iiNet Business Update

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Overview

- Existing build strategy confirmed and accelerated
- Change in Telstra attitude to wholesale channel but mitigation strategies commenced and FY06 impact quantified
- Projected FY06 EBITDA of $40m
- DSLAM (broadband) and MSAN (telephony) builds on target
- Accelerating DSLAM rollout to 90% of metro by January 2007
- OzEmail integration complete but significant short term impact on customer service
- Contact Centre remediation on track and performance improving
- iiNet brand gaining traction
- Business well positioned for FY07

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Earnings Guidance FY06

$000s	December Half	June Half	Full Year FY06
Revenue	118	129	247
EBITDA	16.4	23.7	40.1
NPAT before Amortisation	5.8	7.8	13.6

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December 2005 Half - Guidance

- $16.4m EBITDA projection lower than budget of $19.1m:
  - Impact of line rental and other wholesale cost increases
  - Revenue in line with budget
  - Sales affected by Contact Centre performance in October and November with December tracking to 165k Australian ADSL services compared with budget of 177k services
- But considerable progress made:
  - Data and voice services in line with expectations
  - OzEmail customer base fully integrated on time
  - Aggressive DSLAM rollout delivering on target
  - VoIP Product launched - precursor to MSAN Rollout
  - Brand awareness lifted following $3.8M campaign
  - Remediation of contact centre, major VCC infrastructure project

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June 2006 Half Guidance

Guidance incorporates

- Increased cost of DSL ports from Telstra Wholesale absorbed until DSLAMs are deployed
- Increasing contact centre staff by 40 FTEs
- Cumulative expected impact of reduced sales resulting from increased line rental, product changes and service levels
- Low ARPU plans reduced to 512k, lower cost than 1.5M plan
- OzEmail dial customers on iiNet network, lower cost base
- 70,000 customers on our own DSLAMs, increasing to 100,000 by July
- MSAN equipment deployed from March, further reducing costs

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Operating Strategy

- Accelerate DSLAM rollout in 2006 and 2007
  - Perth, Sydney at 90% coverage by March 2006
  - Other capital cities at 90% coverage by January 2007
- Commence MSAN rollout in 2006
  - Substantially reduce cost base of telephony (line rentals)
- Reduce dependency on Telstra where appropriate
- Optimise product offering from January

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Regulatory Issues

- ULL
  - Pricing decision expected by end of January
  - Government intervention regarded as unlikely
- Fibre to the Node
  - Access holiday unlikely
  - Government has directed Telstra to existing ACCC framework
  - Full rollout now considered unlikely
- iiNet Access disputes in progress on ULL, LSS, Regional Backhaul

