



FY07 Annual Results

August 2007

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FY07 Financial Highlights

	FY07 \$m	FY06 \$m	Δ
Headline EBITDA	45.9	18.1	↑
Normalised EBITDA*	39.1	18.1	↑
NPAT**	23.3	(62.6)	↑
EPS (cents per share)	18.6	(56.9)	↑
FY07 fully franked dividend (cents per share)	6.0	1.0	↑
Profit on sale of ihug	5.4	N/A	
Net debt	7.7	50.5	↓
Gearing ratio	10%	45%	↓

* Normalised EBITDA for FY07 excludes \$6.9m LSS settlement relating to prior year adjustment and earnings from ihug

** Includes profit from sale of ihug

- Significant turnaround on FY06 results
- “Protect the Core” strategy has delivered significant financial benefits
- Fully franked dividend of 5.0cps declared

Customer Service

- Customer advocacy is high
- Return to award winning Customer Service levels

Marketing

- Marketing campaign launched Q4 - brand awareness has lifted substantially
- A number of strategic content alliances in place

Network Infrastructure

- National DSLAM network rollout continues
- Additional dark fibre solutions sourced for iiNet broadband network

Regulatory

- Favourable regulatory decisions across all areas of contention
- Final result achieved on LSS, with back payment of \$16m pending

- Increase sales and retention by investing in our brand
- Improve customer retention through awesome customer service
- Launch of innovative new products, such as Naked DSL, wireless
- Drive broadband demand by partnering with content providers
- Expand infrastructure to deliver product differentiation and reduce costs
- Continue to focus on costs across the business
- Return to bolt on acquisitions within the next year

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Australian Business Results

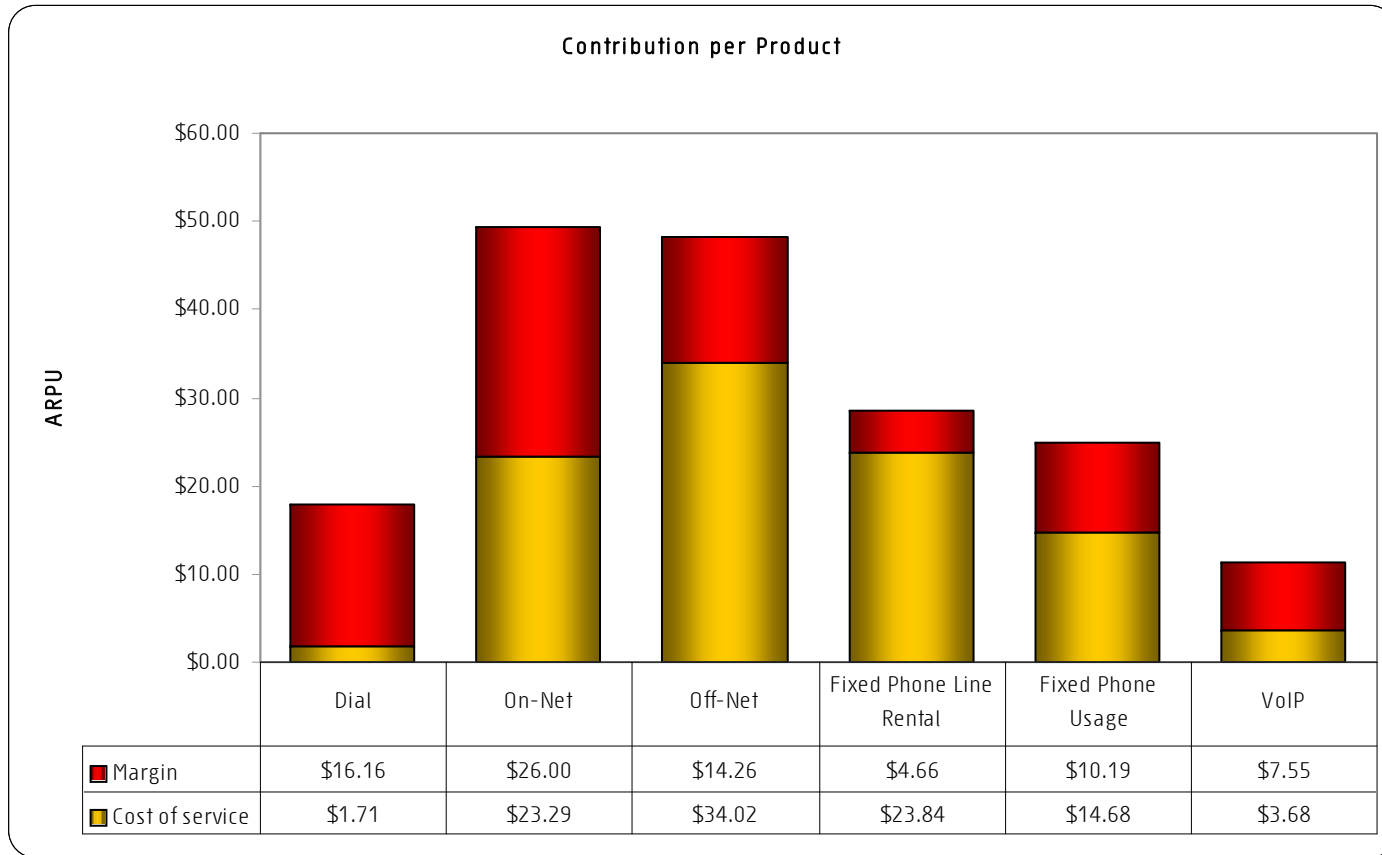
\$ millions	FY07	FY06	% Δ
Revenue	227.2	213.8	6%
Gross Margin	91.9	78.4	17%
<i>Gross Margin %</i>	<i>40%</i>	<i>37%</i>	<i>3%</i>
EBITDA*	39.1	18.1	115%
EBIT#	19.8	(49.3)	↑
NPAT from continuing operations #	17.8	(45.3)	↑
NPAT	23.1	(62.6)	↑

