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iiNet Limited reported normalised FY07 EBITDA of \$39.1 million, excluding individual significant items, which represented an increase of 115 percent. Underlying this result was a 6 percent increase in revenue to \$227.0 million. What were the primary factors behind your operating profit growth and how did you achieve the improvement in EBITDA margin to 17.2 percent from 8.5 percent in FY06?

MD Michael Malone

Over the last 12 months iiNet achieved a significant regulatory milestone with the ACCC issuing its final determination on Line Sharing Services (LSS) pricing which reduced the cost of this service from \$9.00 per month per service to \$2.50. With over 150,000 subscribers currently on our network this provides us with an annualised saving of \$11.7 million.

In addition to the regulatory win, we successfully executed our “Protect the Core” strategy which is focussed on ensuring the core of the business is protected from future supplier price shocks similar to that which we experienced in FY06. The key actions here included:

- repricing unprofitable plans;
- increasing the number of customers on our network;
- investing in customer service technology;
- improving our collection process; and
- reducing overheads.

The benefits of this strategy have continued to flow into FY08. When you compare the two halves of our FY07 performance, EBITDA for the first half normalised for LSS at \$2.50 per month was \$18.5 million and the second half EBITDA was \$20.6 million. Based on the unaudited performance in the 4 months of FY08 we expect to exceed our FY07 second half EBITDA of \$20.6 million in the first half of FY08 by approximately 9 percent.

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What are your priorities for FY08? Where will future growth come from?

MD Michael Malone

We'll continue to focus upon finalising the "Protect the Core" strategy which we commenced in FY07. Over the last year we have dramatically reduced the risk of supplier price shocks by initiatives, such as investing in broadband infrastructure, pursuing a favourable LSS decision and investing in dark fibre to connect to our exchanges.

The last substantial piece of the strategy to be put in place is structuring an international bandwidth agreement which protects our long term future. The media have reported that international bandwidth capacity is set to increase with operators, such as Pipe Networks, Southern Cross, Optus and Telstra indicating that they are planning to increase their existing international bandwidth capacity. We expect that as a result the price for international bandwidth will reduce over the short to medium term.

We invested about \$50 million in rolling out our ADSL2+ broadband network to 286 exchanges to deliver speeds to customers of up to 24,000kbps. The focus of our marketing campaign now is to maximise the return on this investment by targeting potential customers connected to exchanges on which we have spare ADSL2+ capacity.

We have begun moving into content with offerings such as Video on Demand, music downloads and online gaming. While we believe content will be a break even proposition for us, we expect that it will enhance the customers' experience of the internet which will increase our already high customer retention rates. This has been the experience of the challenger telco's in Europe.

We are also rolling out new products to protect and potentially build out subscriber base. Although we may not generate significant new revenues, by providing clients with the latest technological we'll maintain our competitive edge.

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What are the new products that you will be rolling out over the next 12 months?

MD Michael Malone

On the 15th November we released the first full scale Naked DSL product to the Australian market. This product is aimed at people who primarily use their mobile phone to make telephone calls and only have a fixed line service to connect to broadband. This product removes the need to pay line rental to receive a high speed broadband service.

Whilst this product has been released for only 4 days, we have made over 650 sales which is well ahead of what we expected.

We have commenced rolling out wireless hot spots in the Perth CBD. Over the next 9 months we are planning to cover the Perth CBD and the Sydney CBD. This will mean that iiNet customers will be able to access broadband at their favourite coffee shop, bar or restaurant under their existing subscription.

Our latest business product is multi-line VoIP (Voice over Internet) which allows small businesses to substantially reduce their telephony charges using our network.

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What are the market segments that you are targeting?

MD Michael Malone

We have commenced our move into the small corporate and home office sector led by our broadband products which coupled with multi-line VoIP provide a compelling offer. We believe this segment of the market is currently not being fully serviced and with our national ADSL2+ network we are well positioned to offer innovative products in attractive packages.

From providing internet access to the early internet adopters 10 years ago, we have grown our revenue to \$227 million in FY07 by offering innovative products, such as the first fixed price broadband product in Australia. We will continue to focus on these loyal broadband and dial up retail customers.

Additionally, we are also expanding our focus to target a demographic of some 4 million people whom we refer to as New Economic Orders or NEOs. This term describes Generation X inner city dwellers who dominate broadband and internet usage who believe that computers and technology give them control over their lives. These people also look at the internet as being a central part of their life and they are selective about the brand they will select.

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Your balance sheet is now debt free. How will you use this balance sheet strength?

MD Michael Malone

Over the ten years to 2006 we acquired and integrated 31 ISP's across Australia and New Zealand. We believe the industry will resume consolidation and with net cash of \$6.4 million we are competitively placed to be a driver of this process.

Our acquisition strategy is to leverage our network investment by acquiring metropolitan broadband, dial-up and voice customers.

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How would you summarise the outlook for the rest of FY08?

MD Michael Malone

The outlook is for earnings growth on a comparable basis driven by growth in our on-net subscriber base, growth in our fixed line voice business, stabilisation of our dial-up subscriber base and tight cost management. We will comfortably exceed our FY07 NPAT normalised for one-off items of \$11.9 million.

In summary, the business is in great shape and has an exciting pipeline of initiatives underway.

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Thank you Michael.

For more information about iiNet Limited visit www.iinet.net.au or contact Michael Malone on 08 9214 2207.

For previous Open Briefings with iiNet Limited or to receive future Open Briefings by e-mail, visit www.corporatefile.com.au

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