

## Protect the Core Strategies Delivering Earnings Growth

iiNet Limited (ASX:IIN) attaches a copy of the material it is presenting at the Macquarie Bank Mid Cap Conference which includes an increase to its guidance for earnings before interest, tax, depreciation and amortisation (“EBITDA”) from continuing operations will exceed \$32 million for the year ending 30 June 2007. The improvement in earnings is the result of the initiatives undertaken to protect the core of the business. These initiatives include:

- Migrating customers from unprofitable plans;
- Reducing reliance on major suppliers; and
- Improving operational efficiencies.

This guidance excludes any of the benefits arising from the Australian Competition and Consumer Commission (“ACCC”) draft final determination on the pricing of Telstra’s line sharing service (LSS) of 30<sup>th</sup> March. The pricing contained in the draft final determination is \$2.50 per line per month compared with the \$3.20 price indicated in the interim determination of December 2006. On the basis of the ACCC final draft determination, the expected EBITDA benefit to iiNet is:

FY07 first half benefit	\$4.6m
FY07 second half benefit	\$0.5m
Prior year benefit	\$3.9m
Total (excluding interest)	<u>\$8.0m</u>

iiNet also re-confirms its expectation that interest costs will be approximately \$3 million and depreciation and amortisation will be \$20 million for the year. The EBITDA guidance excludes the \$5 million net profit after tax from the sale of ihug in September 2006.

Managing Director, Michael Malone commented “I am pleased that the initiatives which have been previously flagged to the market are over delivering the benefits we had envisaged.”

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**Macquarie Bank**  
**Micro Caps Conference**  
3 May 2007



## 1. Earnings upgrade

- FY07 focus has been to “protect the core”
- These strategies are delivering above expectations
- Pre LSS EBITDA expected to exceed \$32m

## 2. Marketing campaign launched

- Commenced 15 April
- Only two weeks in, but initial response is positive
- Major alliances delivered

## 3. DSLAM rollout continuing

- Over 200,000 ADSL2+ ports deployed

## 4. Regulatory environment

- Draft final determination reduces LSS expense by approximately \$800k/month
- FTTN debate continues

1	Current Performance
2	Marketing Campaign
3	DSLAM Rollout
4	Fibre to the Node

**iiNet's strategy for FY07 is to "protect the core". The key areas being targeted are:**

- Migration of customers off unprofitable plans
  - Migrated customers to our own network wherever possible
  - Where not possible, we re-priced unprofitable products
- Reduce reliance on suppliers
  - Extending our DSLAM network
  - Control backhaul with fibre to 200 exchanges
  - Negotiating new international bandwidth agreements
- Improvements in operational performance
  - Call centre service levels significantly improved
  - Upgrades from Dial up to Broadband on target
  - Retention on target



# Line Sharing Service

- LSS is access to the “broadband bit” of the copper
- iiNet uses LSS as a basic input for ADSL
- Customer still has to pay phone rental as well (~\$30)
- iiNet has argued that \$9 is far too high
- ACCC arbitrated the dispute
- We have been paying \$3.20 since Dec 22, 2006
- Draft Final Determination indicates \$2.50
- Decision delivers \$800k per month
- Final determination expected in June

# Earnings Guidance

iiNet is upgrading its previous EBITDA guidance of \$25m to exceed \$32m, on a like for like basis:

- \$9 rate for LSS booked for first half
- \$3.20 rate for LSS booked for second half

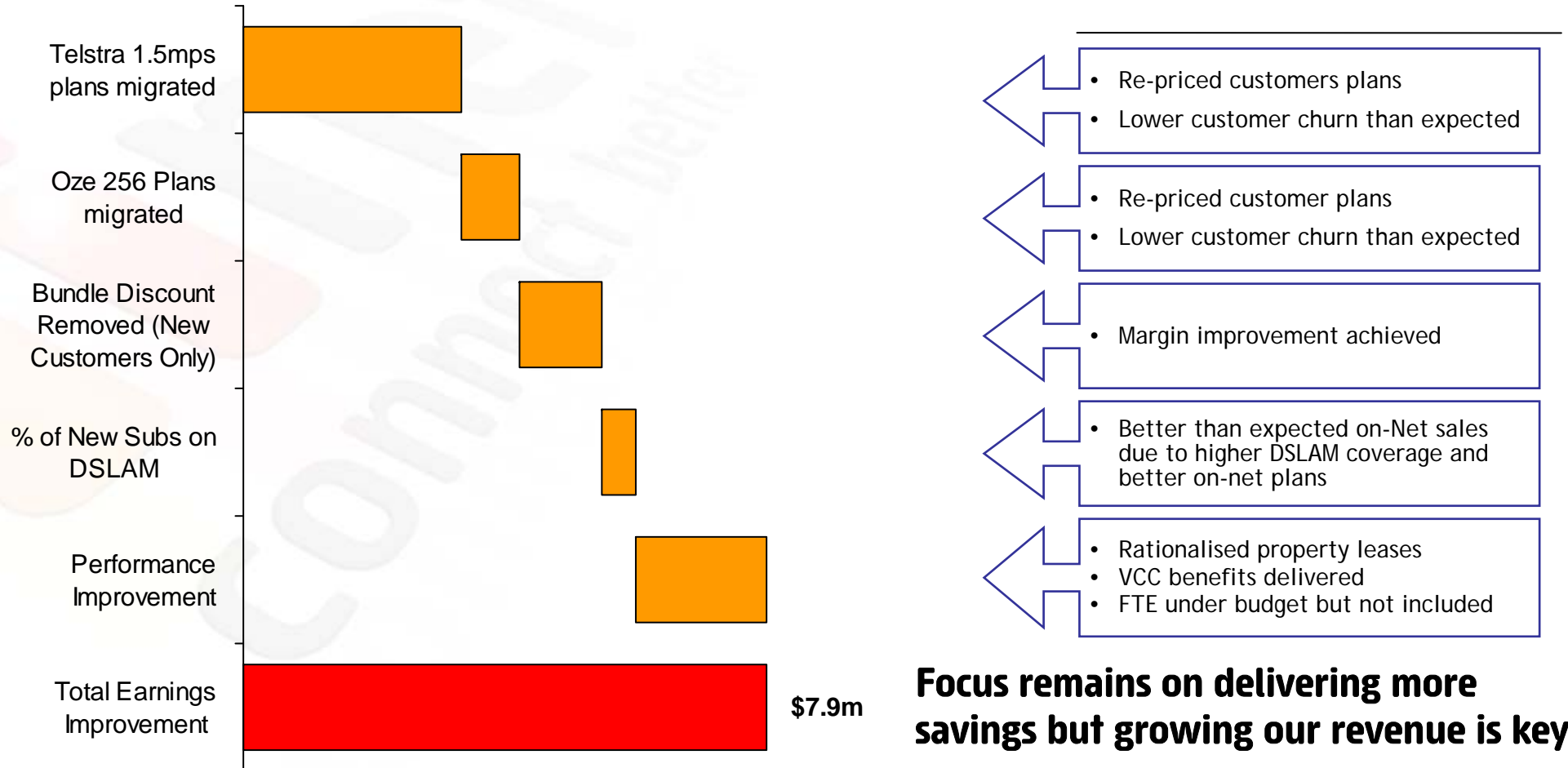
If final determination arrives in FY07, additional benefits would be:

