

# Media Release

## **IINET LIMITED**

### **ASX ANNOUNCEMENT: INTERIM RESULT ANNOUNCEMENT**

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### **iiNet posts record profit**

iiNet Limited (ASX: IIN) today announced a record half year net profit after tax of \$7.1 million for the 6 months to 31 December 2006. Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$14.8 million, up 80% on the previous half.

iiNet will pay a fully franked interim dividend of 1c per share.

The interim result positions the Company to exceed its previous full year EBITDA guidance of \$25 million.

Major achievements in the first half of FY07 included:

- Major improvements in operating costs and product profitability
- Positive regulatory decision delivered in December 2006
- The sale of the New Zealand ihug business for NZD\$41 million delivering a book profit of AU\$5 million
- Balance sheet strengthened, net debt reduced to \$19.9 million (gearing of 12%)
- 24% increase in broadband customers serviced over iiNet's own network
- Commitment to further expansion of capacity on iiNet's broadband network, already the 2<sup>nd</sup> largest ADSL2+ network in Australia
- Continued strong growth of Voice over IP (VOIP)

Managing Director Michael Malone said the Company was pleased with the strong operational performance and the earnings rebound from a difficult 2006.

“iiNet is now in a very strong position to deliver sustainable earnings growth and has a balance sheet platform from which to pursue growth opportunities in the communications sector,” said Mr Malone.

“In the December half, we also took the difficult decision of repricing our unprofitable customer plans. When coupled with significant reductions in overheads and solid growth in customers on our own network, this had a profound effect on our profitability.”

Broadband customers on iiNet's own ADSL2+ broadband network receive a superior product and are substantially more profitable for the Company than 'off-net' customers where access is provided using Telstra Wholesale. The number of 'on-net' customers grew by 24% during the half year, from 100,000 in June 2006 to over 124,000 by December.

On 22 December 2006 the Company announced a favourable decision by the ACCC on Line Sharing Service (LSS), a basic input required for iiNet's own broadband network. The ACCC ruled that the price payable to Telstra for LSS would be reduced from \$9 to \$3.20 per line per month, a saving to iiNet of over \$700,000 per month.

"The Final Determination of this decision is due from the Commission next quarter," said Mr Malone. "We expect the rate to be confirmed and backdated to the start of this dispute, which will deliver a once off cash benefit of at least \$9.0 million which relates to operating costs of \$7.2 million and capital costs of \$1.8 million."

While iiNet strongly believes the claim should be backdated to the commencement of roll out of the DSLAM network, the Company has conservatively calculated the amount included as a contingent asset from the date the access dispute was lodged with the ACCC on 25 November 2005.

"The December half still reflects the higher charges imposed by Telstra, and the new, lower rate will flow through in our second half figures. We plan to increase investment into marketing, particularly in Perth and Sydney," said Mr Malone.

iiNet has extended its self-reliance strategy over the past year through the roll out of 'dark fibre' to 150 exchanges in Sydney, Melbourne and Brisbane. This dark fibre network delivers immediate savings and higher capacity to deal with expected richer content offerings, particularly the advent of Video on Demand.

The sale of ihug for NZ\$41 million, the second PowerTel placement and the improvement in operating performance allowed iiNet to reduce net debt by \$30.6 million in the period. EBITDA for the first half includes a \$0.9 million contribution for the three months trading from ihug prior to the sale and the NPAT includes a one off \$5.0 million profit on the sale of ihug.

Following negotiations with Westpac, the Company has a new 3 year \$30 million facility with Westpac, of which \$13 million remains undrawn.

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A full transcript of a Corporate File interview with Michael Malone is available on the Company's website at [www.iinet.net.au](http://www.iinet.net.au).