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PROFIT UPDATE

RELEASE DATE: 26 MAY 2006

iiNet Limited (ASX: IIN) today announced its revised EBITDA guidance for the year ending 30 June 2006. iiNet is now expecting an EBITDA result of $24.6 million, before any abnormal items, down from the previous guidance of $40.1 million. Revenues are forecast to be approx. $250 million. Whilst still strongly EBITDA positive, the Company expects to report a net loss for the year after amortisation and depreciation.

Based on recent trading and the budgeted result for the next three months the Company is currently operating at a normalised run rate of $25m EBITDA per annum. Due to several one off costs incurred since January and improvements in the network cost base, the Company believes this level of EBITDA is the most accurate reflection of the current profitability of the business.

“We are extremely disappointed to report this downgrade,” said Managing Director Michael Malone. “There are a number of reasons that have combined in this half to produce a result that is significantly less than our market guidance and we attach a detailed analysis.”

“We recognise that this situation is unsatisfactory for shareholders, but the Company remains in a good position, with over 600,000 services and Australia’s largest ADSL2+ network.”

Executive Chairman Peter Harley said that the issues with iiNet’s financial position had not been identified early enough.

“iiNet has been through a period of rapid growth in the last few years, including the acquisitions of iHug in New Zealand and OzEmail in Australia, resulting in iiNet now being the third largest internet service provider in Australia and New Zealand,” said Mr Harley.

“In every other six month period since 2001, there has been either a large acquisition or a major integration. This is the first clear period without such activity and it is now obvious that, with the rapid expansion of the business, our processes did not keep pace.”

“Following the discovery of the gap between the actual and forecast position, we chose to adopt a conservative approach, resulting in a longer than expected period of suspension from trading. However, this has allowed iiNet to fully review its systems, its financial results and forecasts to ensure that there is no repeat of this situation."

The Company's bankers have been kept fully informed of the Company's position. The Company is not in breach of its banking covenants and expects to meet future covenant requirements.

The Company is on track to complete the strategic review of the business by the end of June 2006 and updated guidance on the 2007 financial year will be provided at the conclusion of that process.

iiNet will conduct an investor roadshow across Australia next week. A copy of the full presentation is attached.

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EBITDA Variance Analysis

January to June 2006

Background

iiNet became aware of a material difference between its December EBITDA guidance and actual trading position in April after a review of its March quarter results.

The Company immediately sought a trading halt in its shares until the market was provided with full information and implemented a process review in conjunction with its auditors Ernst & Young to fully understand the issues.

Ernst & Young have now completed their review including an analysis of iiNet's forecasting and billing systems. The investigation did not identify any significant issues with the accuracy or completeness of iiNet's customer invoicing and cash collection systems.

However, Ernst & Young did identify that in some areas, the Company's processes have not kept up with the Company's growth. Ernst & Young have recommended changes to iiNet's forecasting and month end processing systems to ensure there is no repeat.

Summary

The lower EBITDA guidance for the year ending 30 June 2006 is primarily a result of the following factors:

1) One off costs mostly relating to the OzEmail integration, which are now past;

2) Immature processes and procedures between the finance and applications teams surrounding forecasting, which were covered in the Ernst & Young report and are being progressively implemented by management; and

3) Underlying product profitability issues that are being addressed by management and through the strategic review process.

Refer to the attached for a detailed analysis of the variance.

Strategic Review

By the end of June, iiNet expects to complete a full strategic review of its business in conjunction with GEM Consulting. This review will cover all aspects of the business with a particular focus on how iiNet positions itself for optimal growth in the future.

Detailed Analysis

For year ending 30 June 2006	$m
Previous EBITDA Guidance	40.1
Variance	(15.5)
Updated EBITDA Guidance	24.6

The variance from the December guidance is explained below.

Customer Credits - $1,970,000

In the March quarter credit adjustments to customer accounts were significantly higher than previous levels. Typical reasons for credits are:

- Customer claims account was closed some time ago, but billing continued
- Credit for service outages
- Integration related errors

These credits have never been a material factor traditionally being less than one percent of revenue per month and therefore have not previously been included in forecasts.

