The Manager
Company Announcements Office
Australian Stock Exchange
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2 February 2011

Dear Sirs

iiNet in strong position for NBN roll-out

2 February 2011: iiNet Limited (ASX: IIN), Australia's second largest DSL service provider, has reinforced the company's enthusiasm about the National Broadband Network (NBN), and the increased market opportunities it will bring for the ISP.

iiNet Managing Director, Michael Malone emphasized that the ISP will be one of only a few to really benefit as iiNet outlined its approach to the NBN, following the release of the NBNCo business plan.

"Perhaps half of the premises in Australia have been denied access to true broadband competition, but the NBN changes all that.

"Not only do we double the available market for our services, but the proposed NBN pricing looks attractive for both iiNet and our customers," Mr Malone said.
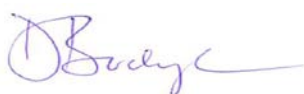
iiNet released figures today that showed the company was one of the few ISPs continuing to expand its customer base organically, as it grew by more than 7000 additional broadband subscribers during the second half of 2011.

"We have been preparing for this growing maturity in the broadband market by building scale and diversifying into fresh territory, like Fetch TV, mobile voice, Netphone, and a new suite of innovative consumer products from our iiNet Labs, to ensure our long term growth.

iiNet analysis confirmed that consolidation in the sector had accelerated with the four largest providers now accounting for 83 per cent of the fixed broadband market in Australia.

"As a big player at the forefront of product innovation and customer service, iiNet is best placed to reap the benefits of the NBN world," Mr Malone concluded.

Regards

David Buckingham
Company Secretary

About iiNet

iiNet is Australia's second largest DSL Internet Service Provider and the leading challenger in the telecommunications market. We employ more than 2000 inquisitive staff across four countries and support over 1.3 million broadband, telephony and Internet Protocol TV (IPTV) services nationwide.

We're a publicly listed company and we maintain our own super-fast broadband network. Our vision is to lead the market with products that harness the potential of the Internet and then differentiate with award-winning customer service.

To achieve this, we employ creative thinkers and true advocates of technology. Our people are a huge part of the iiNet success story, so we've developed a unique and stimulating work culture to ensure they remain engaged and inspired.

A lot has changed since our CEO founded iiNet in a suburban garage back in 1993 and the broadband landscape continues to evolve. What hasn't changed is our passion for the transformative benefits of the Internet and our commitment to helping Australians connect better.

For further information or interviews, please contact:

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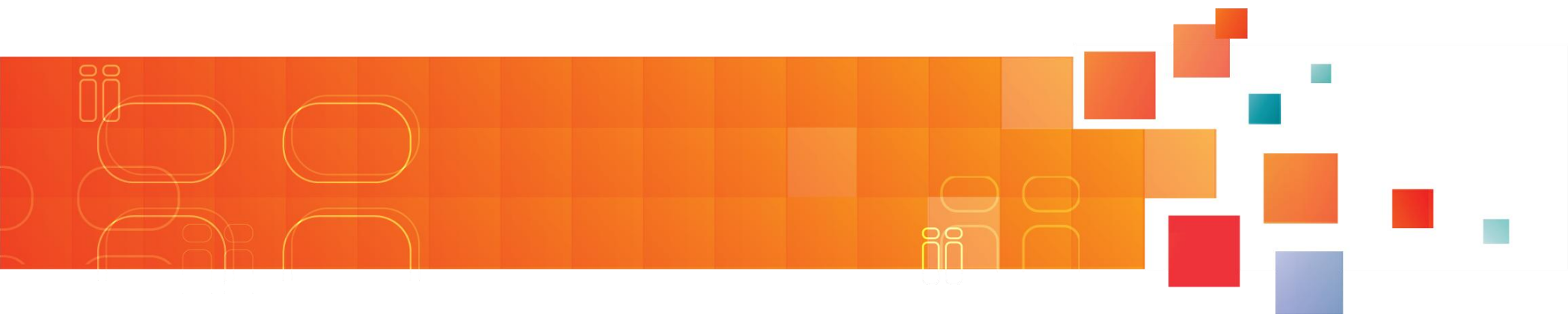
NBN and iiNet

2 February 2011

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1 - The current competitive landscape
As competition increases, it will continue to be all about service, content, brand and consolidation

2 - iiNet and the NBN
iiNet is in the best possible position for the coming industry transformation

Total fixed line broadband market growth

Market growth is slowing

Fixed broadband subscribers ('000s)

FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10
85	130	234	470	1,036	2,072	3,348	4,341	4,979	5,174	5,340

