Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2008.

Directors

The following individuals were Directors of iiNet Limited during the whole of the half-year ended 31 December 2008 and up to the date of this report unless otherwise stated.

Mr. M.J. Smith (Chairman)

Mr. M.M. Malone (Managing Director)

Mr. P.R. James

Mr. P.A. Broad

Mr. A.J. Grist

Mr. D.C. Grant

Mr. A.L. Milner was a director until his resignation on 26 September 2008

Rounding of Amounts

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

Review and Results of Operations

Revenue for the half-year ended 31 December 2008 from continuing operations was \$204,999k (2007: \$117,130k).

Profit from continuing operations before interest, tax, depreciation and amortisation (EBITDA) for the half-year ended 31 December 2008 was \$31,086k (2007: \$25,002k).

Profit from continuing operations after income tax attributable to the members of iiNet Limited for the half-year ended 31 December 2008 was \$11,403k (2007: \$9,613k).

At the half-year ended 31 December 2008, the consolidated cash holdings stood at \$7,909k (31 December 2007: \$13,040k).

Dividends

The group has declared a fully franked interim dividend of 3.0 cents per share with respect to the financial year ending 30 June 2009. The dividend will have a record date of 20 March 2009 and a payment date of 21 April 2009.

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Directors' Report (continued)

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 18.

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



M.J. Smith
Chairman



M.M. Malone
Managing Director

Perth, Western Australia
24 February 2009

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Consolidated Income Statement

		Half-Year	
	NOTE	31 December 2008 \$'000	31 December 2007 \$'000 (i)
Continuing Operations			
Rendering of services		194,334	114,084
Sale of hardware		10,289	2,389
Other revenue	2(i)	376	657
Revenue		204,999	117,130
Cost of sales and services rendered		(161,115)	(87,856)
Gross profit		43,884	29,274
Other income	2(ii)	1,236	2,119
Marketing expenses		(7,224)	(4,027)
Office costs		(9,545)	(6,060)
Administrative expenses		(11,038)	(6,153)
Finance costs	2(v)	(1,280)	(681)
Profit from continuing operations before income tax		16,033	14,472
Income tax expense	7	(4,630)	(4,859)
Profit from continuing operations after income tax		11,403	9,613
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company:	6		
Basic earnings per share		7.5	7.7
Diluted earnings per share		7.5	7.6
Interim dividends per share	3	3.0	3.0

The above consolidated income statement should be read in conjunction with the accompanying notes.

(i) Comparatives exclude Westnet Pty Limited which was acquired on the 19 May 2008.

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Consolidated Balance Sheet

	Note	At 31 December 2008 \$'000	At 30 June 2008 \$'000 (i)
Current Assets			
Cash and cash equivalents		7,909	9,249
Trade and other receivables	8	23,818	19,662
Derivative financial instruments		398	-
Prepayments	9	5,113	3,031
Inventory		1,980	1,073
Other assets		3,600	-
Total Current Assets		42,818	33,015
Non-Current Assets			
Plant and equipment		54,731	53,895
Intangible assets and goodwill		202,839	205,767
Prepayments	9	9,122	5,891
Other assets		-	3,600
Total Non-Current Assets		266,692	269,153
Total Assets		309,510	302,168
Current Liabilities			
Trade and other payables	10	37,328	35,946
Unearned revenue		23,080	22,189
Interest bearing loans and borrowings		724	2,846
Income tax payable		14,982	11,866
Provisions		4,906	4,579
Derivative financial instruments		-	408
Total Current Liabilities		81,020	77,834
Non-Current Liabilities			
Interest bearing loans and borrowings		29,906	29,943
Derivative financial instruments		866	76
Deferred income tax liabilities		4,875	6,407
Provisions		829	826
Total Non-Current Liabilities		36,476	37,252
Total Liabilities		117,496	115,086
Net Assets		192,014	187,082
Equity			
Issued capital	5	223,040	223,246
Accumulated losses		(33,750)	(39,090)
Other reserves		2,724	2,926
Total Equity		192,014	187,082

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

(i) Comparatives include Westnet Pty Limited which was acquired on the 19 May 2008.