From April onwards, credits have returned to around one percent, and are now being accounted for in revenue forecasting.

Double Counting of Usage Revenue - $1,800,000

Some old dial-up and ADSL plans have a usage component, which is charged for usage above an agreed quota. The guidance erroneously double counted this usage under certain circumstances, due to a disconnect between the finance and applications groups on the interpretation of an input report.

This was identified in April during the Ernst & Young review and has been corrected in the updated guidance.

Increase in Call Centre - $900,000

In order to expedite the return of customer service performance to acceptable levels after the OzEmail integration, call centre headcount was increased by 50 above forecast. Service levels have subsequently improved and costs for these additional staff have been incorporated into the revised guidance.

Professional Fees - $1,100,000

The company believed it had made appropriate provision for professional fees during the period. However, unexpected changes in the regulatory environment and other recent events have resulted in higher than expected costs.

In February, iiNet lodged three access disputes with the ACCC against Telstra relating to the pricing for Line Sharing (LSS), Unbundled Local Loop (ULL) and Regional Transmission pricing. iiNet lodged a further request for an interim arbitration on ULL in March, in addition to running an extended PR and lobbying campaign with regard to these and other related issues.

The company has also incurred higher than expected one-off fees for legal advice as well as Ernst & Young, GEM Consulting and other corporate advisers. While this is regarded as an unusual period, a generous provision in the June quarter has been made for professional fees.

Other - $1,750,000

A number of relatively minor issues make up the items under “other”, including staff redundancies, minor timing delays on DSLAM rollout early in the half, overages on rental, additional travel expenses in the first quarter and various other small contributors.

Dial Revenue Shortfall - $3,100,000

The starting point for revenue from fixed monthly OzEmail dial up customers in December was overstated due to difficulty in interpreting data from legacy systems during an extended billing integration period. Additionally, churn in these dial products has been higher than expected in this half due to the competitive environment, unsatisfactory service levels and customer impact during the integration. The effect of these combined issues over the period is $3.1m.

This is a one off item relating to the integration. The revised guidance correctly baselines dial customers at their actual level. Churn rates have reduced substantially as service levels have improved.

Use of Telstra Bandwidth - $580,000

In order to maintain certainty of bandwidth supply during January and February, Telstra required the company to lock in a minimum spend on international bandwidth for six months. The impact of this over the full half is $580,000. This contract terminates in July.

ADSL ARPU Shortfall - $1,460,000

The average revenue per user (ARPU) for ADSL is slightly lower than expectations. There are two substantial reasons for this:

1) Oze256 Starter accounts are $29.95, with no bundling required. In December, the expectation was that most of these customers would migrate to a higher value broadband2 product, which did not occur.

2) Old iiNet ADSL customers have a higher ARPU than the newer products. During the period, about 2,500 customers more than expected moved to cheaper broadband2 products.

The net impact of these two variations is about $1.37 per subscriber per month across the period, resulting in a $1.46m shortfall for the entire period. Since the costs of supplying these services are broadly fixed, this is a straight reduction in EBITDA.

The current product count and updated internal churn rates have been included in the guidance to June. The company is conducting a thorough review of product contributions as part of the GEM Strategic review. This process is already well underway by management in parallel and various changes have been implemented in April and May to improve contribution.

Voice ARPU Shortfall - $1,050,000

Standard telephony revenue comprises three components:

- Line Rental, with negligible margin
- Add-ons, such as “silent number”, with zero margin
- Actual call usage

Call usage ARPU in the June half is $5 below expectations, which has an EBITDA impact of $1.05m. The ARPU shortfall appears to be at least partly seasonal, however a conservative ARPU has been included in the forecast to June.

Minor changes have been made to the products to improve contribution with a more mainstream telephony product released in May. The review of telephony pricing and overall approach to telephony forms a fundamental component of the GEM review.

MSAN & Toll Bypass - $1,790,000

Implementation of two major telephony cost reduction initiatives that had been forecast to deliver benefits during this half have been delayed until the next half. One of these initiatives is the MSAN project, which is currently under review as part of the GEM process.