Source: NBN Co, Company Reports

Switchers' market
New sales are coming almost entirely from other ISPs

Increasing marketing spend from incumbent

iiNet net broadband adds [1]
H1FY11 +7k versus H1FY10 of +23k

ISPs must differentiate in order to entice customers in the future

Note (1): iiNet figures exclude AAPT

Service

Brand

Innovation

Scale

A strategy focussed on retaining profitable customers, expanding product offers and achieving scale is best-placed going forward

High access costs have led to high historic ARPUs in Australia

Brands with outstanding service and products will continue to be rewarded with higher ARPUs in the future

£ per month

	5 year CAGR
AUS	6.6%
USA	-1.5%
ITA	-5.4%
CAN	-2.9%
JPN	+2.8%
FRA	-2.8%
GER	-12.1%
UK	-8.8%
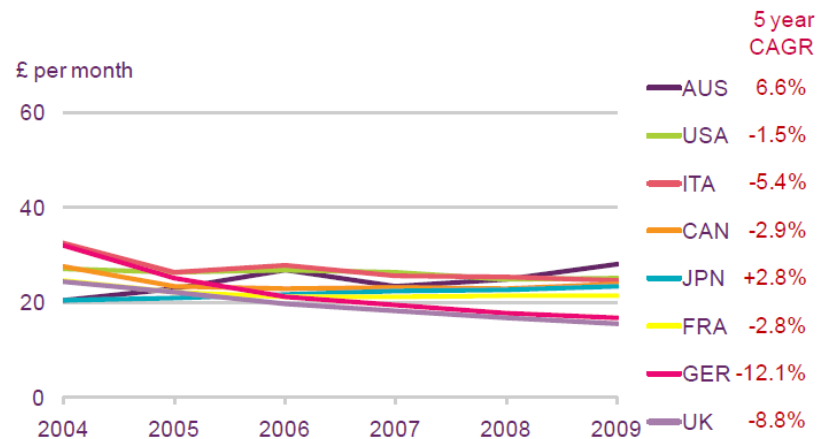
ARPU 2004-2009 - Source: Ofcom – International Communications Report, 2010

Broadband ARPU per month

Jun 2009 — Dec 2009 — Jun 2010

Telstra — iiNet — TPG — Optus
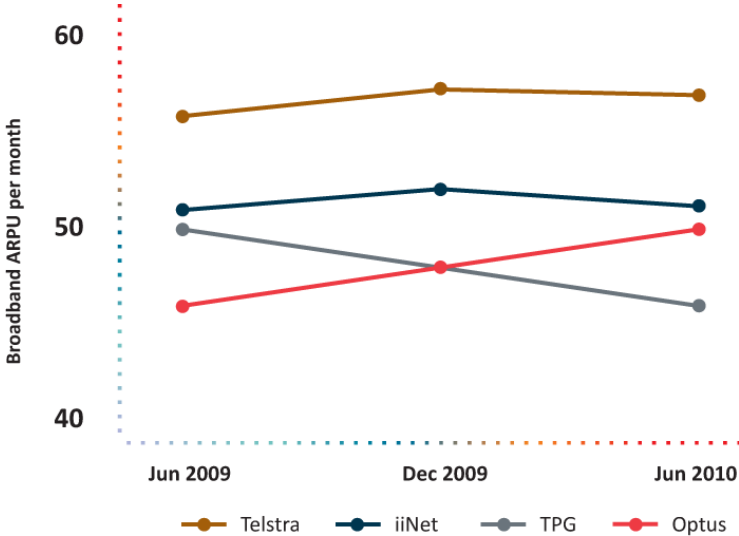
Source: Published operator data

Mobile internet services are used as a complementary service for fixed broadband customers

iiNet is capitalising on this through its mobile voice and broadband products

4,208   4,171   4,178   4,246

3,455

2,838

2,024

1,369

1,108   1,138   1,043   1,067

Number of subscribers ('000s)