Period benefit	Value	LSS price change
FY07 first half benefit	\$4.6m	\$9.00/month => \$2.50/month
FY07 second half benefit	\$0.5m	\$3.20/month => \$2.50/month
FY06 benefit	\$3.9m	\$9.00/month => \$2.50/month
Total	\$8.0m	(excludes any interest on back charges)

- Expected depreciation and amortisation \$20m
- Expected interest charge \$3m
- Profit on sale of ihug \$5m

# Performance Against Strategy

iiNet successfully implemented 5 key initiatives delivering 7 month EBITDA benefits of \$7.9m, exceeding estimated impact. Further savings also made in operational costs.



**Focus remains on delivering more savings but growing our revenue is key now.**



1	Current Performance
2	Marketing Campaign
3	DSLAM Rollout
4	Fibre to the node

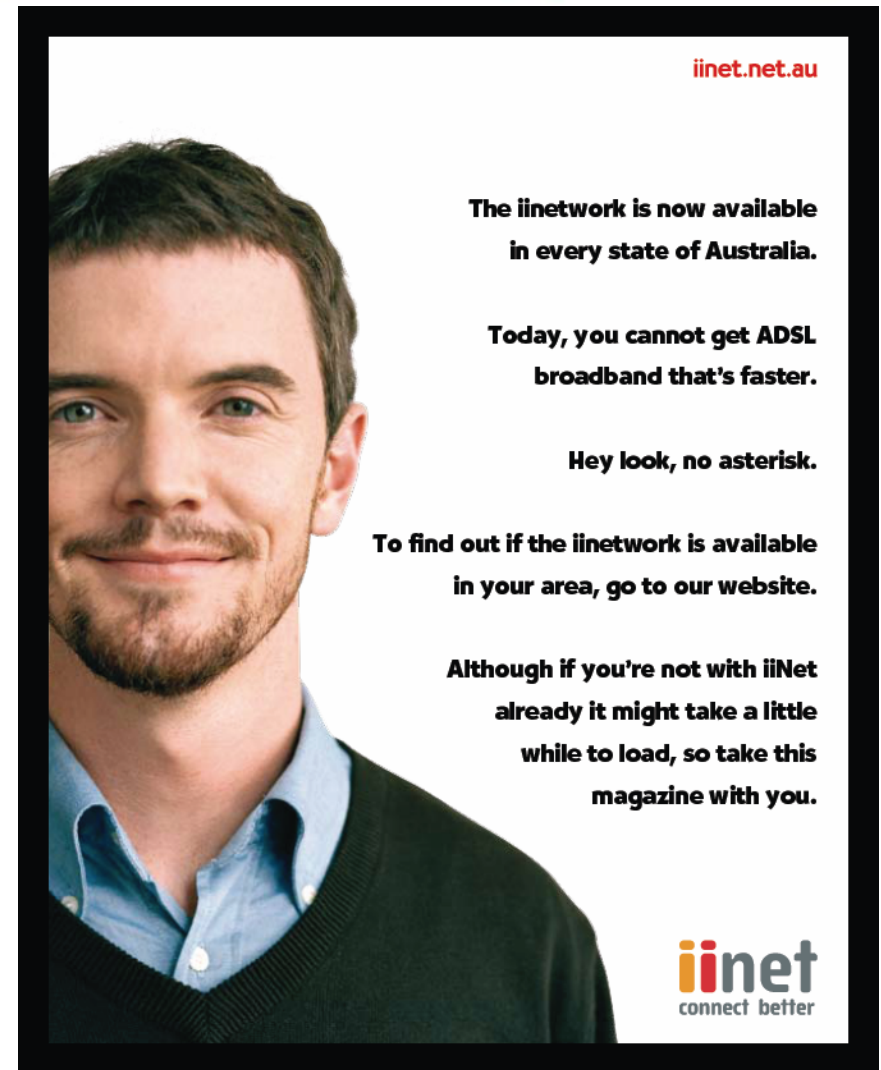
## Comments from focus groups

*"There's a lot that want to **say they've got it**. High speed. The BIG number...  
They don't really know why they want it, but they do."*

*"This industry is funny. It's almost **like Football**. The punters  
are passionate about their ISP."*

# Brand

- Launched on April 15 in Sydney and Perth
- Position iiNet as an aspirational brand – different
- Position iiNet as the consumer advocate
- Aiming to lift awareness in Sydney and Perth – TV, radio, outdoor, cinema and press
- Build on value through strategic alliances