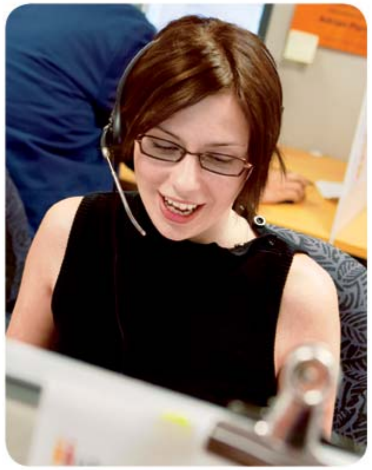
iiNet Limited
Investor Update
May 26, 2006

iinet
connect better

iiNet **Snapshot**

Third largest Internet Service Provider in Australia and New Zealand

- Offers broadband, dialup, standard telephony and Voice over IP



Over 600,000 services

- Loyal customer base, nearly all residential
- Reputation for leading the market with new products
- Aim to differentiate from the larger carriers with excellent Customer Service

Next generation broadband (ADSL2+)

- Faster broadband than our competitors, using our own equipment
- Rapidly growing VoIP product in Australia – 30,000 customers

Largest ADSL2+ network in Australia

- Wide coverage, on target for 100,000 customers by June 2006
- More customers on our network than on Telstra – reduces dependencies

History

- **1993**
  - Launched as first retail ISP in WA
- **1997**
  - Acquires several smaller ISPs to expand in WA
- **1999**
  - Lists on ASX. Registered as a carrier Built own equipment to reduce costs
- **2000**
  - Launches broadband. Continues to win awards for customer service
- **2003**
  - 2001-2003 Acquires ihug and others to expand across Australia and NZ
- **2004**
  - Begins roll-out of own high speed broadband network
- **2005**
  - Launches fully bundled telephony and broadband service. Launches VOIP
  - Acquires OzEmail giving scale for broadband rollout on the east coast

Strategy

- To be a leading consumer telecommunications provider in dial, broadband and telephony
- Drive profitable growth by:
  - Keeping a narrow focus to ensure scale is achieved in all businesses: dial up, ADSL broadband, telephony
  - Leading on product, differentiating on service
  - Building infrastructure where appropriate to reduce costs and improve products