4000

3000

2000

1000

0

Dec 2008   Jun 2009   Dec 2009   Jun 2010

DSL   Mobile wireless   Other
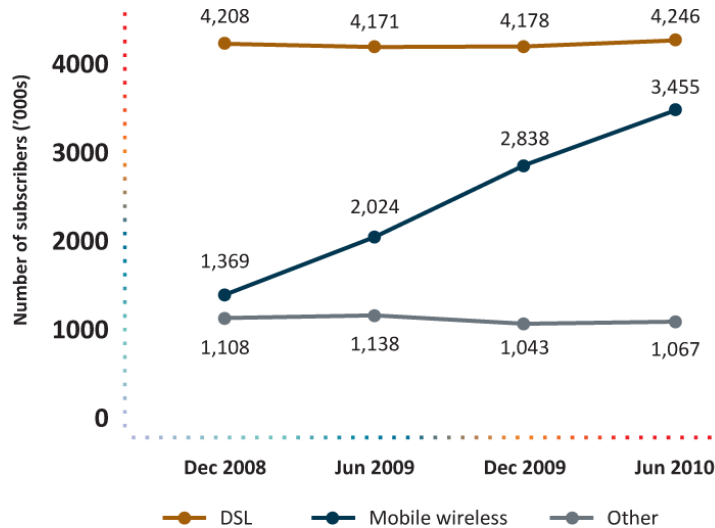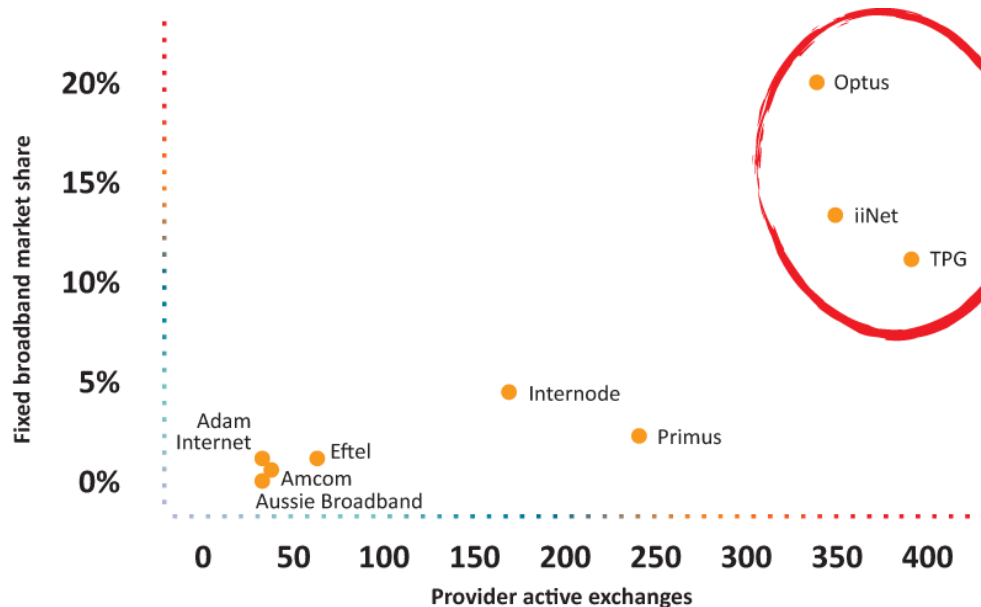
Source: ABS, Internet activity survey, June 2010

(Released Dec-10)

(Released Jun-10)

As much as 85%[1] of mobile Internet usage is currently done within the home/office using WiFi networks over the fixed line connection: faster, more reliable, and more cost effective

Network investment has led to gains in market share

Source: Exchange information – www.adsl2exchanges.com.au

Significant access cost advantages
65% of iiNet's customers are on-net (Dec 2010)

But access costs still remain the predominant component of the cost to serve

Bandwidth costs are falling
BW costs are only 6% of revenue for iiNet
Scale -> access to significantly declining marginal bandwidth cost profile

Quality of service will be a key differentiator going forward

Cost of service is relatively low compared to access costs

iiNet call centre costs are only 11% of revenue
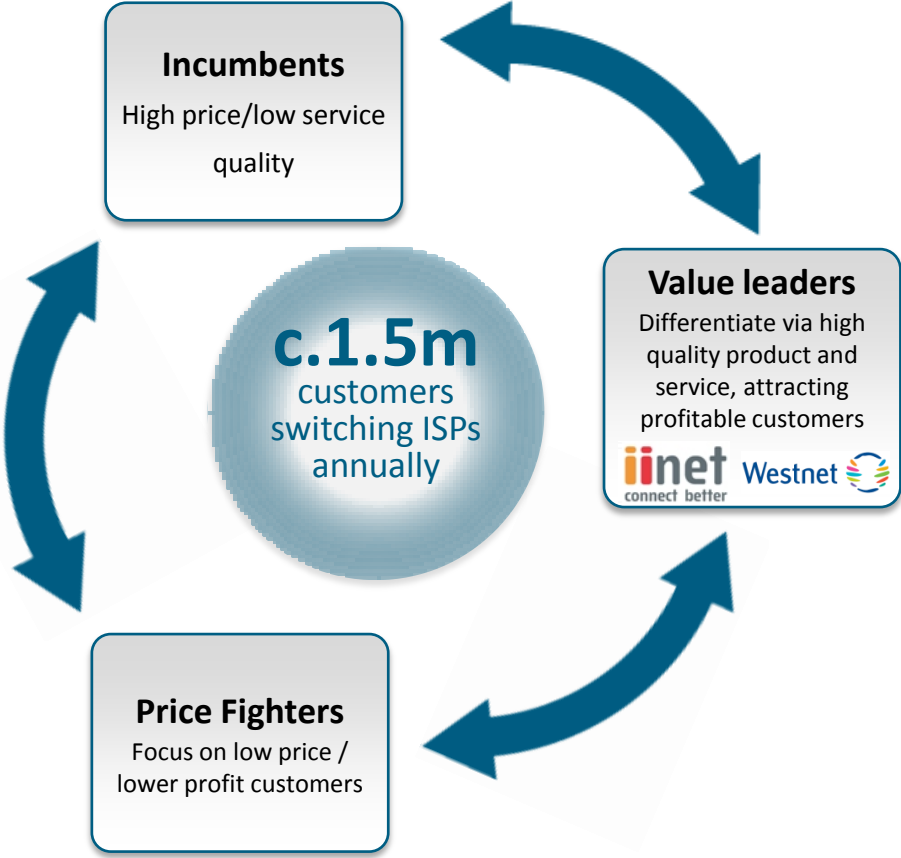This overhead has enabled iiNet to achieve its industry-leading NPS and customer retention metrics