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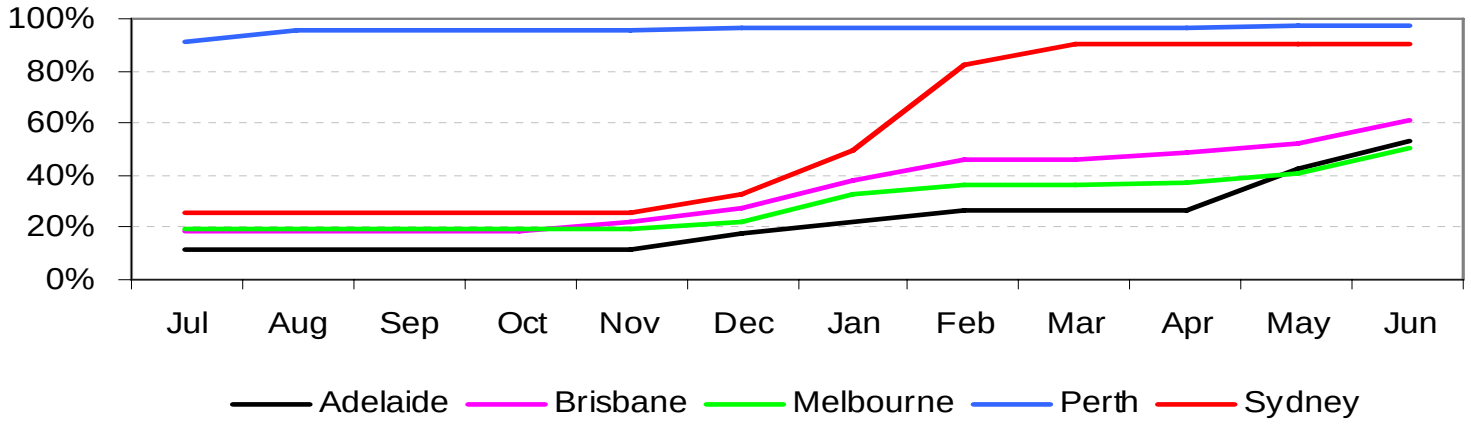
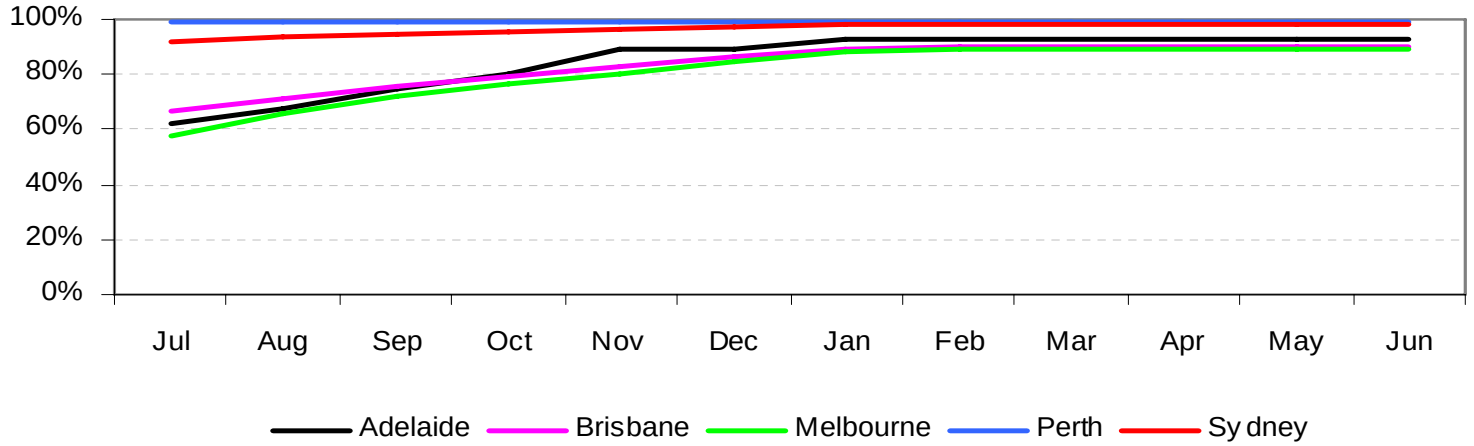
Phase 4 DSLAM Rollout - % of Customers

FY06 Forecast Metro Coverage



FY07 Forecast Metro Coverage



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Commence MSAN Rollout

Calls made using Ericsson and Nokia MSAN equipment	✓
Customer trials commenced	✓
ULL number portability	☑
Provisioning process with Telstra developing	☑