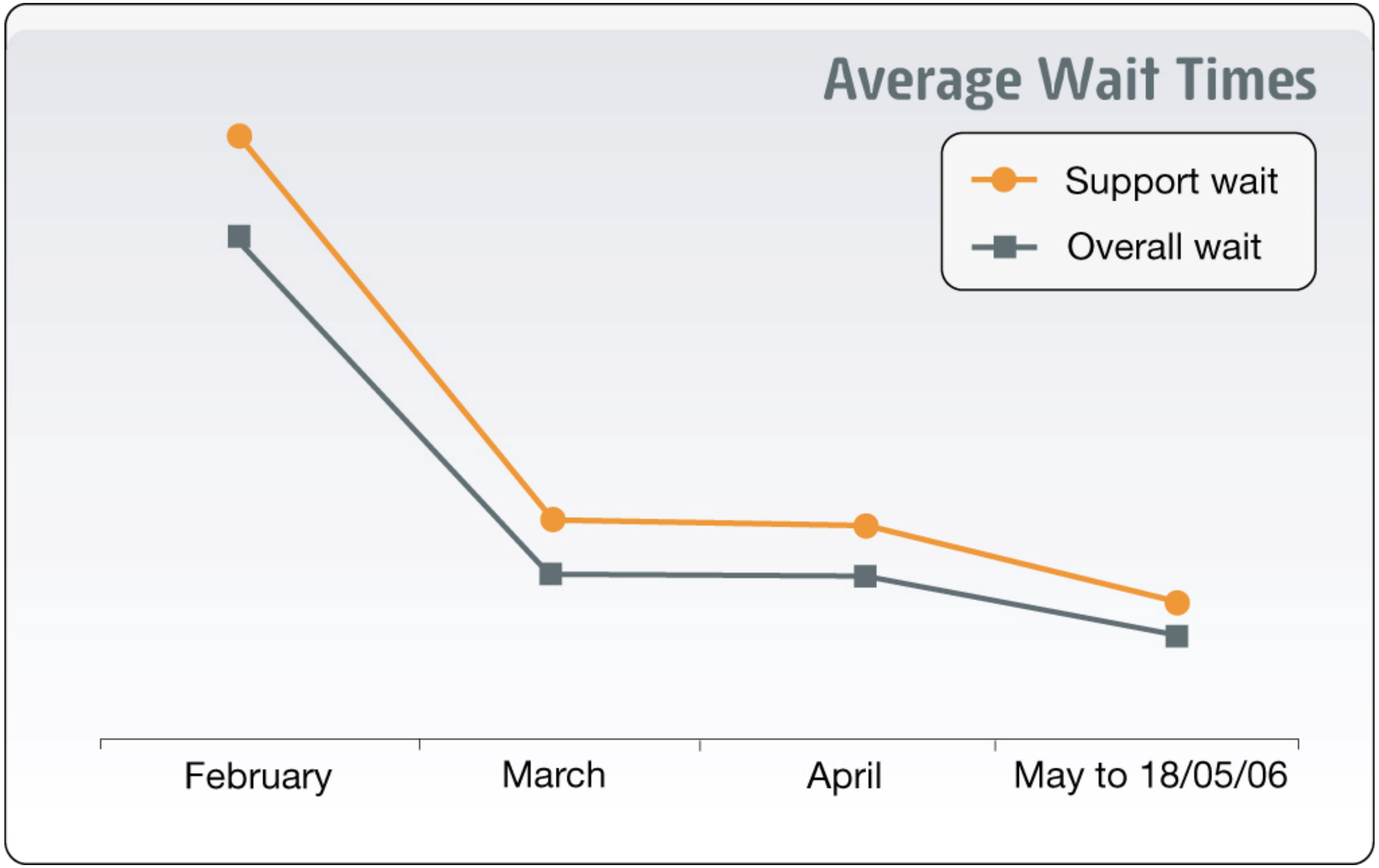
Dial up Internet Access

- iiNet began offering flat rate dial up in 1993
- Built dial up network in 2000, reduced cost base and made dial up a very profitable product
- Dial up now in decline as customers move to broadband
- Industry revenue down 33% in past 12 months - iiNet churn higher due to competition, integration and call centre issues
- Amended “low average revenue” dial up plans in May
- Churn expected at 3% next year as service improves

Number 1 Priority: **Customer Service**

- iiNet seeks to differentiate from large carriers on service
- In recent times, call waiting times have been unsatisfactory due to additional load during integrations
- New equipment ("VCC") deployed in February to allow call balancing across Perth, Sydney and Auckland
- Fifty additional staff employed in this half
- New General Manager appointed in May
- Hold times in April/May for technical support now at acceptable levels – two minute average speed to answer in May, regarded as industry best practice levels
- Additional phases of VCC will deliver further customer service improvements