To outsource would only save 2-3%
This saving would be outweighed by the decrease in service levels

iiNet continues to deliver outstanding customer service

Switching customers are a significant opportunity

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Incumbents
High price/low service quality

c.1.5m customers switching ISPs annually

Value leaders
Differentiate via high quality product and service, attracting profitable customers

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Price Fighters
Focus on low price / lower profit customers

Continued organic growth
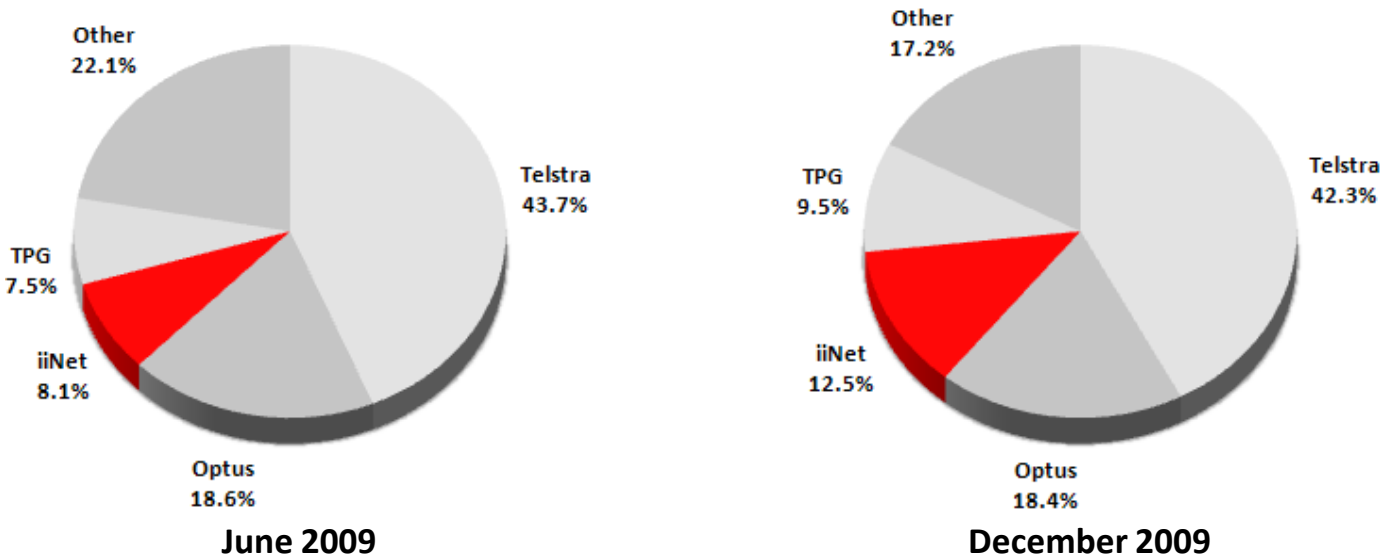majority of iiNet's new customers are from incumbents

Reduce the reason to leave
35% of customers leaving iiNet do so during a home relocation

Strong service proposition
large number of churners return to iiNet

iiNet's investment in customer service will capitalise on the opportunities in the switching market

iiNet has led industry consolidation

Fixed BB market share

June 2009

- Other 22.1%
- Telstra 43.7%
- TPG 7.5%
- iiNet 8.1%
- Optus 18.6%

December 2009

- Other 17.2%
- Telstra 42.3%
- TPG 9.5%
- iiNet 12.5%
- Optus 18.4%

The four largest operators now account for 83% of fixed broadband market iiNet No.2 in DSL

Active ISP count[1]