* Normalised EBITDA for FY07 excludes \$6.9m LSS settlement relating to prior year adjustment and earnings from ihug

Continuing operations exclude ihug contribution

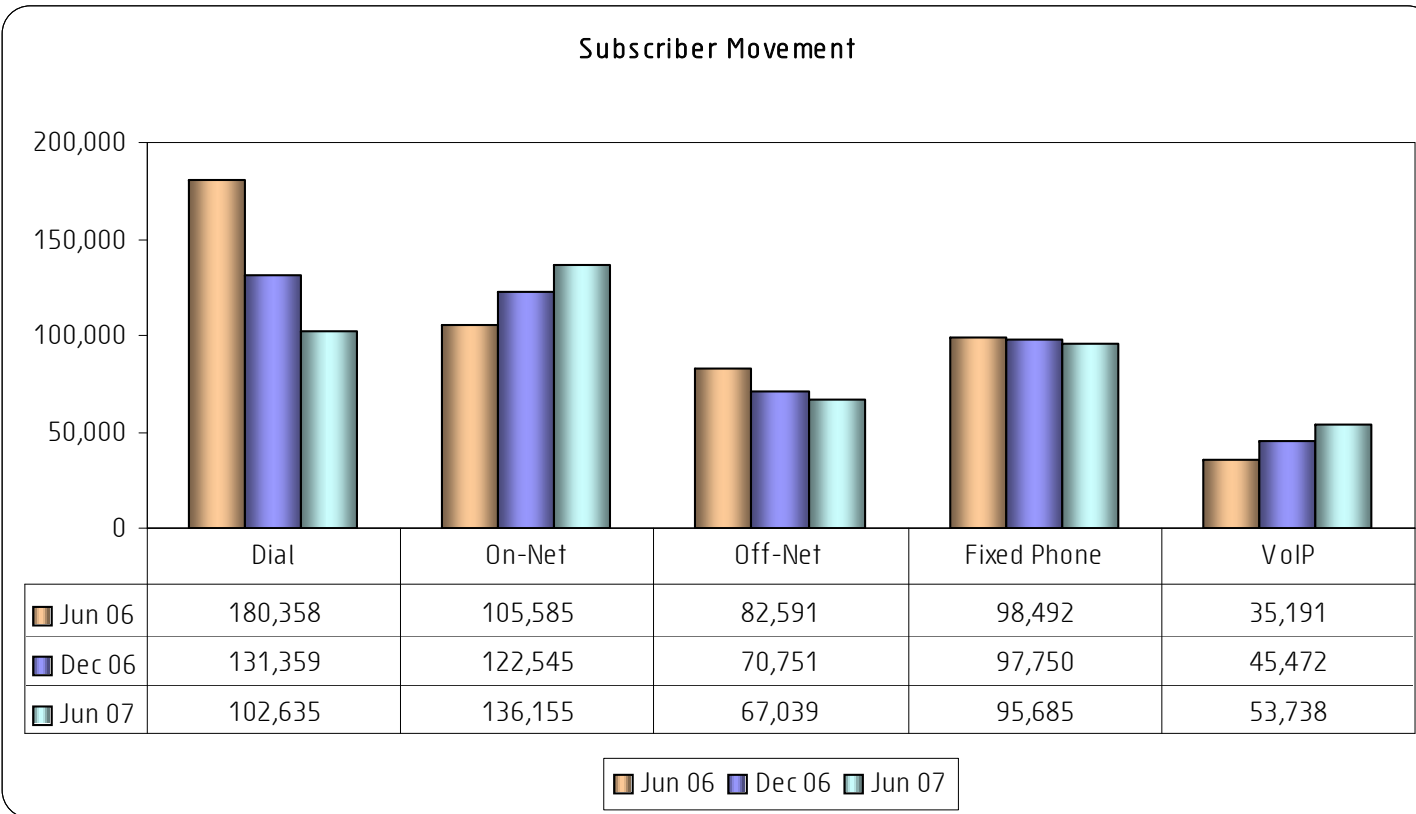
- Revenue up \$13.4m
- Gross Margin up \$13.5m due to increased number of customers on iiNet DSLAMs and removal of unprofitable plans
- Significant operational improvements are lifting earnings
- LSS price decreased to \$2.50/month in FY07