Call Centre **Speed to Answer**



Responsiveness has returned to historical levels

Broadband ADSL

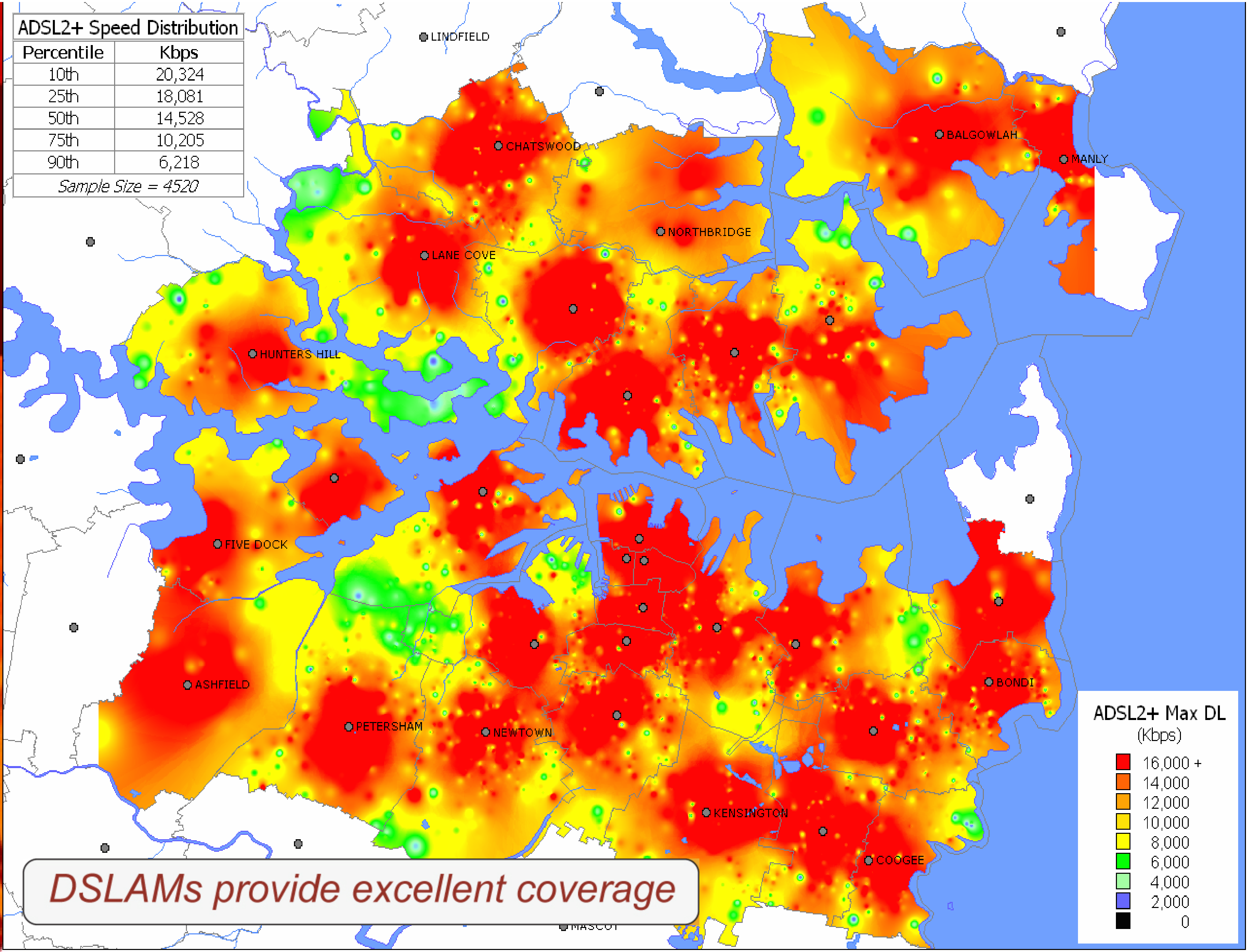
- iiNet now has 185,000 ADSL customers in Australia, behind only Optus and Telstra
- Growth at around 4000 per month
- iiNet is building an ADSL2+ network ("DSLAM"), which will cover 90% of metropolitan Australia by early 2007
- Other customers are on Telstra wholesale, higher costs, lower speeds
- On track to have over 100,000 on our network by July and over 160,000 by June 2007

Why DSLAMs?

- iiNet's DSLAM is broadband equipment that we put into Telstra exchanges
- Allows us to reduce costs and insulates us from wholesale price squeeze
- Gives higher speeds than major competitors – most ADSL is up to 1.5M, iiNet up to 24M