~500 ISPs

Significant drop in # ISPs

~300 ISPs

Significant inorganic opportunities exist

Note: Market share calculations include HFC
Sources: Telstra – FY10 annual report; iiNet – Dec-10, Management reports; Optus – Sep-10 Singtel management report TPG – Nov-10 - AGM results presentation

iiNet has a long history of investment in service, brand and innovation – key success factors. iiNet has the scale and credibility to continue to grow by acquisition and diversification

1 - The current competitive landscape
As competition increases, it will continue to be all about service, content, brand and consolidation

2 - iiNet and the NBN
iiNet is in the best possible position for the coming industry transformation

- FTTP development, connecting 93% of homes, schools and workplaces with speeds of up to 1Gbps
  - 4% of homes will be serviced by a wireless solution, with the remaining 3% by satellite with speeds up to 12 Mbps
- Total capex cost of $35.9b, with $27.5b Government investment
  - Additional $12b in payments to Telstra
  - Expected return of 7%
- Network construction to take nine and a half years with rollout peak of 5,900 premises a day during construction
- Location of 120 Points of Interconnect (POIs) has been released

NBN Test sites - Source: The NBN Map, Computerworld, Australia, Jan-11
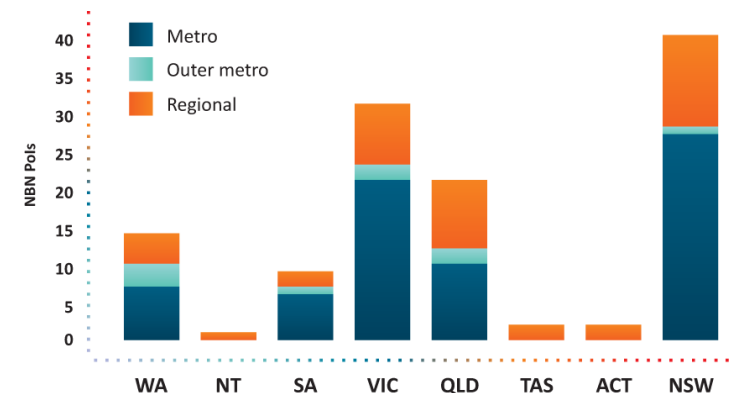
Some key NBN dates have been announced

Early 2011:
Work begins in the Tasmania stage 2 communities

April 2011:
Start of a mainland end-user trial

June 2011:
Telstra and NBN Co finalise infrastructure-sharing deal

Feb 2012:
Ready for Business as Usual rollout (increased product set)

2014:
Long-term satellite services start

| 2011 | 2012 | 2013 | 2014 |

Sep 2011:
Ready for first commercial service (limited product set)

June 2011:
Interim NBN satellite services to remote locations start

Mar 2011:
Construction of the fibre network in the first 5 sites to be complete

Aug 2012:
Ready for first commercial service (limited product set)

No clear plans available post commercial launch in late 2011

NBN rollout timetable
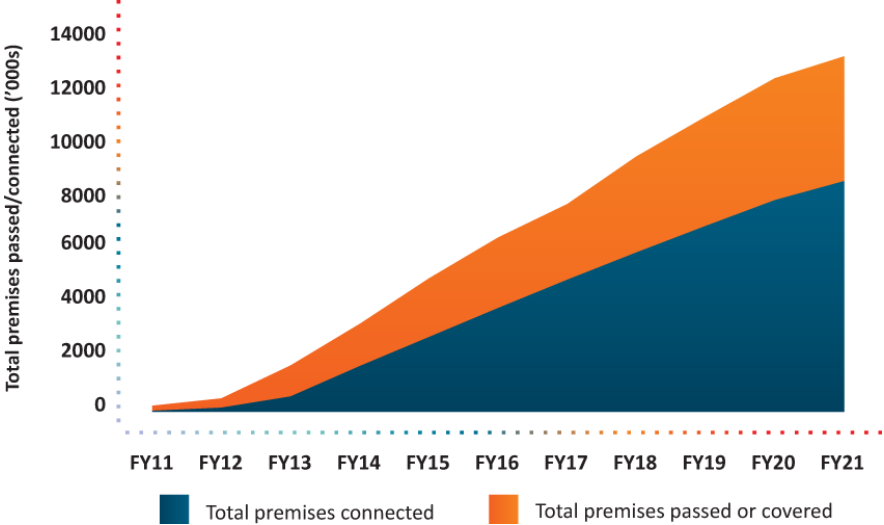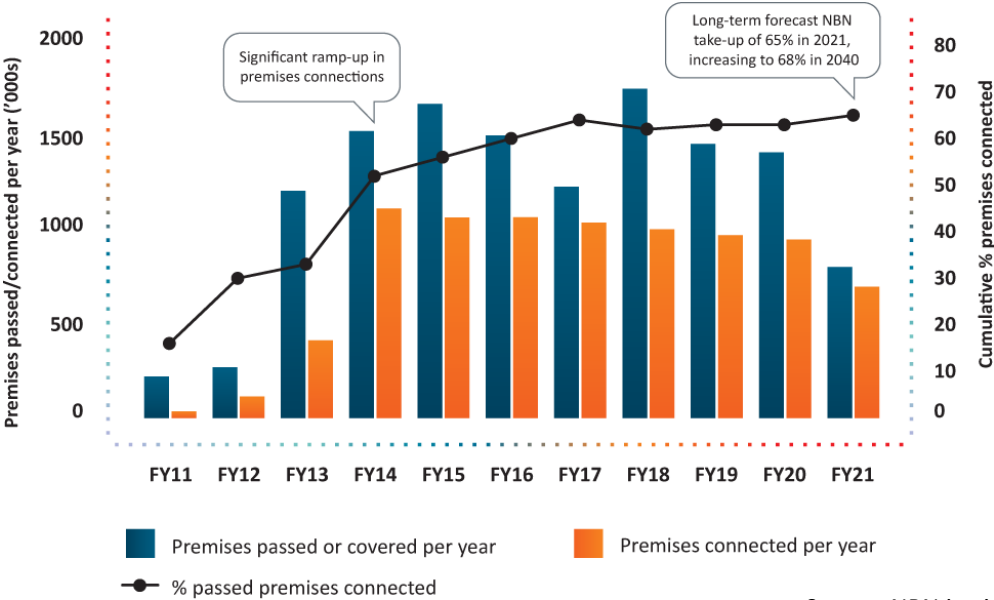
Aggressive rollout schedule
1.7m premises expected to be passed by Jun-13
Rollout to >4.5k premises per work day in 2013