✓ Achieved ☑ On Track

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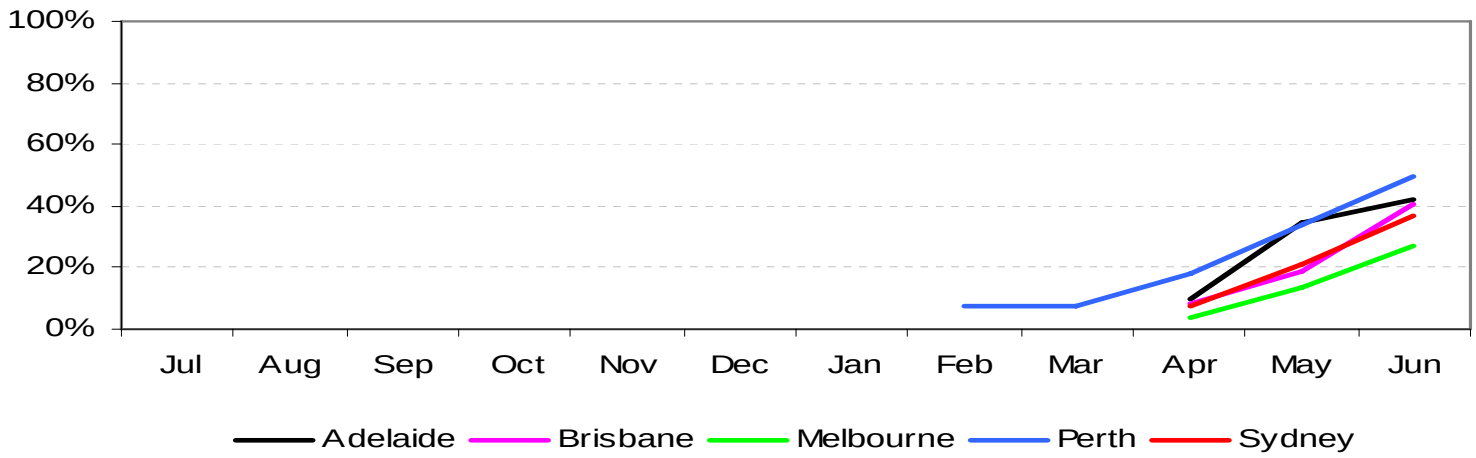
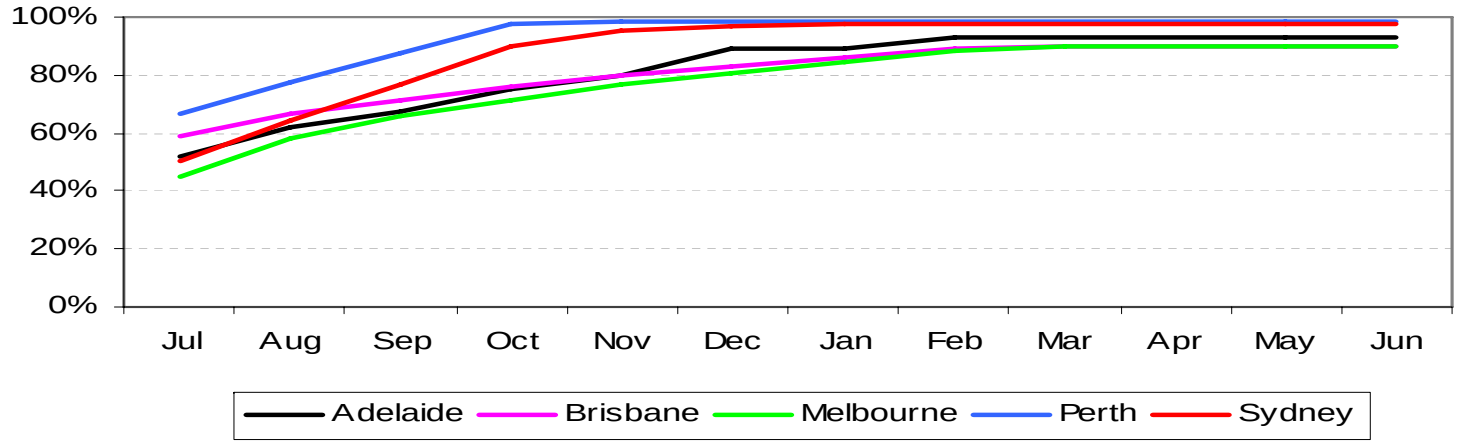
MSAN Rollout - % of Customers

FY06 Forecast Metro Coverage



FY07 Forecast Metro Coverage



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Optimised Product Offering

In revising products, we have considered:

- Customer sensitivity to speed
- Churn
- Alternative offerings
- Long term impact of infrastructure rollout

Customers notified of changes in mid December:

- "Pay as you go" ($29.95) slowed to 512k, but capped monthly price (low sensitivity to speed)
- "Starter Plans" ($39.95) slowed to 512k but quota increased (only $10 to upgrade to 1.5M and more quota)
- Affects approximately 20,000 customers
- Increase speeds on DSLAMs to up to 24mbps
- Line rental increase to be passed on to customers

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Comparable Bundled Broadband Plans

	iiNet		Bigpond		Optus		iPrimus*	
Price Point	**Speed**	**Quota**	**Speed**	**Quota**	**Speed**	**Quota**	**Speed**	**Quota**
$29.95	512k	600 MB	256k	200MB	512k	300MB + 600MB	512k	400MB
$39.95	512k	4GB + 4GB	512k	400MB	512k	2GB + 4GB	512k	1GB
$49.95	1500k	10GB + 10GB	NA	NA	1500k	7GB + 14GB	256k	12GB
$69.95	1500k	20GB + 20GB	1500k	500MB	1500k ($64.95)	20GB + 40GB	1500k	5GB
$89.95	1500k	40GB + 40GB	NA	NA	NA	NA	1500k	12GB