[iinet.net.au](http://iinet.net.au)

**The iinetwork is now available in every state of Australia.**

**Today, you cannot get ADSL broadband that's faster.**

**Hey look, no asterisk.**

**To find out if the iinetwork is available in your area, go to our website.**

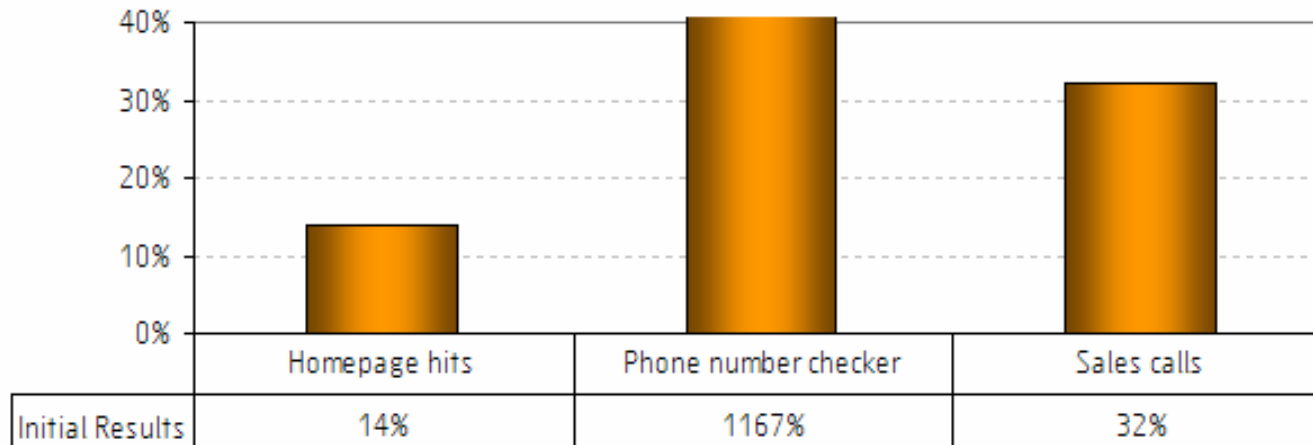
**Although if you're not with iiNet already it might take a little while to load, so take this magazine with you.**

**iinet**  
connect better

# Campaign results to date

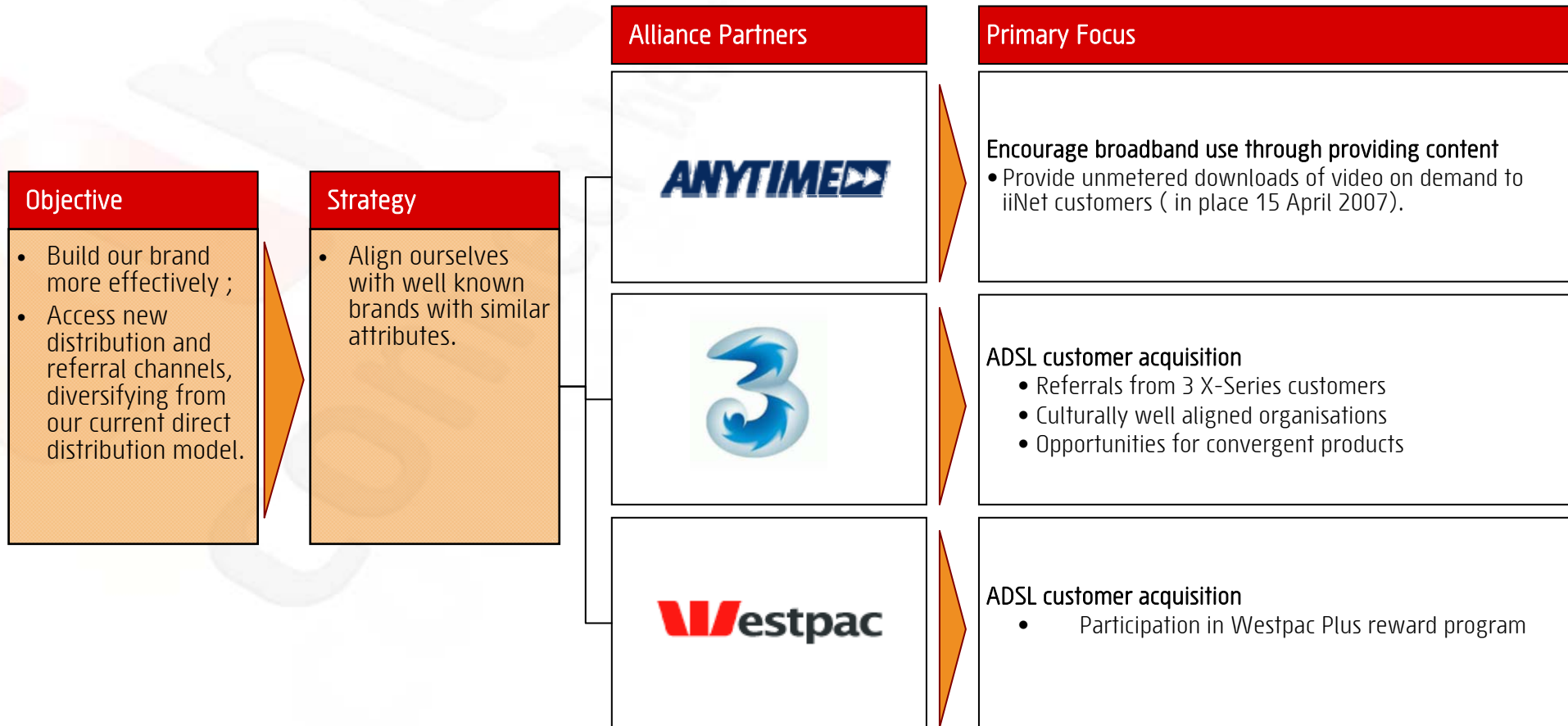
- Only a fortnight into the campaign, but initial results are positive