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Consolidated Statement of Changes in Equity for the half-year ended 31 December 2008

	Issued Capital	Accumulated Losses	Employee Equity Benefit Reserve	Total
	\$'000	\$'000	\$'000	\$'000
At 1 July 2007	183,371	(48,932)	2,836	137,275
Profit for the period	-	9,613	-	9,613
Total income and expense for the period	183,371	(39,319)	2,836	146,888
Equity Transactions				
Issue of share capital	68	-	-	68
Transaction cost of share issue	(16)	-	-	(16)
Share-based payments	-	-	96	96
Dividends paid	-	(6,282)	-	(6,282)
At 31 December 2007	183,423	(45,601)	2,932	140,754

	Issued Capital	Accumulated Losses	Employee Equity Benefit Reserve	Cash Flow Hedge Reserve	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2008	223,246	(39,090)	2,926	-	187,082
Loss on cash flow hedge taken to equity	-	-	-	(606)	(606)
Total income and expense for the period recognized directly in equity	223,246	(39,090)	2,926	(606)	186,476
Profit for the period	-	11,403	-	-	11,403
Total income and expense for the period	223,246	(27,687)	2,926	(606)	197,879
Equity Transactions					
Issue of share capital	57	-	-	-	57
Repurchase of share capital	(259)	-	-	-	(259)
Transaction cost of share repurchase	(4)	-	-	-	(4)
Share-based payments	-	-	404	-	404
Dividends paid	-	(6,063)	-	-	(6,063)
At 31 December 2008	223,040	(33,750)	3,330	(606)	192,014

The above consolidated statements of changes in equity should be read in conjunction with the accompanying notes.

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Consolidated Cash Flow Statement

		Half-Year	
	Note	31 December 2008 \$'000	31 December 2007 \$'000 (i)
Cash flows from operating activities			
Receipts from customers		225,415	129,378
Payments to suppliers and employees		(200,932)	(98,794)
Interest received		376	2,392
Interest and other costs of finance paid		(1,275)	(554)
Income tax paid		(4,442)	-
Net cash flows from operating activities (ii)		19,142	32,422
Cash flows from investing activities			
Payment for the establishment of exchange space		(1,217)	(1,095)
Payment for subscriber acquisition costs		(591)	(104)
Purchase of plant and equipment		(9,971)	(7,440)
Proceeds from sale of plant and equipment		-	26
Payment of project development costs		(278)	(394)
Net cash flows used in investing activities		(12,057)	(9,007)
Cash flows from financing activities			
Proceeds from issue of shares		57	68
Payment for share buy back		(259)	-
Proceeds from borrowings		13,000	-
Repayment of borrowings		(13,000)	(19,532)
Equity dividends paid		(6,063)	(6,282)
Repayment of finance lease liability		(2,160)	-
Net cash flows used in financing activities		(8,425)	(25,746)
Net decrease in cash		(1,340)	(2,331)
Cash and cash equivalents at beginning of period		9,249	15,371
Cash and cash equivalents at end of period	4	7,909	13,040

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

(i) Comparatives exclude Westnet Pty Limited which was acquired on the 19 May 2008.

(ii) Receipts from customers for the half-year ended 31 December 2007 include a non-recurring Line Sharing Services refund to iiNet of \$13.9m.

Notes to the Financial Report

1. Basis of preparation of half-year report

This general purpose condensed financial report for the half-year reporting period ended 31 December 2008 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year consolidated financial statements comprise the financial statements of iiNet Limited and its subsidiaries as at 31 December 2008. The half-year financial report is prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. The half-year report is presented in Australian dollars and all values are rounded to the nearest thousand dollars unless otherwise stated under the option available to the company under ASIC Class Order 98/0100. This company is an entity to which the Class Order applies.

The accounting policies adopted, other than derivative financial instruments, are consistent with those of the previous financial year and the corresponding interim reporting period. The adoption of new and amending Standards and Interpretations mandatory for annual periods beginning on or after 1 July 2008 does not have a significant impact on the financial performance and position of the Group.

The half-year financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2008 and any public announcements made by iiNet Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *ASX Listing Rules*.