High take-up rates forecast
65% in 10 years compares with 35% achieved in Japan to date[1]

Test sites in regional Tasmania provided valuable experience
Tasmania -> take-up rate of less than 11%

Significant ramp-up in premises connections

Long-term forecast NBN take-up of 65% in 2021, increasing to 68% in 2040

Premises passed or covered per year
Premises connected per year
% passed premises connected

Total premises connected
Total premises passed or covered

Source: NBN business case, Dec-10

Note (1): Source: OECD, June 2010   NBN and iiNet, February 2011

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Fibre is higher speed and more reliable – should enable product expansion and long term support cost savings
Likely increased spend on marketing during the transition

IIN current vs NBN broadband EBITDA

	Current			NBN		
	Total	**On-net** sub/ mth	**Off-net** sub/ mth	**Low** sub/ mth	**Med** sub/ mth	**High** sub/ mth
	$m	**$**	**$**	**$**	**$**	**$**
Broadband revenue	306.8	55.9	50.3	55.0	60.0	70.0
ULL rental to Telstra	49.3	16.0				
LSS rental to Telstra						
Resale to Telstra	84.8		31.7			
Other on-net	19.8	6.4				
Other off-net	9.4		3.5	4.0	4.0	4.0
NBN access				30.0	32.0	34.0
Total access costs	163.4	22.4	35.2	34.0	36.0	38.0
Employee	40.5	7.0	7.0	7.0	7.0	7.0
Other	30.6	5.3	5.3	5.3	5.3	5.3
Total opex	234.5	34.8	47.6	46.3	48.3	50.3
Broadband EBITDA	72.4	21.1	2.7	8.7	11.7	19.7
margin %	24%	38%	5%	16%	19%	28%

Source: CLSA Asia-Pacific Markets

Goldman Sachs: "We expect the net impact on iiNet would be neutral";
"Optus would face a significant cost increase"; "TPG would see a material increase in input costs"

GS&PA TELECOMS RESEARCH
ISP input costs: Copper vs NBN

	Copper access network $/month/sub	NBN[5] $/month/sub	Change $/month/sub	ISPs impacted
Access methodology to Telstra CAN				
ULL[1]	16.0	24.0	+8.0	Optus (c.92% of DSL subs), iiNet (c.20% of subs), TPG (c.14% of subs)
LSS (fixed line taken by TLS)	2.5	24.0	+21.5	iiNet (c.10% of subs), TPG (c.62% of subs)
LSS + Fixed line (wholesale line rental)[2]	22.5	24.0	+1.5	iiNet (c.25% of subs)
Telstra wholesale broadband[3]	37.0	24.0	-13.0	Optus (c.8% of DSL subs off-net), iiNet (c.45% of subs off-net), TPG (c.24% of subs off-net)
Telstra				
Telstra Retail[4]	30.0	24.0	-6.0	Telstra (100% of subs)

