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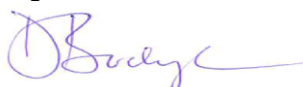
6<sup>th</sup> April 2010

Dear Sir or Madam

## Market Briefing – CEO and CFO on Strategic Outlook

Please find attached a market briefing interview with Michael Malone (CEO) and David Buckingham (CFO).

Regards



David Buckingham  
Company Secretary

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### About iiNet

iiNet was established in 1993 and listed on the ASX in 1999, growing from a small Perth business into the third largest Internet Service Provider in Australia. The company now supports around 900,000 broadband, telephony and dialup services nationwide, with revenues of over \$450m, and proudly employs over 1400 people in Perth, Sydney, Melbourne, Auckland and Cape Town.

iiNet's goal is to lead the market with the best internet access products and then differentiate with genuine, plain speaking customer service. The company has its own high speed ADSL2+ network reaching around 4million households across Australia; the largest Voice over IP network in the country; and is delighted to have led yet again with BoB™, winning 2009's *Product* category at the Western Australian Technology and Telecommunications Awards.

### For further information or interviews, please contact:

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#### WINNER

Commitment to Customer  
Service – Consumer  
ACOMMS Communications Alliance  
& CommsDay Awards 2009



#### WINNER

- Australian Service Excellence Award
- WA Call Centre Manager of the Year
- National Customer Service CEO of the Year

Customer Service Institute of Australia (CSIA)



#### WINNER

- Best Broadband Service (Fixed or Wireless)
- Chief Executive of the Year

Australian Telecom Awards 2009

**Attention: ASX Company Announcements Platform  
Lodgement of Market Briefing**

**6 April 2010**

## Market Briefing

**iiNet Limited CEO and CFO on strategic outlook**

**Interview with Michael Malone (CEO) and David Buckingham (CFO)**

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### Market Briefing

Having recently announced the acquisition of Netspace, how is iiNet placed in terms of the continuing consolidation within the Australian telecommunications market?

**Michael Malone**

iiNet's acquisition of Netspace will consolidate our position as the leading challenger brand in the Australian telecommunications market, and strengthens our position as the third largest ISP.

iiNet's acquisition of Westnet two years ago was a great success and demonstrated our ability to undertake successful acquisitions. Thanks to the success of the Westnet acquisition, and as shown by the Netspace acquisition, iiNet is now viewed as an acquirer of choice.

In addition, our strong balance sheet places us in a unique position to remain at the forefront of industry consolidation. We are committed to delivering on our growth strategy – Netspace is a logical and sensible acquisition for us – and as a result we are continually engaged in assessing strategic options, particularly metropolitan based retail ISPs where there is an ability to migrate their customers onto our network to increase our scale and drive additional efficiencies.

### Market Briefing

In terms of organic growth, which areas of the business are making the greatest contributions to revenue growth?

**Michael Malone**

There are two areas that have made the most significant contributions to revenue growth.

The first area is broadband services growth. We had 55,000 net new subscribers for the 2009 financial year, and 22,000 net new customers signing on in the first half of the 2010 financial year. This is significant given the traditionally soft trading period over the Christmas break. We are continuing to track at an average of 3,000 to 4,000 net new customers signing on to iiNet each month.

The second area of strong growth for us is in the small business market, largely businesses with fewer than 10 staff. Revenue from business customers in the 2009 financial year was \$24.3 million, which is considerable given we only entered this market in 2007. Revenue from this segment was close to \$16 million for the six months to 31 December 2009, and we're expecting revenue of between \$34-35 million for the full financial year from business customers, which represents a very strong lift year on year.

## Market Briefing

What were the key drivers for earnings increasing faster than revenues over the first half 2010 results?

### David Buckingham

Disciplined cost management on top of the revenue growth was the main contributor for the first half of the 2010 financial year. The migration of Westnet customers onto our own network has also assisted cost management, with 19,000 former Telstra Wholesale customers now on the iiNetwork, which led to a considerable earnings uplift.

The success of this on-net migration places us in a very good position as we look to migrate 20,000 Netspace customers onto the iiNet network within 12 to 18 months of completing the acquisition. In addition, we also focused on cost savings in other back office areas as we finished the integration of Westnet into our main business.

### Michael Malone

We forecast that the Westnet acquisition would realise \$7 million a year in savings through synergies over time, with synergies of \$5 million forecast for the current financial year. We see this trend continuing with Netspace, with \$5 million of annual synergies targeted within two years.