Product Margins (per user)



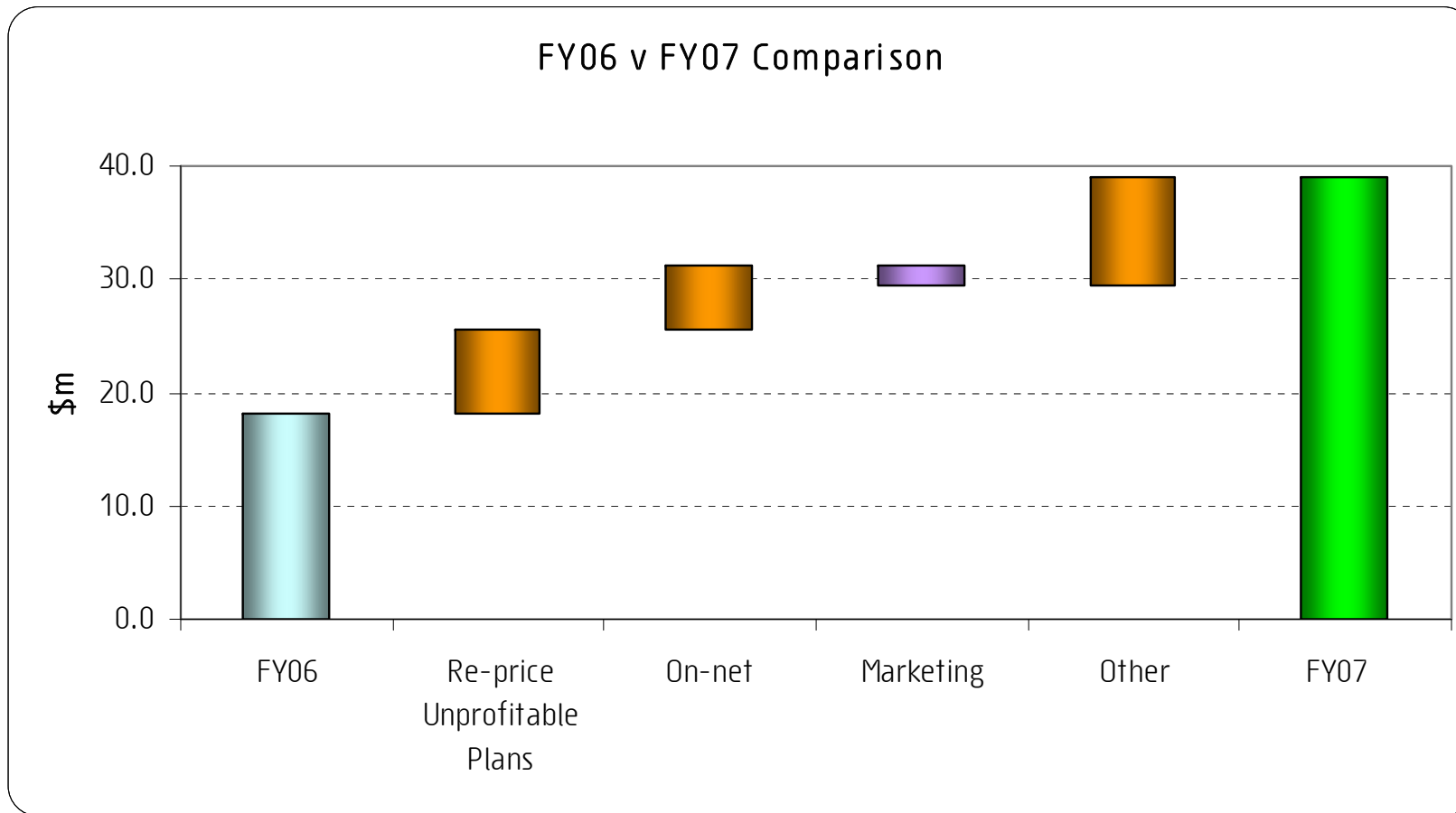
- On-net margins have improved following LSS pricing being reduced to \$2.50/month from \$9.00/month in FY06.
- Off-net margins have improved with re-pricing of unprofitable plans.
- VoIP margins are up on FY06 with a change in the product mix.
- Dial margins are down slightly from FY06 due to fixed costs associated with delivering this product.

Subscriber Numbers



- iiNet’s strategy is to reduce reliance on major network suppliers.
- In order to achieve this, the Company has focussed on growing its on-net subscriber base.
- On-net customers provide iiNet with the greatest margin and protect the business against supplier price shocks.
- During FY07 iiNet re-priced unprofitable off-net plans which delivered significant financial benefit.
- The current industry trend is a declining migration from dial to broadband, and this is consistent with iiNet’s experience

FY06 v FY07 Comparison



The “Protect the Core” strategy delivered an increase in EBITDA of \$21.0m in FY07.