Source: GS&PA Research estimates, NBNCo, Company data
1. Band 2 ULL price.
2. New wholesale line rental price of $20/month (from 2011).
3. Telstra wholesale broadband ARPU (excluding LSS).
4. Telstra has indicated the average cost to provide ULL service is an averaged price of $30/line/month across all 4 bands (ACCC prices similar).
5. Entry level NBN pricing for 12/1 Mbps service. Note this is the AVC charge and does not include the CVC charge.
NB This analysis only compares access charges. Other ISP input costs include rent/power to exchanges, backhaul, internati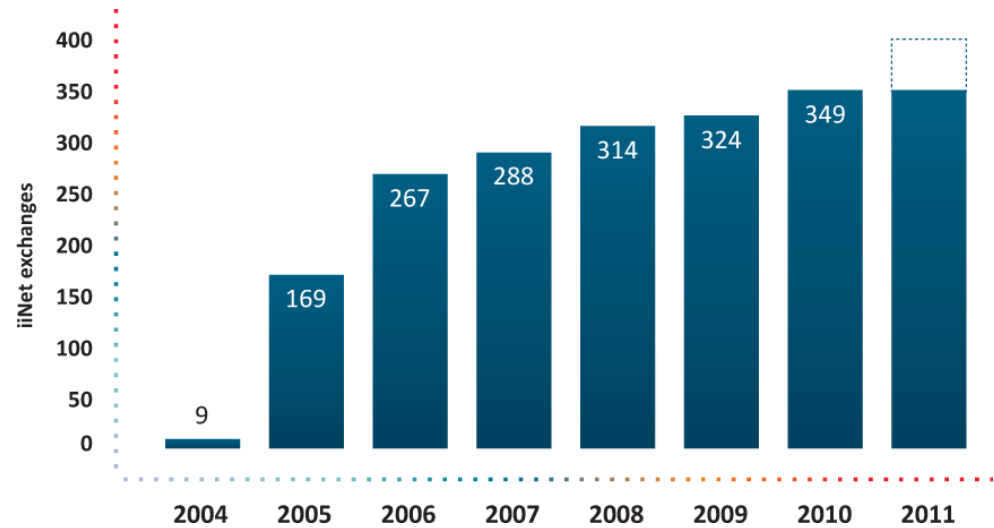onal capacity.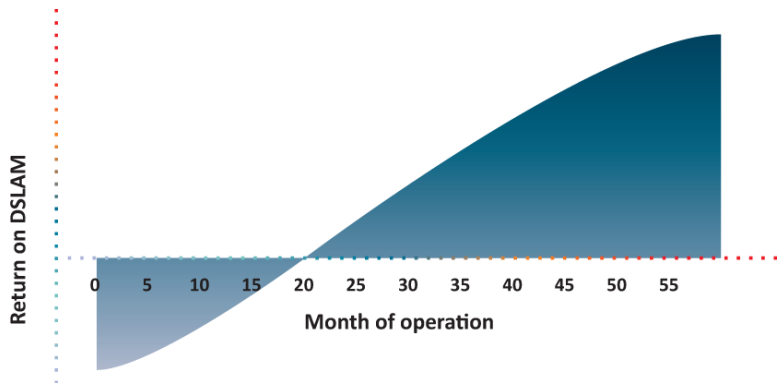 All these costs will also required in NBN. While rent/power is likely to fall in NBN world, this likely to be more than offset by CVC charges.