* iPrimus pricing is unbundled – bundled customer can choose from 50 free calls per month or $9.17 off their bill

iiNet Products remain compelling

At $29.95

- Greater speed than Bigpond; and
- Greater quota than Bigpond, Optus and Primus

At $39.95

- Far greater quota than Bigpond, Optus and Primus

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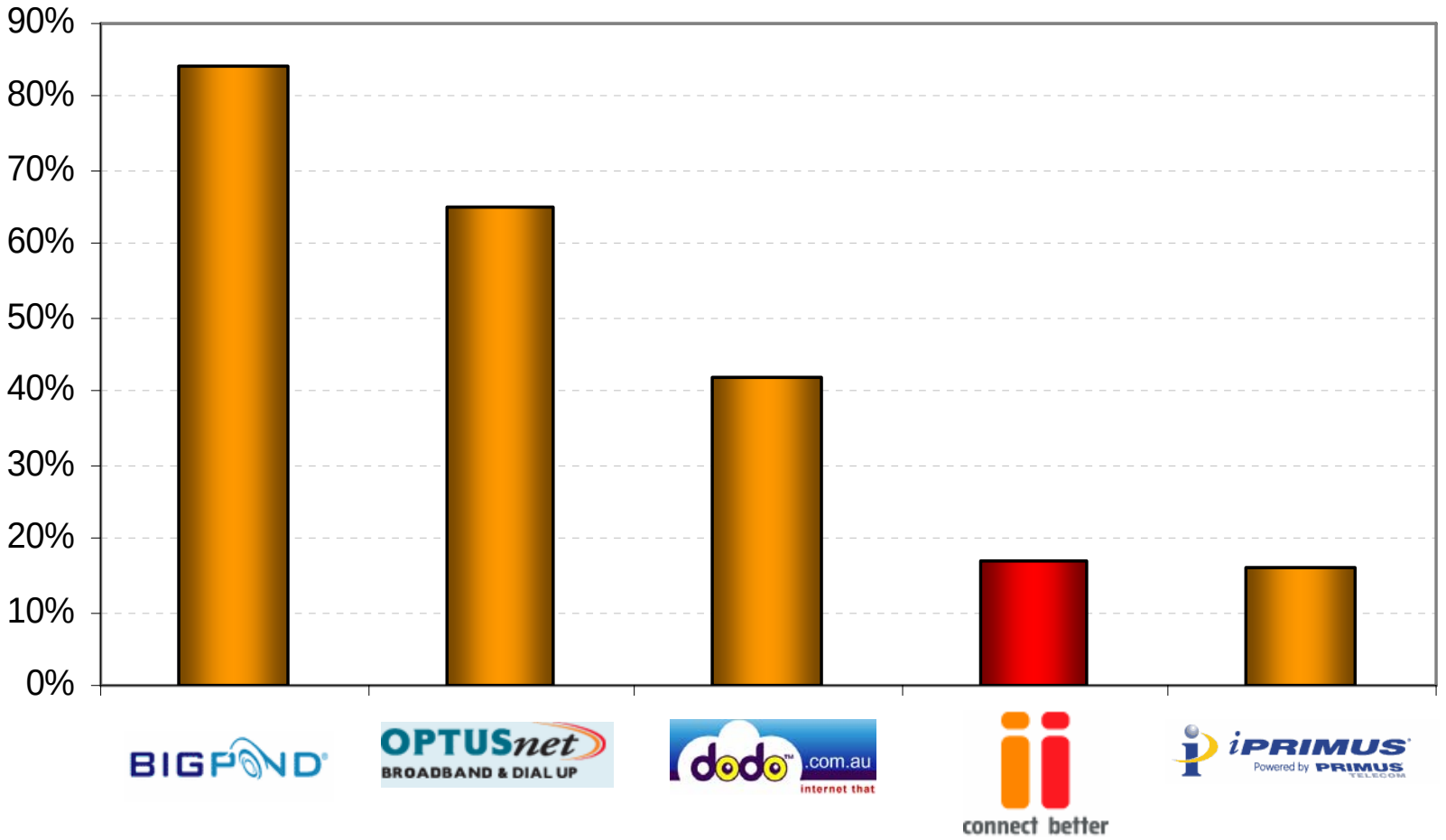
Brand Awareness