The Group has applied hedge accounting during the current half-year reporting period ended 31 December 2008 and the policy applied is as follows:

Derivative Financial Instruments and Hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to manage its risks associated with foreign currency and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify for hedge accounting, are taken to the profit and loss. The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of interest rate swaps are determined by reference to market values for similar instruments.

Notes to the Financial Report (continued)

1. Basis of Preparation of the half-year report (continued)

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognised, or when a forecast transaction occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

The Group tests the designated cash flow hedge for effectiveness and ineffectiveness at each reporting date both retrospectively and prospectively. If the hedge testing falls within the 80-125% range, the hedge is considered highly effective and continues to be designated as a cash flow hedge. If the forecast transaction or firm commitment is no longer expected to occur, amounts recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked (due to it being ineffective), amounts previously recognised in equity remain in equity until the forecast transaction occurs.

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Notes to the Financial Report (continued)

2. Revenue and expenses

	Half-Year	
	31 December 2008	31 December 2007
	\$'000	\$'000
Continuing Operations		
i. Other revenue		
Bank and other interest received	376	657
ii. Other income		
Stamp duty determination	-	1,994
Net gain on foreign currency forward contract – held for trading	882	-
Other	354	125
Total	1,236	2,119
iii. Depreciation and amortisation expense included in the income statement.		
Plant and equipment	9,080	6,673
Subscriber acquisition and client database costs	4,290	2,923
Capitalised development costs	779	910
Total	14,149	10,506
iv. Employee benefits expense included in the income statement		
Wages and salaries	30,925	16,662
Superannuation expense	2,079	1,111
Expense arising from share based payments	404	96
Other employee benefits expense	1,072	1,030
Total	34,480	18,899
v. Finance costs		
Bank and other interest charges	1,207	403
Finance lease interest charges	59	188
Other borrowing costs	14	90
Total	1,280	681

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Notes to the Financial Report (continued)

3. Dividends paid and proposed

	Half-Year	
	31 December 2008	31 December 2007
	\$'000	\$'000
Equity dividends on ordinary shares:		
a) Dividends paid during the half-year:		
Final franked dividend for financial year 30 June 2008: 4.0 cents (2007: 5.0 cents)	6,063	6,282
b) Dividends declared and not recognised as a liability:		
Interim franked dividend for financial year 30 June 2009: 3.0 cents (2008: 3.0 cents)	4,542	3,771
Total	10,605	10,053

4. Cash and cash equivalents

	Half-Year	
	31 December 2008	31 December 2007
	\$'000	\$'000
Cash and cash equivalent balances comprise:		
- cash at bank	7,619	12,782
- short term deposits	290	258
Total	7,909	13,040

5. Contributed equity

Movement in ordinary share capital:

	2008	2007	2008	2007
	Number	Number	\$'000	\$'000
At 1 July	151,581,652	125,607,402	223,246	183,371
Share buy-back (i)	(216,129)	-	(259)	-
Exercise of share options	49,400	77,000	57	68
	151,414,923	125,684,402	223,044	183,439
Transaction cost:				
Share issue	-	-	-	(16)
Share repurchase	-	-	(4)	-
At 31 December	151,414,923	125,684,402	223,040	183,423

(i) During November 2008 the Group commenced an on market share buy-back. At the balance sheet date 216,129 shares have been acquired at an average price of \$1.20, with prices ranging from \$1.15 to \$1.23. All the acquired shares have been cancelled.

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Notes to the Financial Report (continued)

6. Earnings per share

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

	Half-Year	
	31 December 2008	31 December 2007
	\$'000	\$'000
Net profit attributable to ordinary equity holders of the company	11,403	9,613
Weighted average number of shares	Number	Number
Weighted average number of ordinary shares for basic earnings per share	151,580,292	125,638,713
Add effect of dilution – share options	207,207	587,071
Weighted average number of ordinary shares for diluted earnings per share	<u>151,787,499</u>	<u>126,225,784</u>

7. Income tax

Income tax expense

	Half-Year	
	31 December 2008	31 December 2007
	\$'000	\$'000
Current tax	5,903	8,805
Adjustment to prior year – current tax	-	542
Deferred tax	(863)	(4,488)
Adjustment to prior year – deferred tax	(410)	-
Total	<u>4,630</u>	<u>4,859</u>