FY07 Normalised Cash Flow

\$ millions	FY07	FY06
Operating Cashflow	27.8	20.9
Working capital normalisation	8.8	0.0
LSS Backdating	5.1	0.0
Normalised Cashflow from Operations	41.7	20.9
Cash used in investing activities:		
Capex – PP&E	(17.4)	(23.4)
Rebates on exchange fitouts	2.8	0.0
	(14.6)	(23.4)
Subscriber acquisition costs	(1.6)	(6.2)
Other	(1.1)	(2.0)
Total cash used in investing activities	(17.3)	(31.6)
Normalised Free Cash Flow	24.4	(10.7)

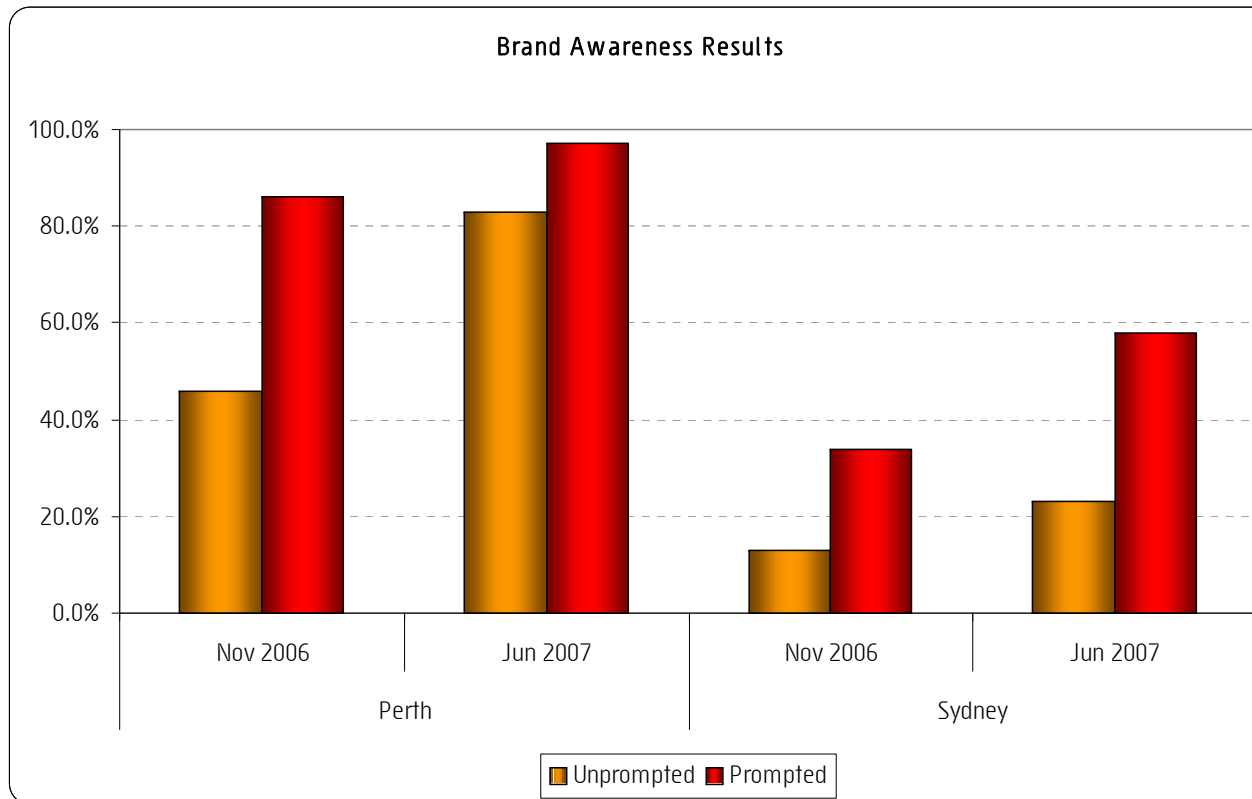
- Adjusting for significant items, the business is generating strong cash flows
- FY07 Capex before rebates for exchange builds totalled \$17.3m (includes \$7m payment for FY06 capex) down \$6.1m on prior year
- Net Debt significantly reduced to \$7.7m from \$50.5m – a reduction of \$42.8m
- Net proceeds from sale of ihug were \$31.1m

FY07 Net Debt Movement

\$ millions	FY07
Opening net debt	(50.5)
Cash flow from operating activities	27.8
Proceeds from sale of ihug	31.1
Cash used in investing activities	(17.3)
PowerTel tranche 2 placement	2.5
Dividends paid	(1.3)
Closing net debt	(7.7)

- Net Debt improved significantly from \$50.5m to \$7.7m
- iiNet will be in a net cash position when \$16m LSS settlement payment from Telstra is received
- This creates a strong balance sheet iiNet to invest in organic growth and future consolidation opportunities

