

iiNet & OzEmail Investor Presentation

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Presentation Outline



- The OzEmail Transaction
- The iiNet / OzEmail Group
- Products & Infrastructure
- Financials
- Summary



The OzEmail Transaction

- Why is iiNet buying OzEmail
 - OzEmail
 - Last 'large' acquisition in Australia
 - Iconic brand name
 - Customer base ideal geographic and demographic fit
 - Enhances iiNet's DSLAM rollout case
 - iiNet's ability to add value
 - iiNet's Dial and DSLAM networks
 - iiNet's leading Internet access and bundle offerings
 - Prior acquisitions delivering, \$15.1 million EBITDA in 1st half
 - iiNet's ability to integrate
 - Well understood process
 - No inheritance of legacy networks
 - Retention of all staff and management

The OzEmail Transaction

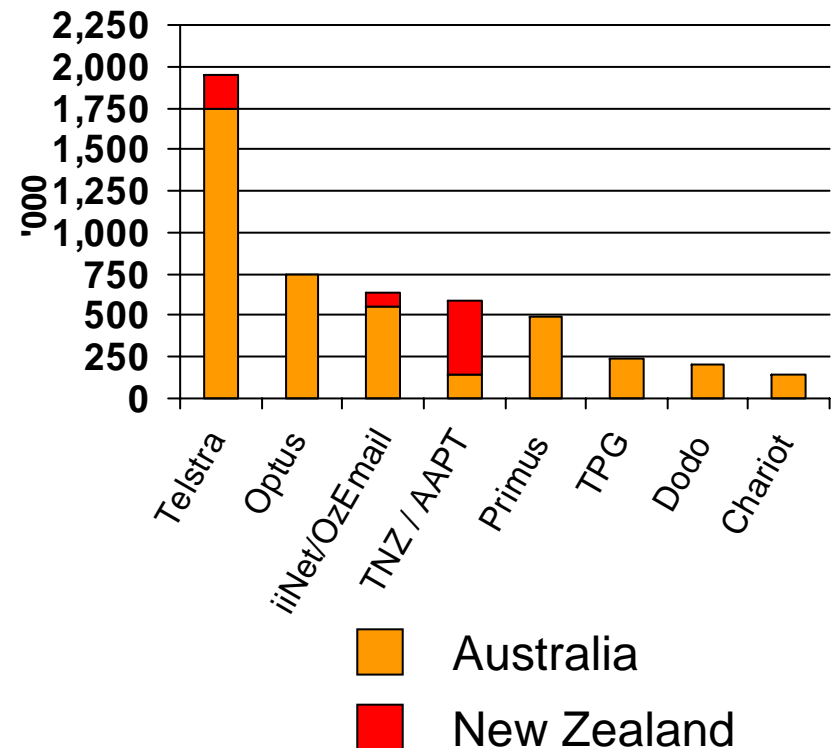
- Deal parameters
 - Cash consideration \$104.5 million
 - Assumption of working capital and employee entitlements
 - Stamp duty and associated transaction costs \$6 million
- Funding
 - \$50 million debt + \$60 million equity
 - \$30 million bridging debt until shareholders' meeting in March
 - \$23 million working capital
- Agreement
 - To acquire unencumbered assets
 - Completion subject to administrative conditions
 - Network and Managed Services from MCI – 12 months

The OzEmail Transaction

6 Months	OzEmail normalised	iiNet 31 Dec 04
Enterprise Value (iin Dec 04 VWAP of \$3.09)	\$110 mill	\$262 mill
Revenue for six months	\$38.6 mill	\$63.5 mill
Subscribers (k)		
- Total	295	390
- Total excluding casual	230	350
EBITDA for six months		
- pre advertising	\$13.1 mill	\$16.3 mill
- post advertising	\$10.0 mill	\$15.1 mill
Multiples		
- times revenue (six months x 2)	1.42	2.06
- per subscriber	373	672
- per subscriber excluding casuals	478	749
- times EBITDA pre advertising (six months x 2)	4.2	8.0
- times EBITDA (six months x 2)	5.5	8.7

The iiNet / OzEmail Group

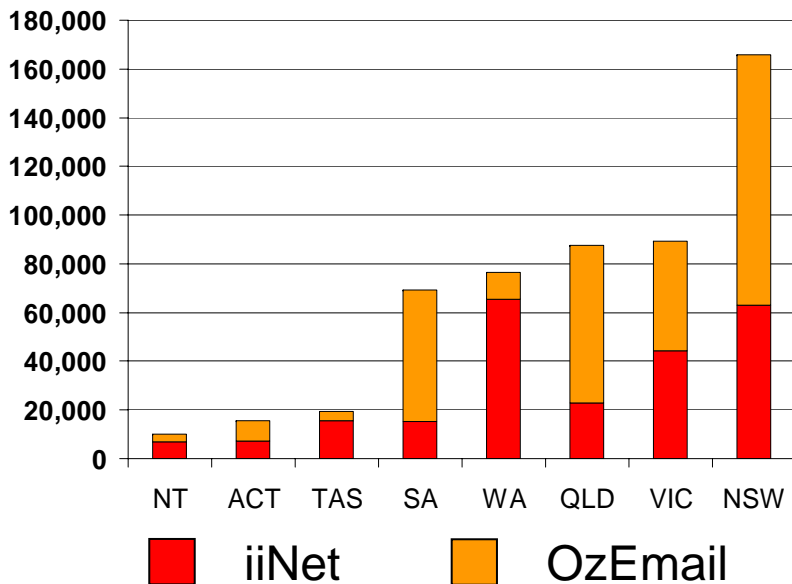
- Strong brand names:
 - OzEmail (East coast)
 - iiNet (West coast)
 - ihug (New Zealand)
- Scale
 - 2nd largest provider of DSL services in Australia
 - 3rd largest ISP in Australia & New Zealand
- Financial health
 - Conservative gearing
 - Strong operating cash flow