Initial Campaign Results



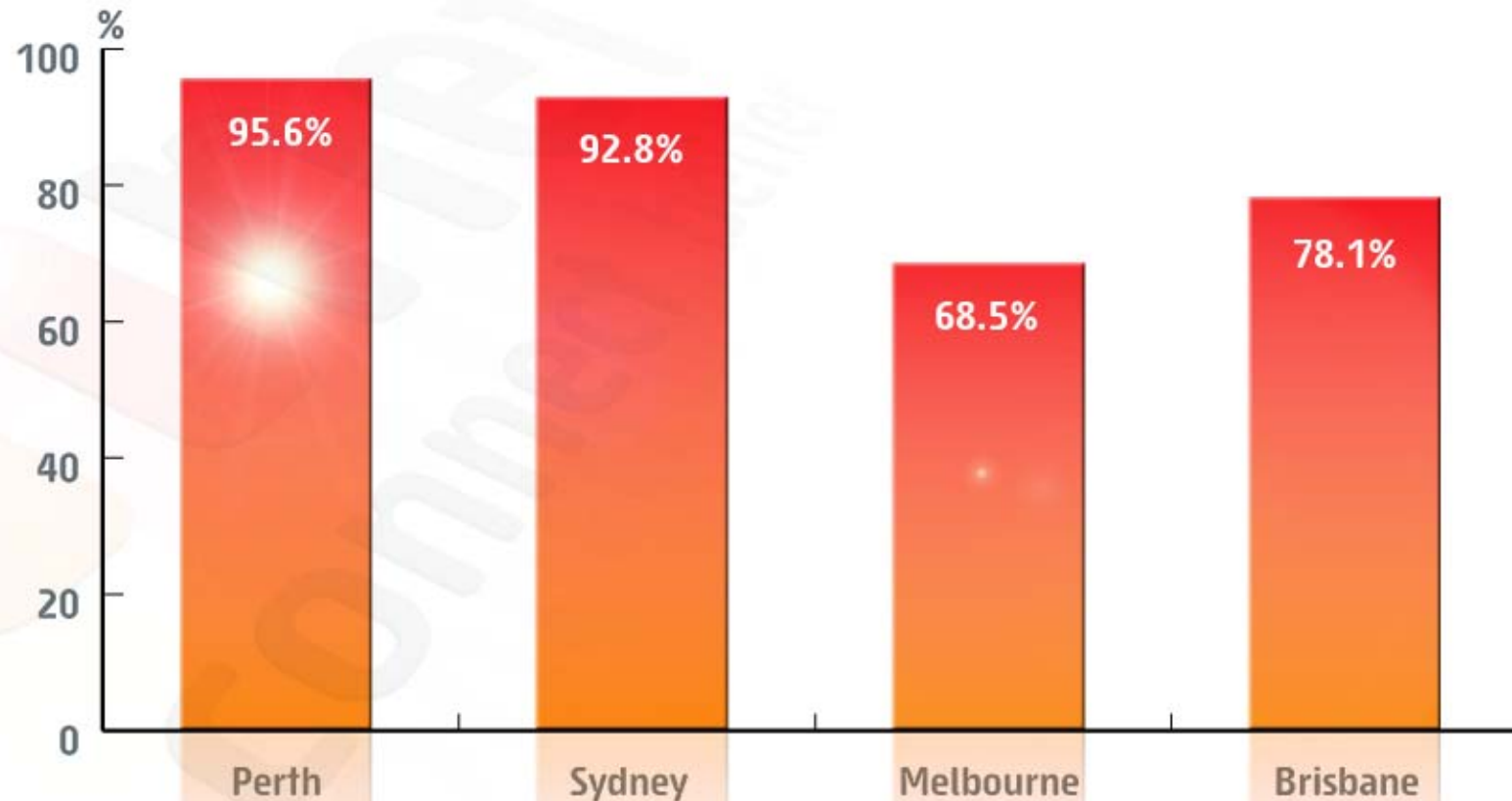
# Alliance Partners

By aligning our self with well known brands, iiNet is able to promote its brand more effectively, access new distribution channels and diversify from its current distribution model.



- 1 Current Performance
- 2 Marketing Campaign
- 3 **DSLAM Rollout**
- 4 Fibre to the node

# iiNet ADSL 2+ Penetration



- 200k ports deployed with 50k under construction
- Further 30 exchanges to be built in FY08, Melbourne and Brisbane
- Primary capex focus is on adding additional capacity