## Market Briefing

With 300,000 customers now on iiNet's Digital Subscriber Line Access Multiplexers (DSLAMs) how are you leveraging the benefits of scale?

### Michael Malone

In terms of iiNet's network, it's all about reaching a certain point at which it makes sense to put customers on DSLAMs. There are now close to 325 iiNet DSLAM exchanges around Australia covering four million households, which is about half the total number of households in Australia. This will increase to 343 following the acquisition of Netspace. With the network nearing completion we're now focused on selling more products and increasing bundling rates.

More than 70 percent of new customers bundle our services, with 70 percent of existing customers subscribing to more than one product. In addition, it's still early days in terms of our BoB product, which combines broadband and phone services, and we're about to launch IPTV, which will add to the mix of products available on our network. So as you can see, we have a very solid platform for diversifying revenue streams off our existing network to grow the business going forward.

## Market Briefing

Are you planning any capital management strategies given iiNet's low gearing?

### David Buckingham

We are committed to delivering on our growth strategy to get to 15 percent market share – we're now at 10.6 percent, and following the acquisition of Netspace will be at 12.4 percent – which means doing more acquisitions as well as growing organically. So it's all about customer growth for us right now and the foreseeable future. For example, 70 percent of the \$30 million in capex we will spend this financial year will be spent on customer growth.

## Market Briefing

Having achieved your Net Promoter Score target of 50 percent what is iiNet doing to maintain its high service levels?

### Michael Malone

NPS is a measure of customer expectations rather than service levels, so what we're doing today is not enough to justify a good score next year. To stay at 50 percent we have to lift the bar and stay ahead of the competition. To do this we need to have customer-friendly processes, things like efficiently dealing with faults, which are incredibly frustrating for customers. Maintaining this score isn't about quick fixes, it's an ongoing process of continuous improvement in all that we do for our customers.

## Market Briefing

How do you see the competitive dynamics changing if the largest ISPs continue to lose market share?

### Michael Malone

Everyone's watching how the largest ISPs will respond to their loss of market share. There will be a point at which they react, but a price war will hurt them more than cost-competitive nimble players like iiNet. We're watching the market but we don't see the dynamics changing yet.

## Market Briefing

While iiNet's subscriber numbers have been growing strongly it seems growth is coming at a higher cost of acquisition. Could you elaborate?

### Michael Malone

We have seen increased marketing being spent by all of the largest ISPs. This is in part due to overall market growth slowing, but also due to all competitors in this market aggressively trying to win market share. In all capital cities you can see widespread marketing from iiNet as well as other market players.

### David Buckingham

Marketing spend in the first half of the financial year is traditionally higher than in the second half because of the natural sales cycle, so you should see our marketing spend come down in the second half of this financial year. We're very disciplined with our marketing investment and measure the return on investment microscopically to ensure campaigns achieve our minimum return thresholds.

## Market Briefing

Are you seeing a slowdown in the growth of the Australian broadband market?

### Michael Malone

While overall market growth is slowing, the fixed line broadband market is still experiencing single digit growth. Industry churn is around two percent per month, which equates to 1.5 million customers who switch ISPs annually, so the switchers market is very large. The bulk of iiNet's new customers have come from our larger competitors, and our organic growth continues to climb.

## Market Briefing

How is iiNet positioned for the rollout of the National Broadband Network (NBN)?

### Michael Malone

The situation in the market today, pre-NBN, is that outside of Telstra and Optus all main providers have roughly the same cost base and technologies in the access network, so to grow and have a sustainable business you need to differentiate on service, brand and content. This has been iiNet's focus for the past three years. All the major providers can provide a safe, reliable service, but iiNet's point of difference is the cheeky challenger, and we're working hard to maintain this brand promise.

The NBN will not change this much. Under the NBN all internet service providers will have the same access to technology at the same price, so the only way they'll be able to grow in the NBN world is to differentiate their business. It again boils down to service, brand and content, which we are doing very well. In addition, our focus on product development ensures iiNet can provide new, NBN-ready products quickly to customers.

We have also been front and centre in leading NBN decision-making about how customers will be affected by the migration process to the NBN. We're very good at looking after our customers, and we have an important role to play in making sure that migration is a seamless experience for them.

## Market Briefing

Thank you Michael and David.

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For further information, please contact iiNet Limited on +61-8 9214 2222, or visit [www.iinet.net.au](http://www.iinet.net.au)

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