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IINET & POWERTEL FORM STRATEGIC ALLIANCE

PowerTel, the business and wholesale telecommunications provider and iiNet, the third largest Internet Service Provider in Australia and New Zealand, have formed a strategic alliance.

Under the strategic alliance PowerTel has committed to a 14.9% placement in iiNet, based on current issued capital.

In addition, iiNet will provide PowerTel with access to its network under an exclusive wholesale arrangement and PowerTel will provide iiNet with wholesale network services.

The strategic alliance provides PowerTel and iiNet with significant coverage in regional centres and all major metropolitan capital cities around the country through, effectively, the second largest access network in Australia.

PowerTel Managing Director, Paul Broad, said the new alliance with iiNet would accelerate the company's access network roll-out by two years with minimum capital outflow and eliminating network duplication.

"This strategic alliance has significantly accelerated PowerTel's progress in the wholesale consumer, small business broadband and voice markets. This will bring forward more than $10M in revenue growth for PowerTel and its wholesale partners."

iiNet Managing Director, Michael Malone said, the combined national IP network with 262 exchanges today, will offer iiNet, and PowerTel's wholesale customers, competitive broadband and voice products, enabling them to compete against Telstra and Optus without having to build a network.

"PowerTel already has a substantial nationwide network, while iiNet has the largest high speed ADSL2+ network in the country".

"This strategic alliance will give iiNet economies of scale and therefore improve the return on our network. It will also finally give other ISPs and Australian consumers an opportunity to get access to real broadband speeds, rather than waiting for the incumbent" said Mr Malone.

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"PowerTel is a large and successful wholesaler already, with existing sales and support facilities and a well established customer base," said iiNet Executive Chairman Peter Harley. "We believe that PowerTel is far better positioned to drive wholesale sales nationally and enable iiNet to leverage the value of its network."

Mr Broad said PowerTel would continue with its successful strategy of not competing against its wholesale channels. As a result, iiNet, ISP's and Voice Resellers will have a true alternative that won't undercut them at the retail level.

"There is considerable demand already from ISPs and with the increased coverage we will be the logical choice for all voice direct-connect resellers and ISPs expect this will now increase as a result of our alliance." Mr Broad said.

PowerTel will be issued up to approximately 16.36 million shares in iiNet at 85 cents per share cash. The issue will occur in two tranches, and the second tranche of approximately 3.76 million shares is conditional on various matters principally the satisfactory conclusion of certain operational arrangements between the parties and iiNet share price not trading below 75 cents for 10 consecutive trading days before their issue which is expected to occur no later than 22 August 2006. PowerTel will have the right to appoint one director to the iiNet Board following completion of the first tranche, which is expected to occur on 5 June 2006.

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