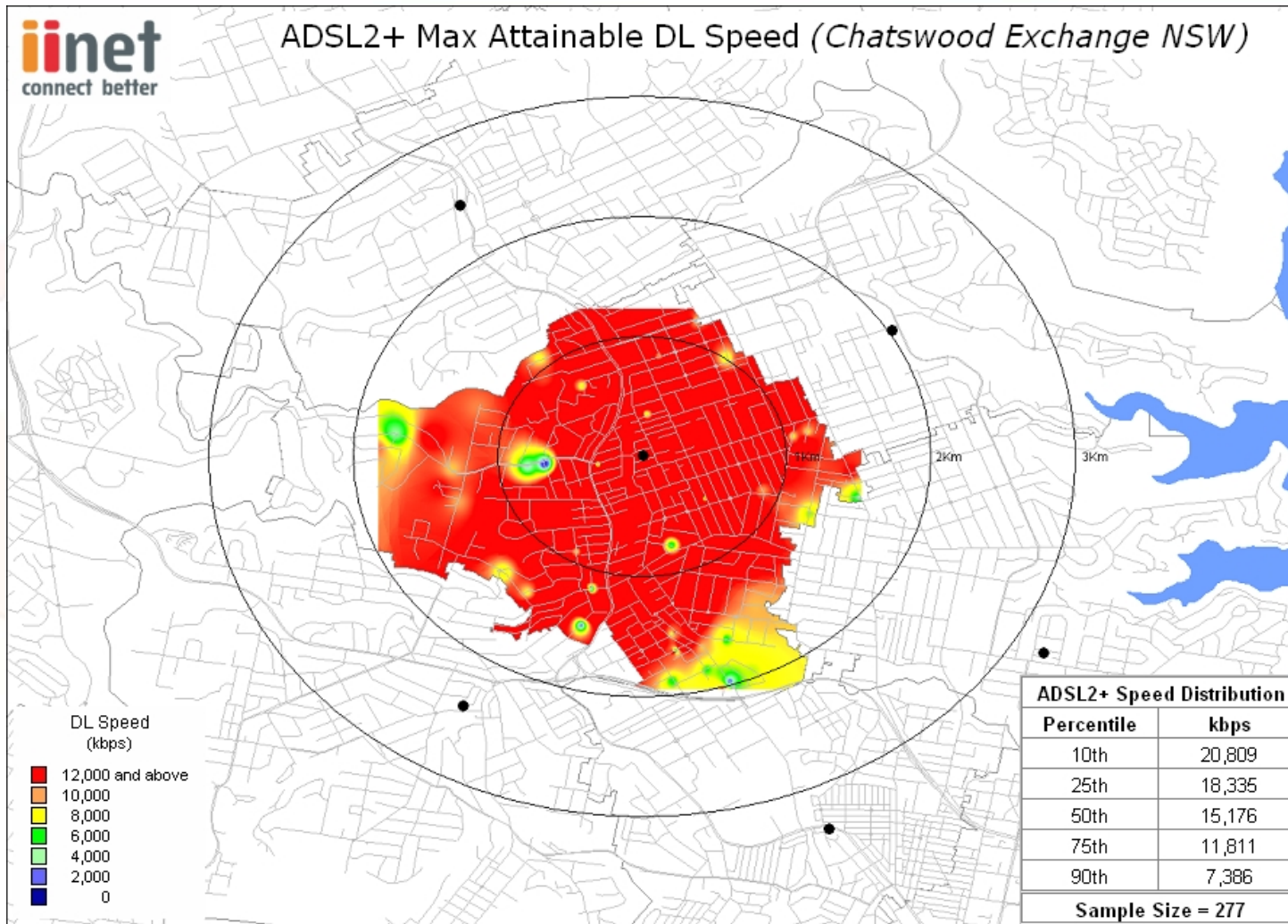
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- G9 members are Optus, PowerTel, TransACT, Primus, Internode, AAPT, Macquarie Telecom, Soul, iiNet
- G9 proposing a \$4b FTTN build, metro plus large regional centres
- Network owned by investors, operated by FANOC, with “fair and open” access for all ISPs, including Telstra
- Details of the proposal have been welcomed by government
- Labor is promising \$4b for a “fair and open” network, with regulatory changes, reaching 98% of homes
- Little detail, but structure sounds similar to the G9 proposal
- The media, particularly the Australian, speculates that the Government is cutting a backroom deal with Telstra – we reject this
- The government will act on high speed broadband this year, but it will be an open and transparent process that supports competition

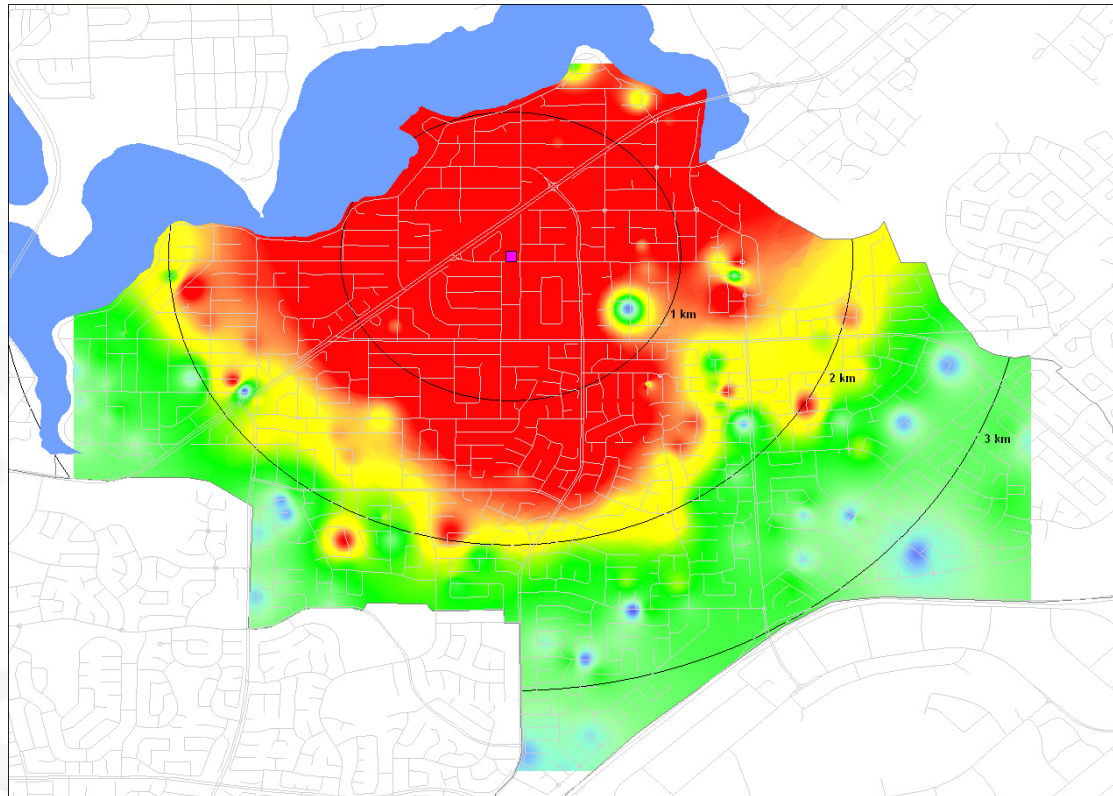
- Telstra provides a copper wire into each house for each phone line
- There is a continuous copper line from the house all the way to the exchange
- DSLAM is installed in the exchange, connects to the copper line
- Typical exchange would service 10k houses
- Typical radius around each exchange in suburbia is 4km
- The length of the copper wire depends on how far the house is from the exchange (cable length)
- Shorter cable length means higher speed ADSL

