

20 August 2007

iiNet Limited Posts Record Net Profit

HIGHLIGHTS

- **Reported net profit** after tax was \$23.3 million with **underlying net profit** after tax of \$11.8 million
- **Earnings before interest, tax, depreciation and amortisation** (“EBITDA”) was \$45.9 million with **underlying EBITDA** of \$39.1 million
- **Underlying gross profit** of \$91.9 million, 17% higher than FY06
- **Fully franked final dividend** of 5.0 cents per share declared in addition to 1 cent per share fully franked interim dividend
- **Net debt** reduced from \$50.5 million to \$7.7 million during the financial year (excluding the \$16.0 million LSS settlement payment from Telstra)

Earnings Highlights

iiNet Limited (ASX:iiN) today released a record Net Profit after Tax (“NPAT”) result of \$23.3m and EBITDA of \$45.9m. The NPAT result included a \$5.4 million profit from the sale of ihug and \$6.9 million from the settlement of the line sharing services (“LSS”) charges from Telstra that relate to the period prior to FY07.

iiNet’s underlying EBITDA from continuing operations was \$39.1 million in FY07 compared to \$18.1 million in FY06, an increase of \$21 million. The significant improvement in the underlying EBITDA was due to the success of the Company’s ‘Protect the Core’ strategy that included the following key initiatives:

- Re-pricing unprofitable plans;
- Increasing the proportion of broadband customers iiNet has on its own national network;
- Tight cost controls in the business; and
- A \$6.50 per month decrease in the regulated charge for LSS charges to \$2.50 per month for each on-net customer.

A fully franked final dividend of 5.0 cents per share has been declared taking the full year dividend pay out to 6.0 cents per share.

As a result of improved trading from operations and the sale of ihug, the net debt position of the Company improved significantly, falling from \$50.5m at 30 June 2006 to \$7.7m at 30 June 2007.

“The Company’s strong balance sheet provides an excellent base for growth, both organic and through acquisition,”, said iiNet Managing Director Michael Malone.

Operational Highlights

- Major national marketing campaign
- Expansion of own broadband network to truly national scale
- Roll out of low-cost dark fibre network connections
- Continued high customer rating and support

In late April 2007, iiNet launched a major marketing campaign in Perth and Sydney aimed at increasing brand awareness in those markets. Survey results show there has been a substantial lift in brand awareness. Along with network ownership and outstanding customer service, the Company expects brand equity to be a major driver of success in the next two years as the broadband market saturates.

In 2004, iiNet commenced construction of Australia's first national ADSL2+ broadband network. Today, the Company has its own equipment in 283 exchanges, reaching around 75% of metropolitan households. The Company plans to increase this by at least 30 more exchanges in the coming year. This investment is a key asset providing product differentiation and giving iiNet control of its major costs.

iiNet has also been pursuing a strategy of moving its metropolitan transmission ("backhaul") to dark fibre. iiNet now has 156 exchanges connected via dark fibre with an additional 57 to be connected by December 2007. The costs associated with dark fibre transmission are fixed while the cost of traditional backhaul solutions increases with usage.

iiNet has always aimed to provide awesome customer service, regarding this as a critical and sustainable differentiator. The Company has commenced using the Net Promoter Score ("NPS") methodology to monitor its performance. NPS shows the proportion of customers who are strong advocates, less those who are simply satisfied. Research undertaken demonstrates there is a high correlation between NPS and earnings growth. The results of the surveys conducted to date show iiNet is achieving results well ahead of other Australian telecommunications companies, and scores approaching that of Apple and Google.

During the year, iiNet was awarded the prestigious international 4-star rating for outstanding innovation in customer service from Genesys for its virtualisation of its 3 call centres in Perth, Sydney and Auckland (collectively called "the VCC"). This allows calls to be answered by the first available customer service representative irrespective of their location. This has assisted in improving call responsiveness and customer satisfaction.

Board Changes

iiNet Chairman Peter Harley has announced his decision to stand down as a director of the Company once the search for his replacement is complete.

Mr Harley joined the board in 1999 and has served the Company as Chairman since 2002. He is a non-executive Director and Chairman on several other listed and private companies.

In May 2006, when the Company encountered difficulties, Mr Harley stepped into an Executive Chairman role for six months to assist management.

"Over the past decade, Peter has led the company in its move from a small private business to a listed and credible telecommunications company," said Mr Malone. "His leadership and support has been particularly important in the turn around of the business in the past year."

The new Chairman is expected to be announced prior to the Annual General Meeting.

FY08 Objectives

- Strong growth in revenue and earnings
- Expansion of major marketing campaign in Brisbane, Melbourne, Adelaide
- Launch of new products, including wireless hot spot service
- Focus on iiNet's best-in-class customer service.

iiNet is predicting continued buoyant operating conditions in FY08 and growth in group revenue and earnings.

During FY08, iiNet will continue the current marketing campaign with an emphasis on direct marketing. The brand awareness campaign will also be extended to other cities during the year.

Supporting the sales campaign will be the release of a number of new products beginning with a product known as naked DSL. This is still a high speed ADSL broadband service but does not require the customer to rent a basic telephone line. The Company also expects to launch a wireless hot spot product which will give iiNet customers access to the Internet outside their home.

The focus on the 'Protect the Core' strategy was directed at tightly controlling costs. This is a process that will continue as the Company seeks better ways to conduct its business.

Further investment in VCC technology and staff training will continue in FY08 as the Company seeks to enhance customer service levels even further. The objective is to increase customer advocacy as service becomes an ever more important differentiator.

"The applications of broadband are changing and become more complex," said Mr Malone. "Outstanding customer service is the one way in which iiNet can stand apart from its competitors and help customers to take advantage of the new applications that become possible with access to high speed broadband."

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