DSLAMs fit our strategy to build scale and

then use own infrastructure to reduce costs and support new products

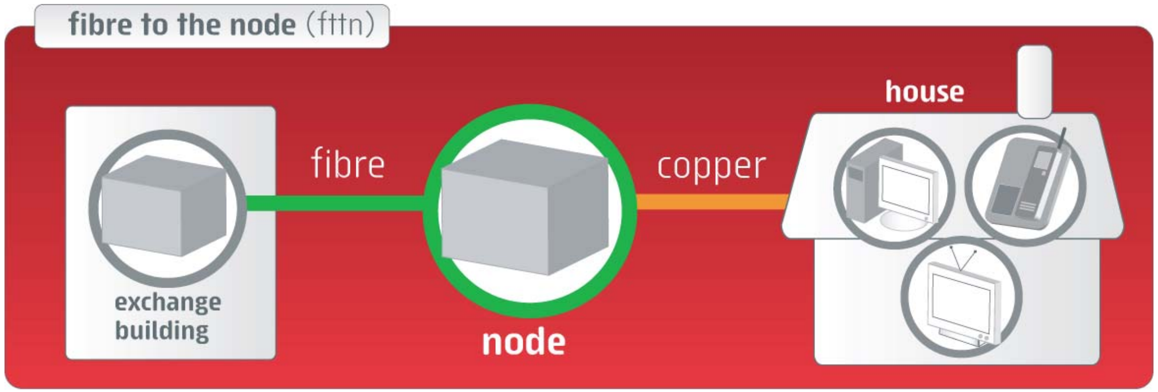


ADSL2+ Speed Distribution	
Percentile	Kbps
10th	20,324
25th	18,081
50th	14,528
75th	10,205
90th	6,218
Sample Size = 4520	