# FTTN: Speed versus Distance



- Little to no benefit for inner suburbs
- High density
- Exchanges only 2km apart
- Everyone gets high speeds

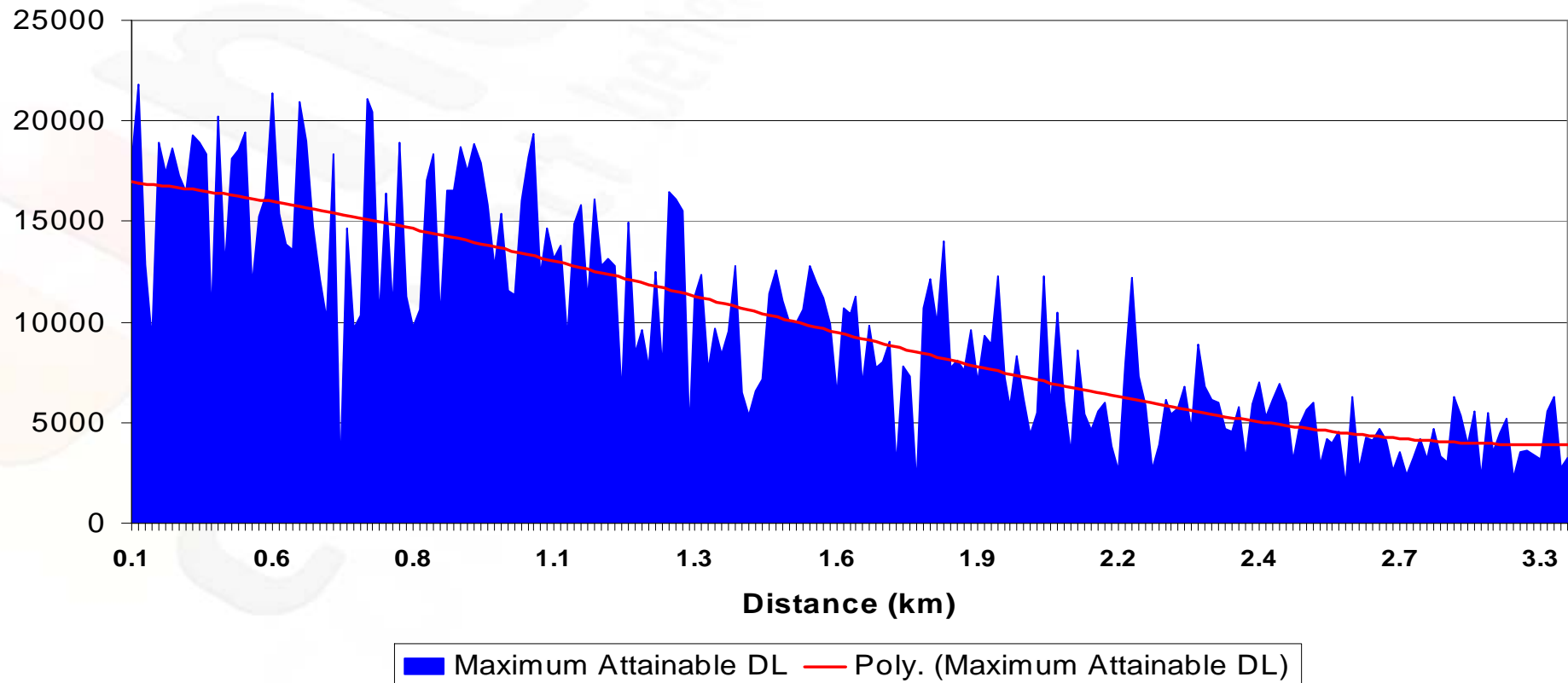
# FTTN: Speed versus Distance



- If you are more than 1km from exchange, you get less than 12M
- With FTTN, we create lots of little exchanges, called nodes, so that everyone is within 1km of a node or an exchange