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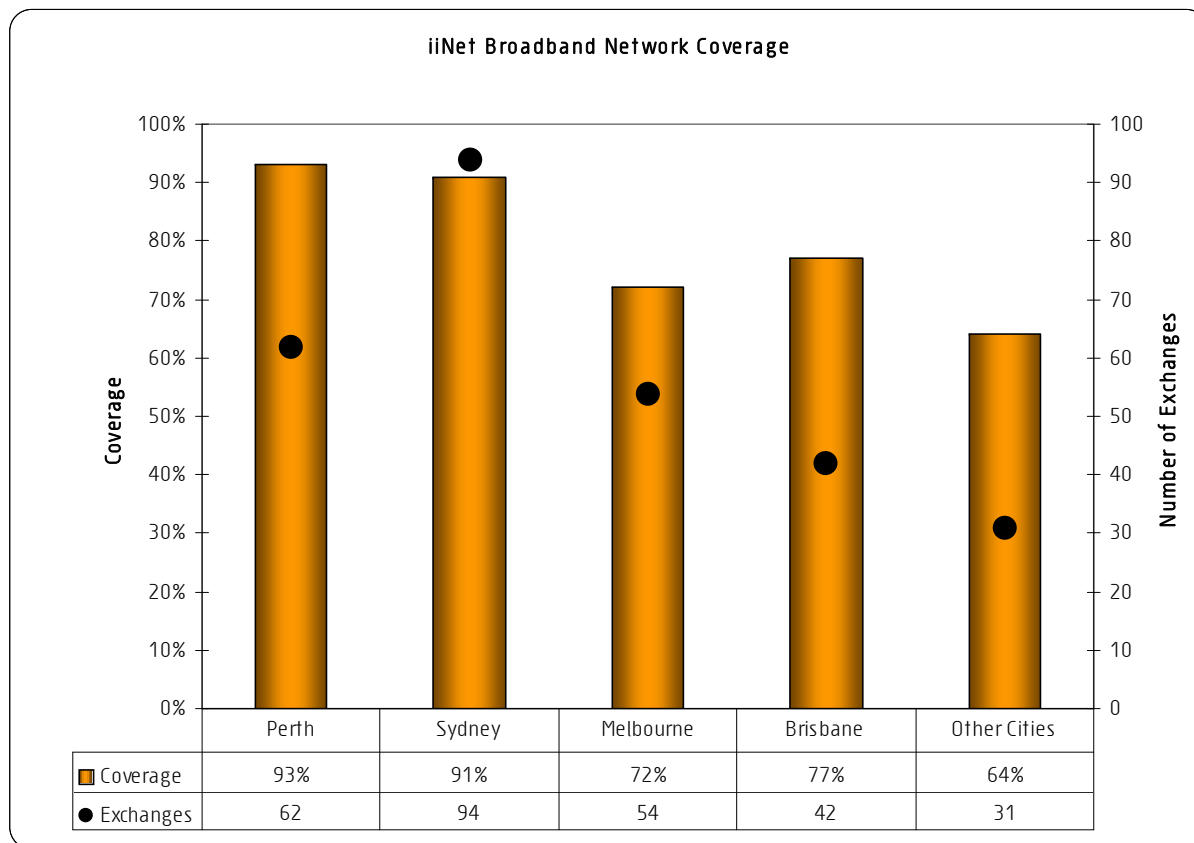


- During April, iiNet commenced phase 1 of its marketing campaign in Perth and Sydney.
- Phase 1 of the campaign was designed to lift brand awareness which has been successfully achieved.
- Prompted awareness in Perth has grown to over 90% and ~60% in Sydney.
- Phase 2 commences during Q1 FY08 with a focus on direct marketing