Source: Telstra Presentation 15 November 2005

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Customer Service

- Staff levels insufficient to cover OzEmail integration in Oct/Nov
- Improvements in speed to answer in December
- Genesys is upgrading infrastructure
  - On track for Q1 2006
  - “Follow the sun” across Perth, Sydney, Auckland
  - Will increase Contact Centre efficiency
- Genesys used by ANZ’s award winning Contact Centres
- Additional staff recruited

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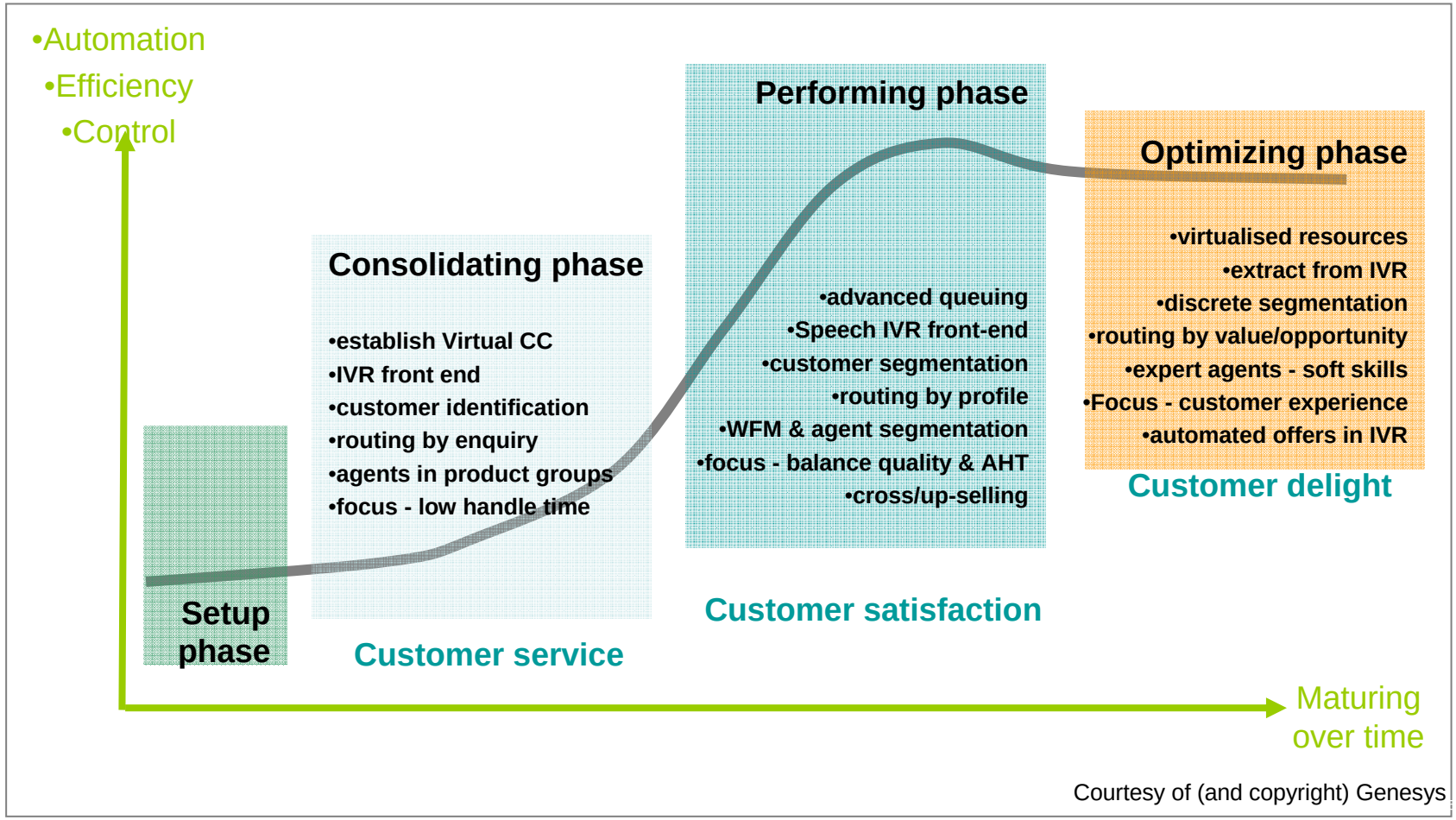
Contact Centre Capability Maturity Model