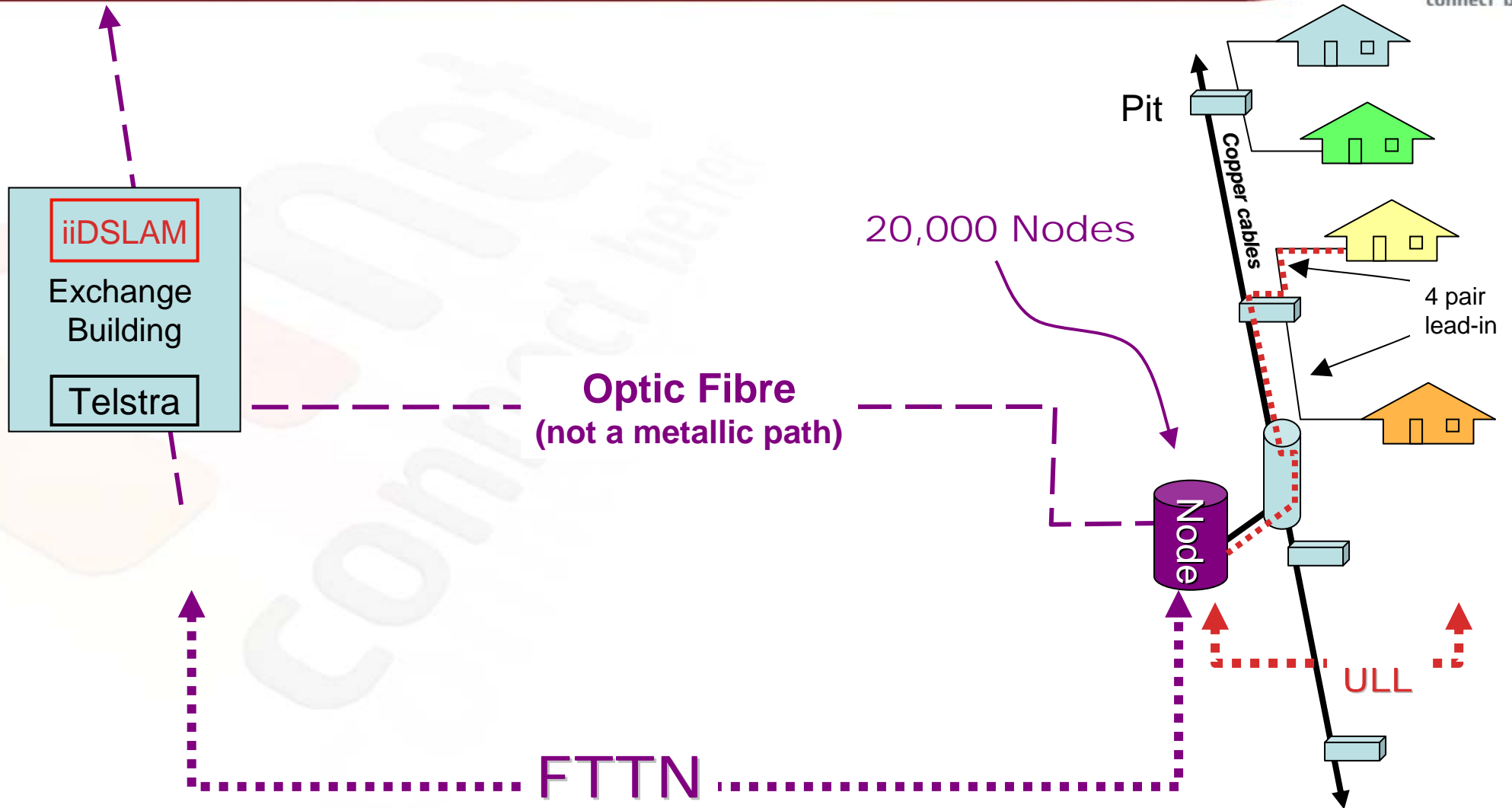
# FTTN: Speed versus Distance

Riverton ADSL2+ Customers (215)



- When a house is connected to a node, the metallic path goes from that house to the node
- From the node to the exchange is fibre
- iiNet needs a metallic path from our DSLAM to the house to work
- So current DSLAMs in the central exchange cannot connect to that house
- By nature, it creates a re-monopolisation of that part of the customer access network

# FTTN



*Access seekers should be permitted access to an incumbent's fixed-line network at different network access points (i.e. stepping stones).*

*As entrants' gain market share, the risks associated with infrastructure investment diminish, increasing their incentive to 'climb the ladder of investment'.*

*The Commission's position (is) that it will only seek to promote facilities based ... competition where it is likely to be economically efficient...*

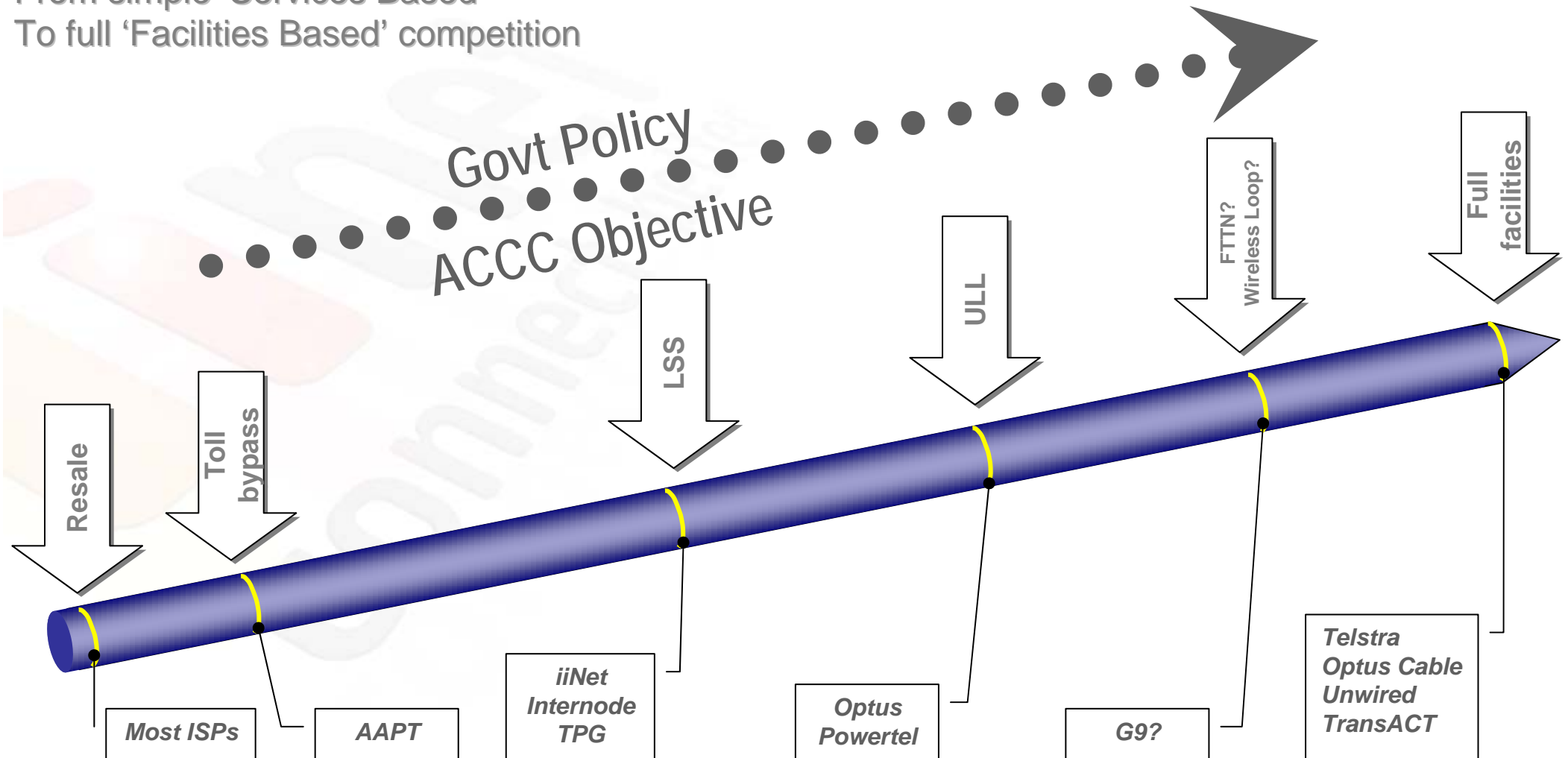
*The Commission indicated ...that it would not be appropriate to encourage facilities based competition where the demand for services in a market can be satisfied at a lower cost by one facility than two or more facilities.*