Numerical reconciliation of income tax expense to prima facie tax payable

Profit from continuing operations before income tax expense	<u>16,033</u>	<u>14,472</u>
Tax at the Australian tax rate of 30% (2007: 30%)	4,810	4,342
Tax effect of the amounts which are not deductible (taxable) in calculating taxable income:		
Non-deductible expenses	230	68
Prior year (over)/under provision of income tax	(410)	542
Other	-	(93)
Income tax expense	<u>4,630</u>	<u>4,859</u>

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Notes to the Financial Report (continued)

8. Trade and other receivables

	31 December 2008	30 June 2008
	\$'000	\$'000
Trade receivables	18,579	18,104
Allowance for impairment loss	(720)	(1,060)
	17,859	17,044
Other debtors (i)	5,959	2,618
Total	23,818	19,662

(i) Other debtors at 31 December 2008 include an asset relating to a whole-of-business rebate agreement with a major supplier.

9. Prepayments

	31 December 2008	30 June 2008
	\$'000	\$'000
Current Asset		
Prepayment – other	2,820	2,036
Network IRU contracts	2,293	995
Total	5,113	3,031
Non-Current Asset		
Network IRU contracts	9,122	5,891

10. Trade and other payables

	31 December 2008	30 June 2008
	\$'000	\$'000
Trade creditors	36,711	35,035
Other creditors	617	293
GST payable	-	618
Total	37,328	35,946

11. Segment reporting

Management has assessed that the Group operates in one business segment and one geographical segment, being the telecommunications industry and Australia respectively.

12. Contingent liabilities

On 20 November 2008, Australian Federation Against Copyright Theft (AFACT) commenced Federal Court action against iiNet Limited claiming breach of copyright laws which the company has denied and is currently defending. Given that legal proceedings only officially commenced in December 2008, the outcome of the case cannot be reliably determined at the time of the release of this report.

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Notes to the Financial Report (continued)

13. Post balance sheet event

The group has declared a fully franked interim dividend of 3.0 cents per share with respect to the financial year ending 30 June 2009. The dividend will have a record date of 20 March 2009 and a payment date of 21 April 2009.

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Corporate Information

DIRECTORS

Mr. M.J. Smith (Chairman)
Mr. M.M. Malone (Managing Director)
Mr. P.R. James
Mr. P.A. Broad
Mr. A.J. Grist
Mr. D.C. Grant

Company Secretary

Mr. D. Buckingham

Registered Office & Principal Place of Business

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Perth WA
6000

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Share Registry

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Telephone:

Australia: 1300 55 79 19

International: (61 8) 9323 2000

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

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Directors' Declaration

In the directors' opinion:

- a. The financial report and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standard, AASB 134 Interim Financial Reporting; and
 - ii. giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
- b. there are reasonable grounds to believe that iiNet Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

On behalf of the Board



M.J. Smith
Chairman

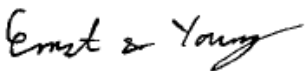


M.M. Malone
Managing Director

Perth, Western Australia
24 February 2009

Auditor's Independence Declaration to the Directors of iiNet Limited

In relation to our review of the financial report of iiNet Limited for the half-year ended 31 December 2008, 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.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, likely belonging to C B Pavlovich.

C B Pavlovich
Partner
Perth

24 February 2009

To the members of iiNet Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of iiNet Limited, which comprises the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes, other information as set out in the Appendix 4D to the Australian Stock Exchange ("ASX") Listing Rules and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations), the *Corporations Act 2001* and the ASX Listing Rules as they relate to the Appendix 4D. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and the ASX Listing Rules as they relate to the Appendix 4D. As the auditor of iiNet Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

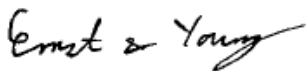
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of iiNet Limited is not in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and
 - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- b. the ASX Listing Rules as they relate to Appendix 4D.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script, likely belonging to C B Pavlovich.

C B Pavlovich
Partner
Perth

24 February 2009