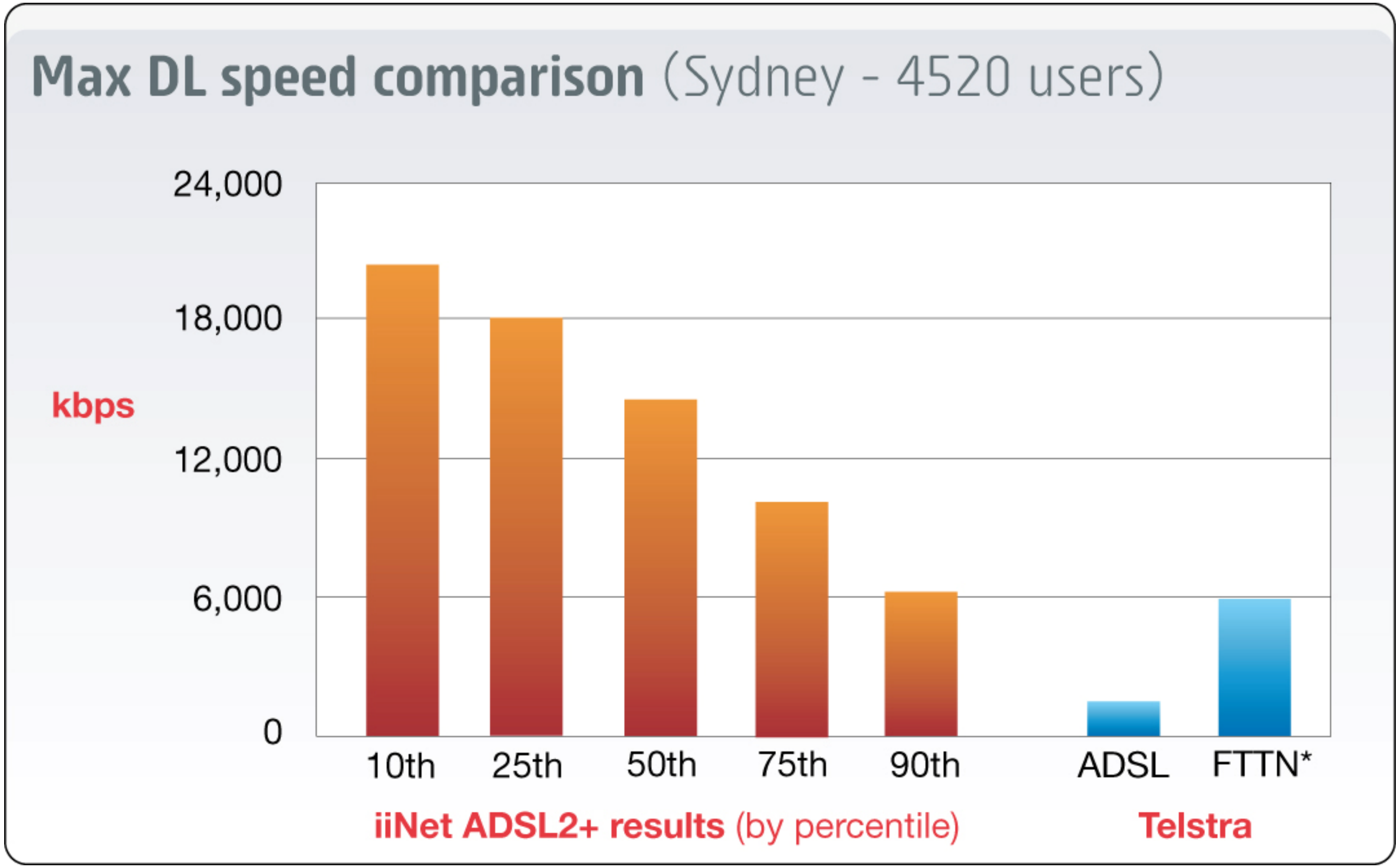
DSLAMs provide excellent coverage

Fibre to the Node (FTTN)

- Telstra is seeking government support to build a FTTN network to deliver speeds of up to 6M
- iiNet's ADSL2+ network already delivers higher speeds, with much lower investment cost
- *The real advantage of FTTN to an incumbent is that it returns monopoly control of telephony*
- Direct government support is regarded as unlikely. If built, the network will need to be open to iiNet.
- Even if it proceeds, FTTN is expected to take 3-5 years to deploy



DSLAM Speed Comparison



DSLAMs deliver superior speeds

* FTTN Speed of up to 6Mbps http://www.nowwearetalking.com.au/Home/Page.aspx?mid=207#coopPlan 9/5/06

Telephony

- iiNet has over 85,000 full service standard telephony customers, all bundled with ADSL or dial up
- Over 80% of new customers bundle phone and broadband
- 47% of broadband customers have telephony bundled
- Currently a pure reseller of Telstra, on very low margin
- Currently setting up a “toll bypass” network which improves margins
- Real objective is to use ULL and build own infrastructure

Voice over IP ("**VoIP**")

- VoIP is very low cost telephony for customers
- In mature overseas markets, VoIP is a niche service (10-15% of customers) with larger percentage of minutes
- iiNet offers VoIP as an add on for broadband customers
- We now have 30,000 VoIP customers, making us the fastest growing retail VoIP provider in Australia
- VoIP will continue to take market share from traditional telephony and iiNet is well positioned to take advantage of this trend

Regulatory Update

- Unbundled Local Loop (ULL)
  - access to the "raw" copper from customer's home to the nearest exchange
  - can be used to reduce costs to supply bundled telephony and broadband
  - Telstra has challenged the current pricing model used by ACCC and asked government to intervene
  - Government decision pending, was due in May
  - iiNet has successfully obtained an interim ruling from the ACCC continuing existing pricing until resolution of the current dispute

New Zealand Operations

- ISP of the Year, again
- Significant turnaround in calendar 2005
  - New management team appointed in August
  - Products narrowed to dial, adsl, telephony
  - Costs reduced leveraging group purchasing power
  - Revived brand following campaign activity
- Net growth for customer base
- Full year EBITDA on track for $5.7m
- Regulatory wins – Open local loop
- Well placed to take advantage of new regime

Subscriber Numbers

	Subscribers	ARPU
ADSL	185,131	$51.21
Dial Up	191,366	$17.10
Telephony	83,539	$58.92
PreSelect	7,942	$20.48
VoIP	29,433	$8.00
Other	24,563	$11.88
New Zealand	125,826	$22.40

* Subscriber numbers and ARPUs as per budgeted numbers for May 2006

Conclusion

- Top 3 ISP with over 600,000 services
- Customer Service levels now at satisfactory levels
- Largest ADSL2+ network in Australia
- Roll-out of DSLAMs remains on track
- Significant regulatory wins in New Zealand
- Strong position in telephony and VoIP