*(ACCC - Fixed Services Review. A second position paper - April 2007)*



# The stepping stones

From simple 'Services Based'  
To full 'Facilities Based' competition



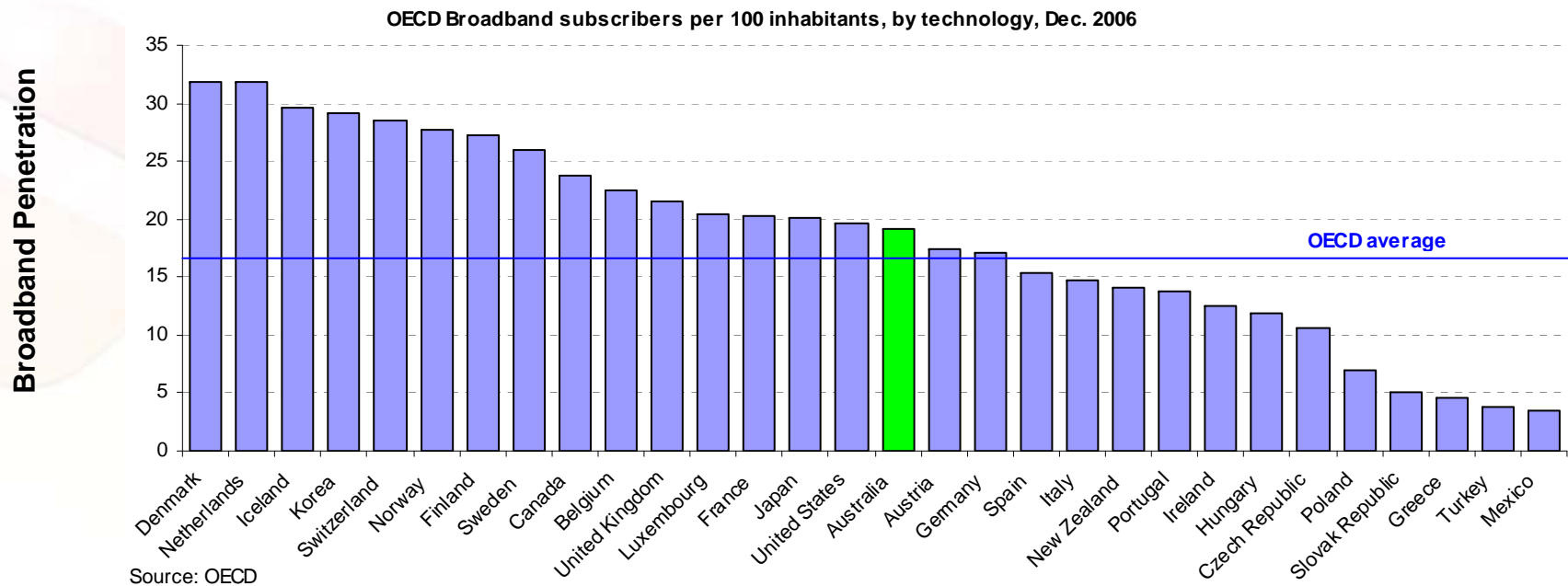
# FTTN: What are we trying to fix?

- The current broadband policy is delivering already, over 90% of metropolitan homes have access to high speed broadband already and growing
- In terms of broadband take up, Australia is on par with Europe/US
- High speed broadband is available today (from iiNet, Telstra and others) but over half of Australians are happy with 256k!
- Suitable content will drive the need for speed (and also increase overall take up)
- The primary infrastructure issues right now are:
  - Regional backhaul (being addressed by Broadband Connect)
  - Metro Blackspots (being addressed by Blackspot program)
  - International bandwidth costs (competition required)
- A rushed FTTN would be the next cross city tunnel - expensive infrastructure to solve a problem that doesn't exist yet. Both major parties know this. The priority is to get it right, not get it fast.

# International Broadband Penetration

The Australian market is in line with the US and European markets in terms of broadband penetration.

## Broadband Penetration 2006 – International Benchmarks



- FTTN (or something similar) is inevitable, but timing should be aligned to customer demand for higher speeds.
- Customer demand will continue to move from 256/512k to ADSL2+ speeds in the next 2-3 years. FTTN is a 3-5 year proposition.
- iiNet supports the G9 principles of fair and open access, pricing reflective of a reasonable return on investment for our sector
- We need high speed broadband in Australia, so let's have the debate: publicly, transparently and for the benefit of consumers
- iiNet supports current policy, on the basis that it will deliver the right products at the right prices at the right time
- For iiNet, the business strategy is the same in a FTTN or non-FTTN world: build brand, service capability, rich content and value adds

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