Source: Goldman Sachs, CME Strategy Outlook for 2011 Part 3: Telecoms, Jan-11

Pricing should allow for low impact transition for existing broadband customers
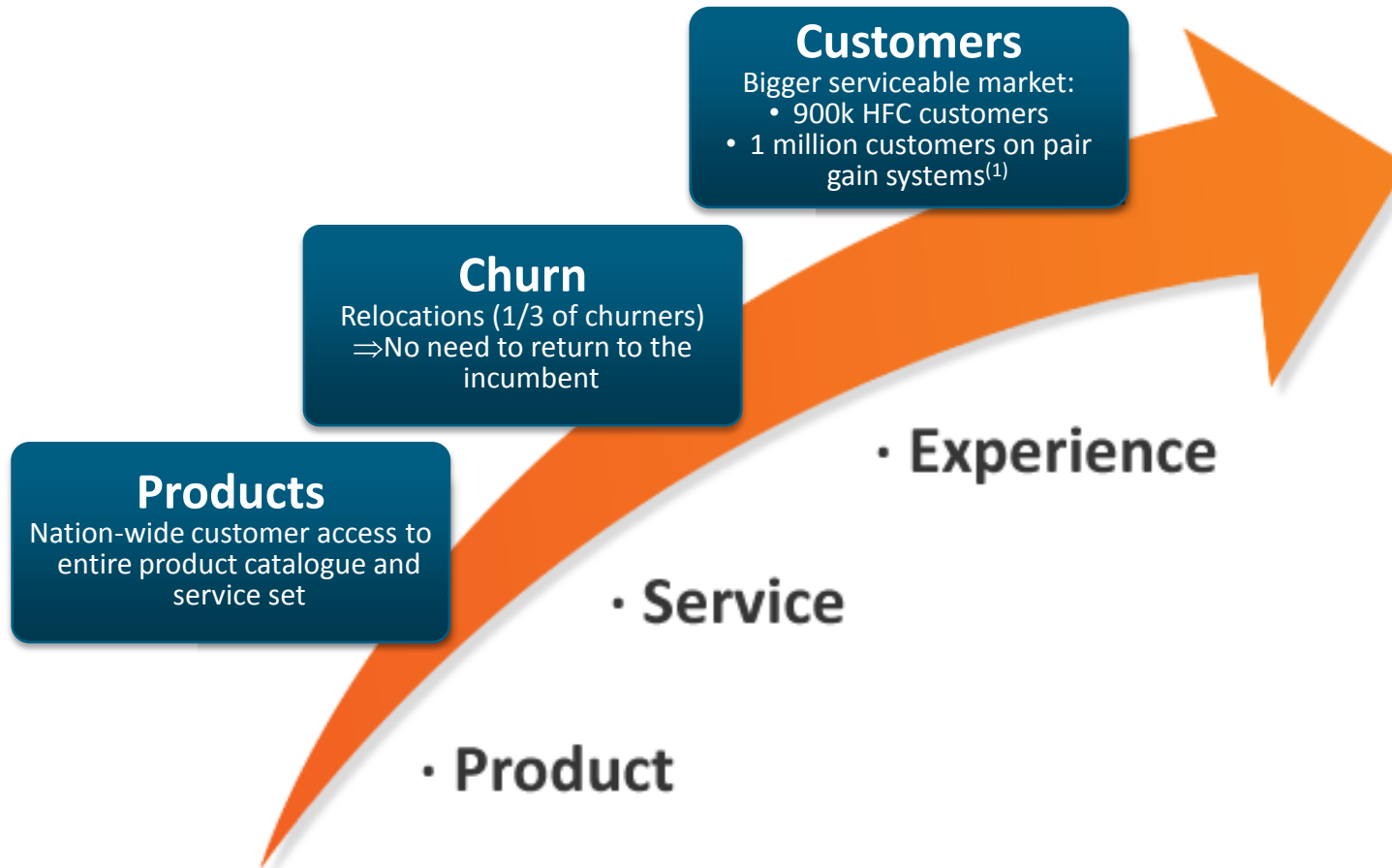
Overall slowing fixed line capex investment by industry
e.g. Optus has typically spent most of its capex on fixed infrastructure. This year, over 50% is going into mobile

iiNet DSLAM expansion continuing based on fast payback

(chart: Return on DSLAM vs Month of operation)

(bar chart: iiNet exchanges 2004–2011)

Year	iiNet exchanges
2004	9
2005	169
2006	267
2007	288
2008	314
2009	324
2010	349

January 2011 regional network upgrade project represented iiNet's largest ever regional deployment of ADSL2+ -> helped by lower backhaul prices

Finer detail still required, but capex impact of NBN expected to be low given iiNet experience in Tasmania

The NBN will increase the market opportunities for iiNet

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Customers
Bigger serviceable market:
- 900k HFC customers
- 1 million customers on pair gain systems[1]

Churn
Relocations (1/3 of churners)
⇒No need to return to the incumbent

Products
Nation-wide customer access to entire product catalogue and service set

· Experience

· Service

· Product

Note (1): Source: The Coalition's plan for real action on Broadband and Telecommunications, 2010

A significant cost for many customers will relate to Customer Premises Equipment (CPE)

– Many modems are simply not NBN-capable

iiNet customers in Tasmania were seamlessly connected to NBN via BoB

– Low rewiring cost

Why will your grandma move to an NBN service? What's in it for her?

– Same pricing, better speeds

– More reliable than current copper-based ADSL

– Tipping point will be reached when applications require high speeds, and when everyone around her is using those applications

– Ultimately, she'll be forced to, as copper is going to be switched off

– Will typically only move on the recommendation of friend or family member

Service proposition and a loved brand are the key
Early adopters will be advocates encouraging others to connect

NBN business plan: "Success in the 'New world' will depend on Customer relationship, services, innovations & applications"

Service

Brand

Innovation

Scale

How would customers grade the major ISPs on these factors?

The Connected Home

iiNet is at the forefront of product innovation and customer service going into the NBN

Societal benefits

Q&A

Disclaimer

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