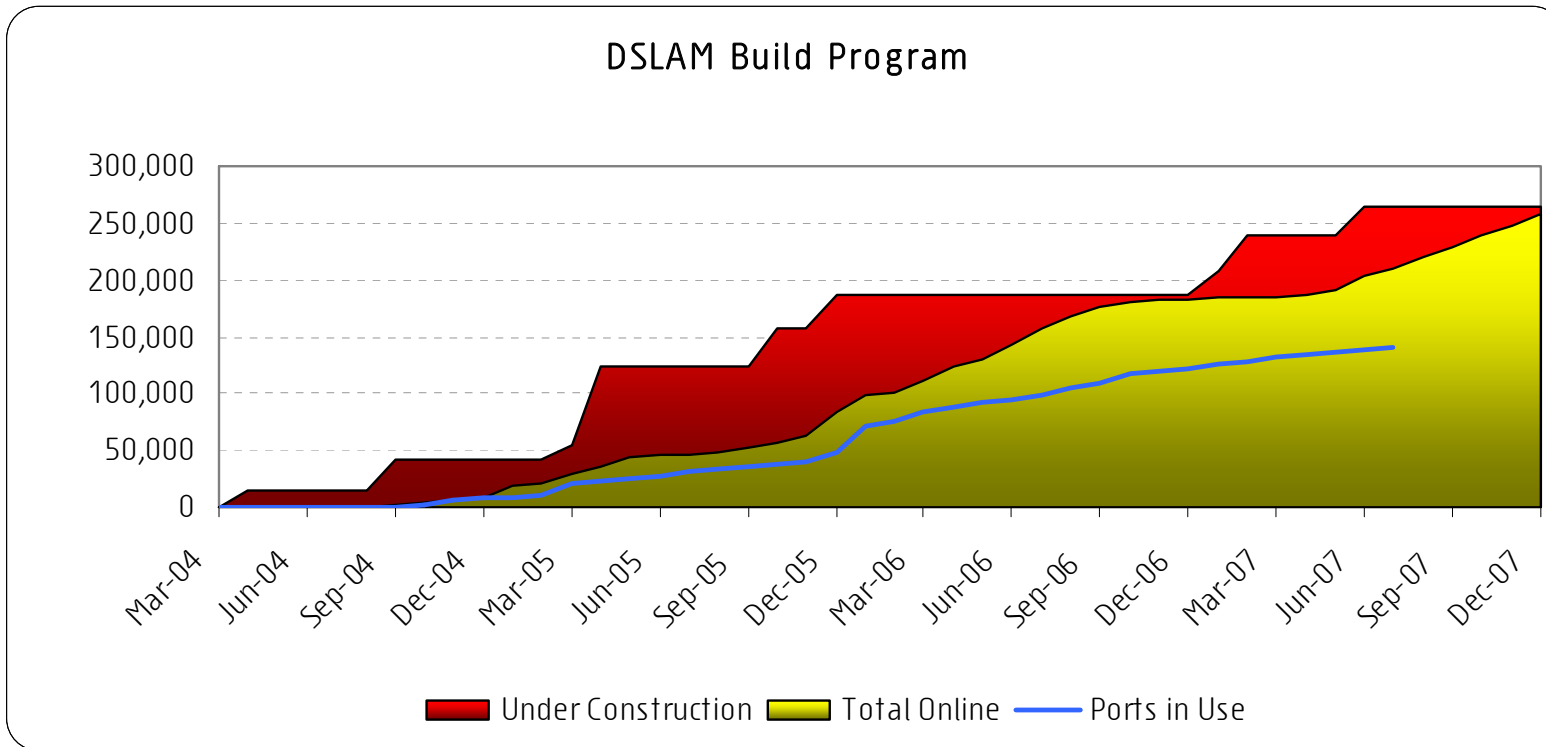
- Part of iiNet's channel to market strategy involves forming strategic alliances with complimentary brands.
- This allows iiNet to leverage the brand halo effect from these established brands.
- iiNet formed alliances with these key Telco and media players during FY07.