Courtesy of (and copyright) Genesys

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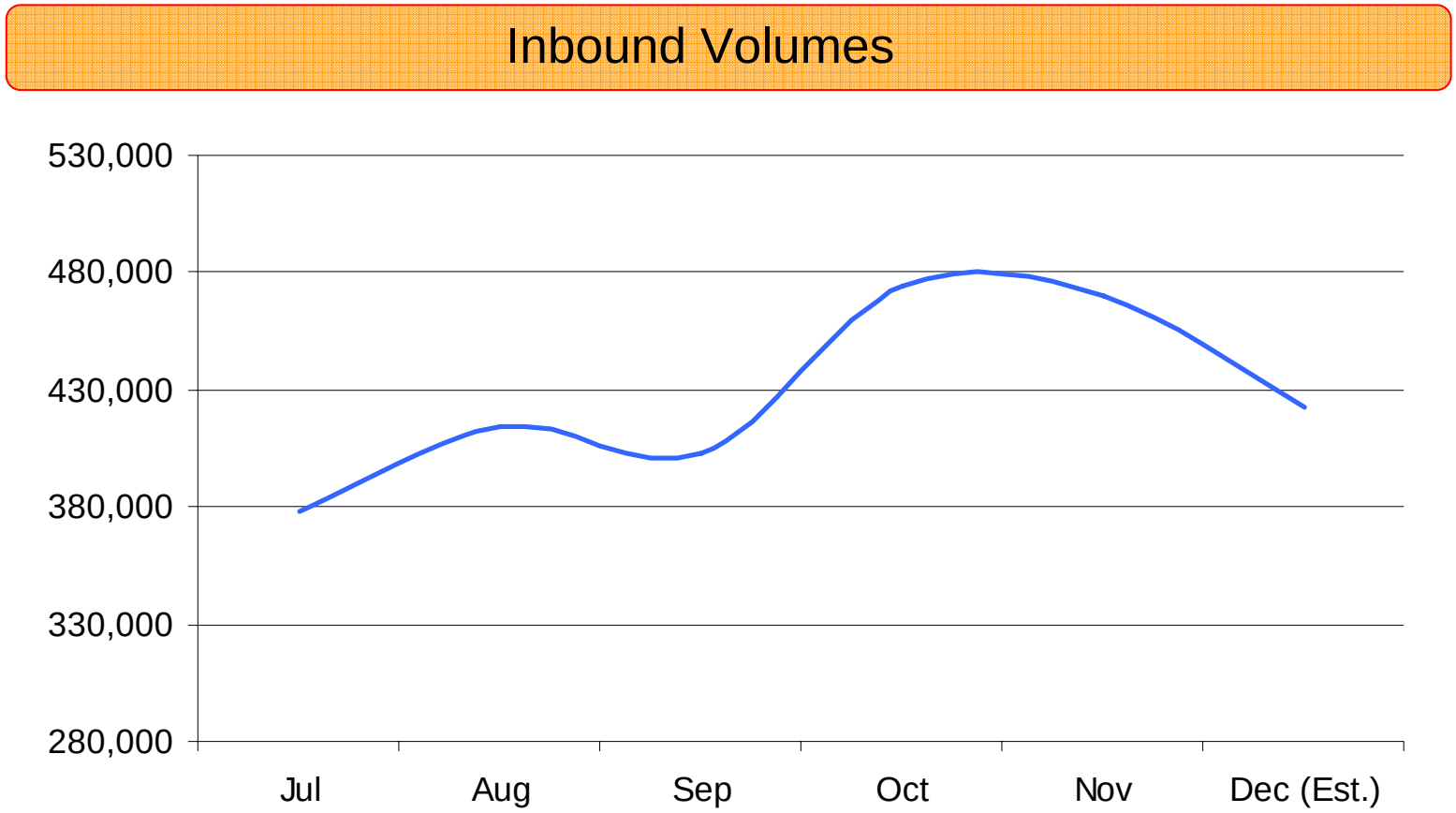
Customer Service



Call volumes reducing now OzEmail integration is complete

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Appendix 1 - CAPEX

$million	Original Budget	Accelerated Rollout
Sustaining capex	4.4	4.4
OzEmail integration	3.5	3.5
DSLAM network	16.2	22.8
MSAN network	9.4	10.6
Genesys	0.0	2.0
TOTAL	33.5	43.3

The accelerated capex brings forward the FY07 capex by 6 months and does **not** increase iiNet's capex requirements overall.

To be funded by operating cashflows and debt

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