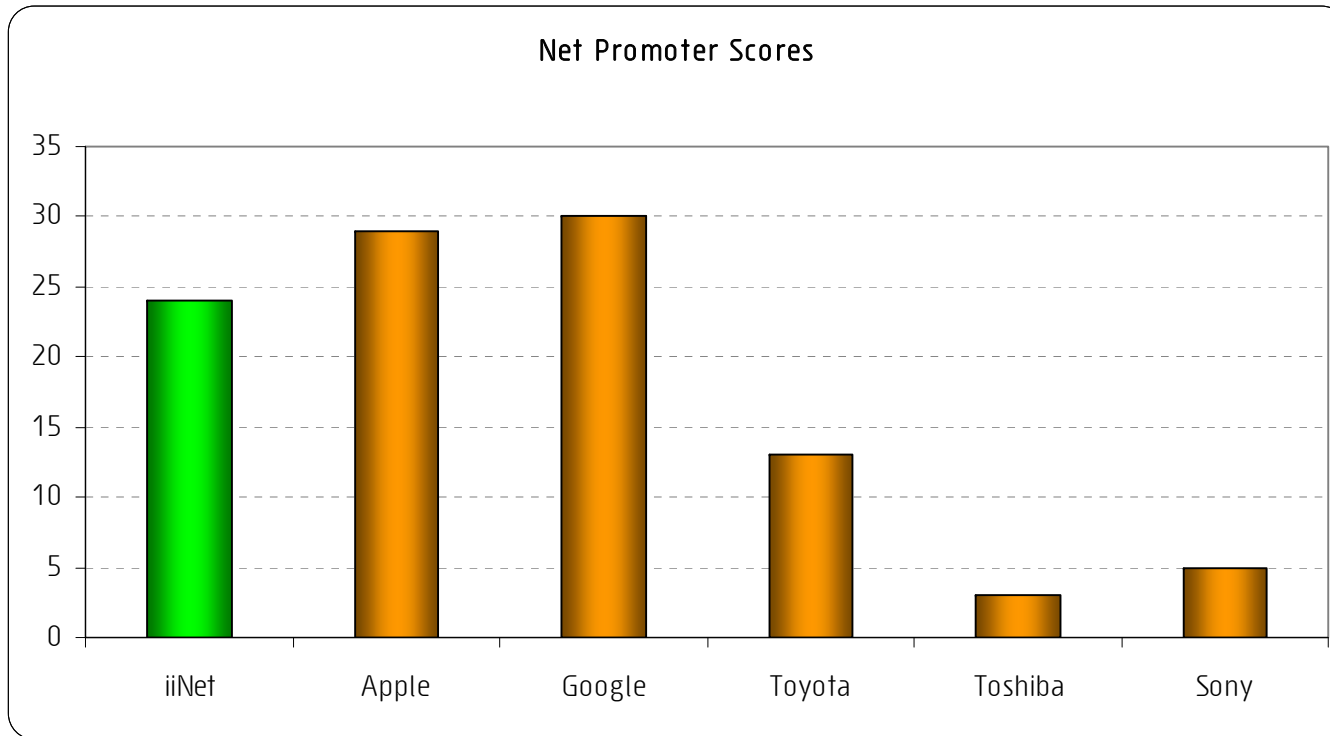


- A major plank in iiNet’s “Protect the Core” strategy is to reduce the Company’s reliance on major network suppliers.
- iiNet has a target of providing access to iiNet’s broadband network to 90% of metro customers.
- To date iiNet has built in 283 exchanges nationally with plans to build in a further 30 exchanges.
- This investment is supported by the improved margins and the ability to differentiate our products.
- 156 exchanges connected with dark fibre, with an additional 57 to be complete in Q2 FY08 which will reduce the cost of domestic data transmission.
- iiNet is exploring opportunities to reduce its international bandwidth costs.

The above graph shows the number of iiNet’s metro customers that have access to the iiNet broadband network.



- The above graph shows iiNet’s broadband network roll out since it commenced in March 2004 and includes the planned build to December 2007.
- Future planned construction will be primarily increasing the number of DSLAMs in existing exchanges.
- There are plans to build in an additional 30 exchanges over the next 12 months.



- Net promoter scores show the proportion of customers who are strong advocates, less those who are simply satisfied.
- There is strong evidence that a high NPS is correlated with future business growth.
- The results of research conducted show other Telco participants have a negative NPS.

Source: <http://www.mbs.edu/index.cfm?objectid=E0010302-D60E-CDD8-80F805B1A5F057C5>

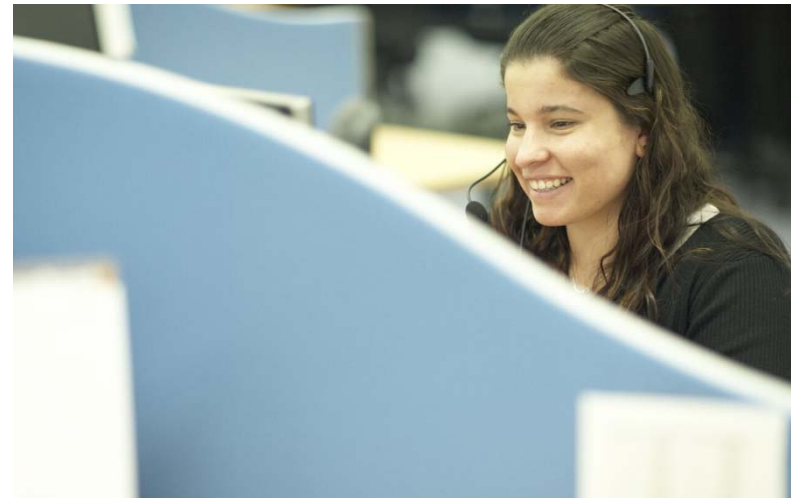
Mark Ritson: Associate Professor of Marketing

Melbourne Business School

iiNet won a prestigious international 4-star award for outstanding innovation in customer service...

From:

- 240 nominee companies
- 13 finalists
- iiNet was one of only 5 companies worldwide that received the "4-star" rating including:



PC User Best Broadband Provider

- Awarded best product for pioneering fast broadband in Australia



Australian Telecentre Association

- iiNet was awarded 2006 Call Centre of the Year

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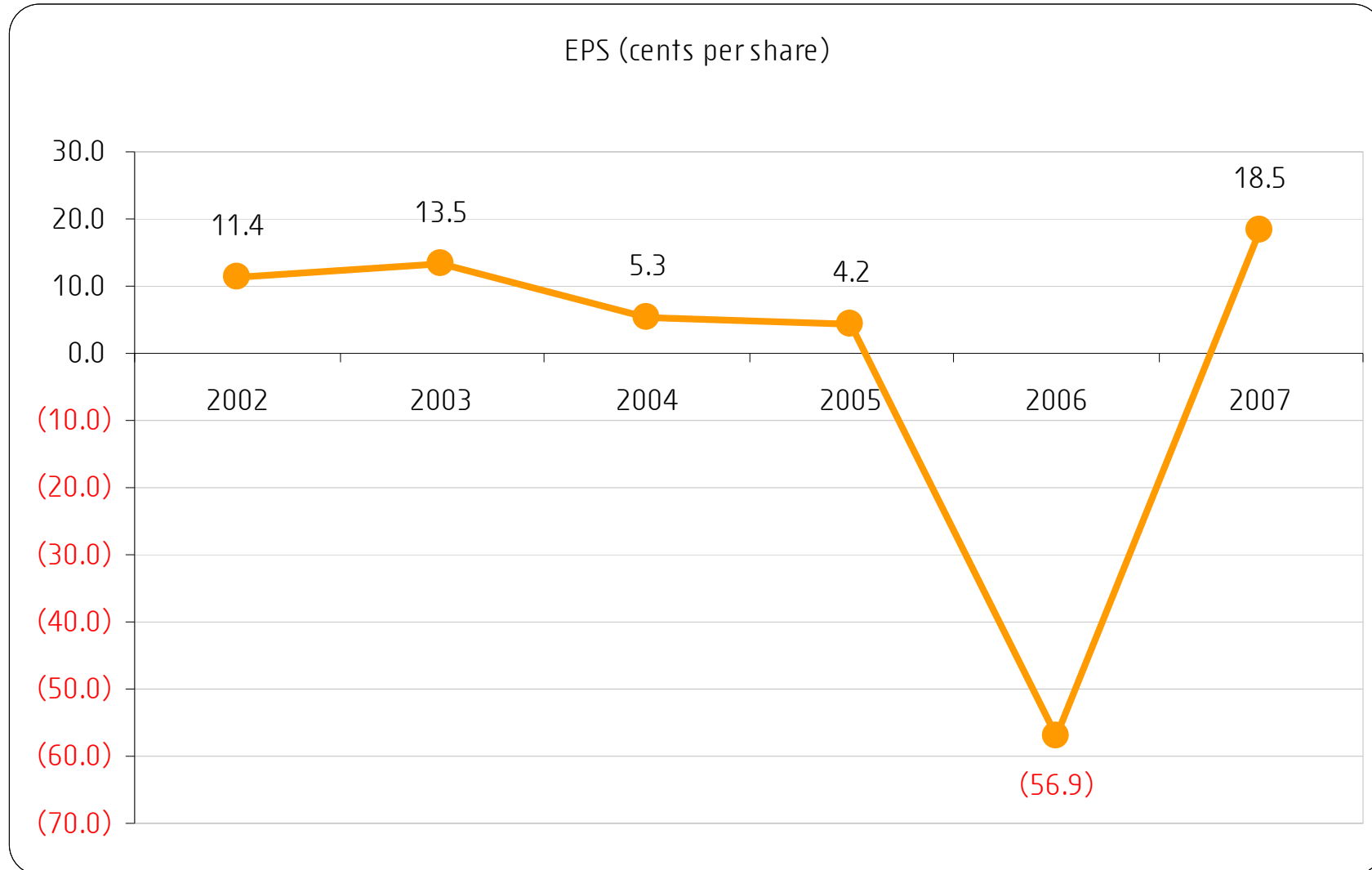
Growing iiNet by focussing on Service, Brand and Content

Area	Project	FY07	FY08
Customer Service	Make every call an awesome customer experience		Ongoing
	Improve speed of answer	Commenced	Ongoing
	Dedicated service lines - Business and Mac teams		Ongoing
	Phase 2 of the VCC technology deployed		Ongoing
Marketing	Phase 1 - build brand awareness		Ongoing
	Phase 2 - commence "call to action" campaign		Ongoing
Products	Naked DSL to be launched H1 FY08		Ongoing
	Wireless hotspot product with Tomizone		Ongoing
	Rollout content to drive broadband demand		Ongoing
	Establish a presence in the small SME market		Ongoing
Network Infrastructure	Grow DSLAM capacity in line with customer growth	Commenced	Ongoing
	Rollout dark fibre to additional exchanges	Commenced	Ongoing
	Secure long term international bandwidth access		Ongoing
Financial	Relentless focus on costs	Commenced	Ongoing
	Strong Balance Sheet		Ongoing
	Return to M&A activity		Ongoing

Commenced

Ongoing

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Glossary of Terms

Term	Description
ARPU	Average monthly revenue per user
Dark Fibre	or unlit fibre is the name given to individual fibres that have yet to be used within cables that have been already laid. They are hence not yet connected to any electronic device, and are only there for future usage
DSLAM	Digital Subscriber Line Access Multiplexer (a device that connects a customer DSL line to iiNet's infrastructure)
LSS	Line Sharing Service. A wholesale product provided by Telstra which allows iiNet to transmit data across the copper telephone line between the customer's residence and the exchange
Off-Net	A customer that is provided a DSL service through another network (usually Telstra Wholesale)
On-Net	A customer that is provided a DSL service through the iiNetwork
Prompted Awareness	Used in relation to marketing surveys where the respondent is asked to recall particular brands and is aided in providing these responses via prompts from the surveyor
Unprompted Awareness	As above, but the respondent is not prompted with the brand to identify
VCC	Virtual Call Centre – a call centre where the representatives are geographically dispersed
VoIP	Voice over Internet Protocol – the routing of voice conversations over the Internet or through any other IP based network