The iiNet / OzEmail Group

- OzEmail provides
 - An ideal geographic fit
 - Scale to rollout further DSLAMs
 - Opportunity to bundle telephony services

	Metropolitan Exchanges	Customers (k)	Customers / Exchanges
act	15	16	1,035
nsw	118	111	943
nt	5	7	1,424
qld	82	52	637
sa	41	56	1,378
tas	15	14	934
vic	144	65	450
wa	67	68	1,015
	<u>487</u>	<u>390</u>	<u>800</u>



- Exchanges
 - Over 1,000 enabled exchanges
 - 487 metropolitan
- iiNet & OzEmail Customers
 - 390k metropolitan Dial and DSL



The iiNet / OzEmail Group

- Integration
 - Continue to grow the OzEmail brand
 - Minimise any visible changes to customers
 - Launch iiNet broadband range
 - Bundle voice services
 - Improve call service levels
 - Migrate to iiNet billing and networks within 9 months



	speed	download	phone
\$29.95	256k	300 MB	✗
\$39.95	n/a	n/a	✗
\$49.95	256k	12GB	✗



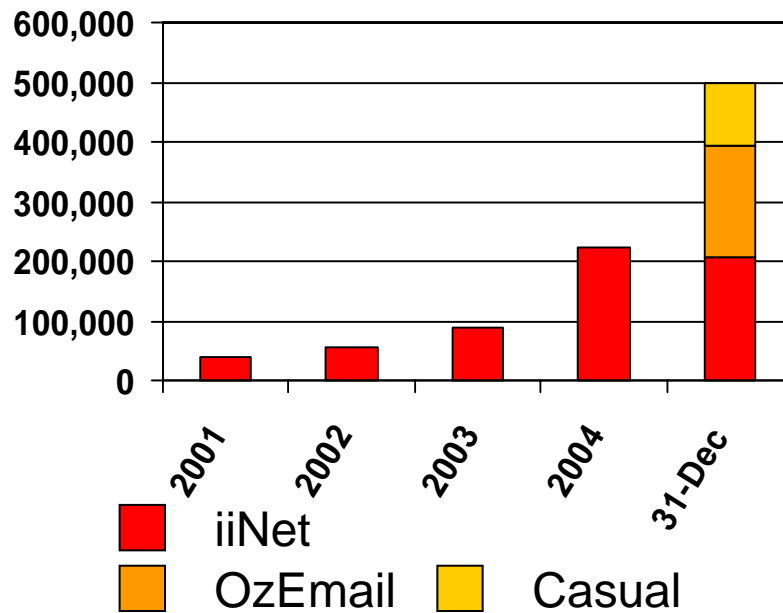
	speed	download	phone
\$29.95	1.5 - 8 mb	500MB	✓
\$39.95	1.5 - 8 mb	2GB + 2GB	✓
\$49.95	1.5 - 8 mb	10GB + 10GB	✓



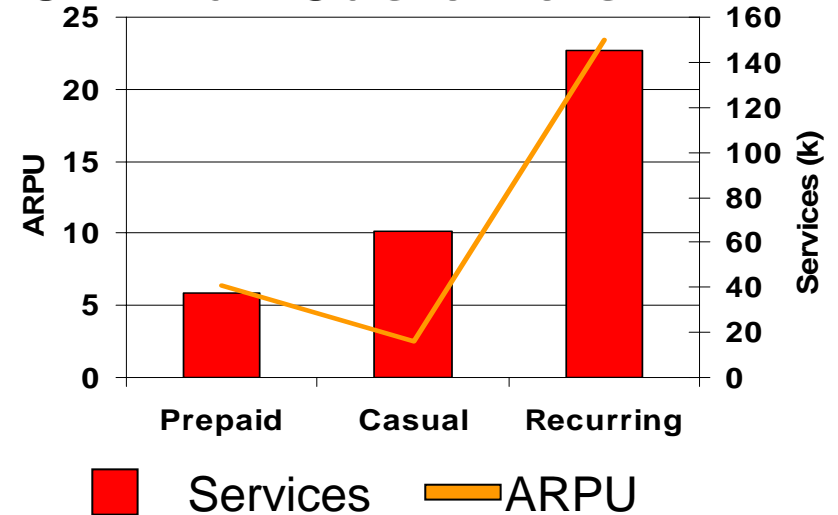
Dial Up

- Infrastructure provides sustainable cost advantage
- Stable ARPU
- iiNet leading products

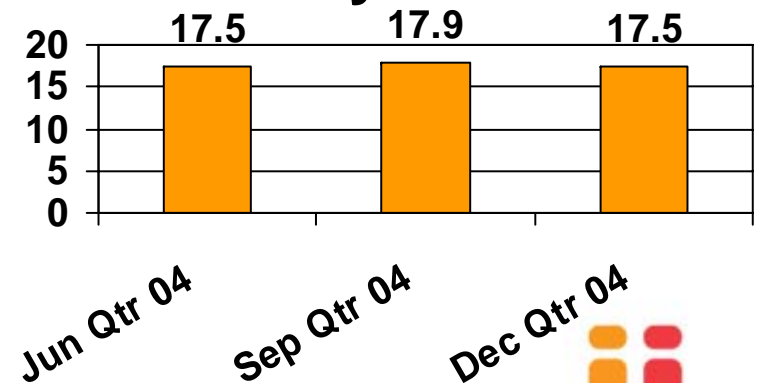
Services



OzEmail Customers



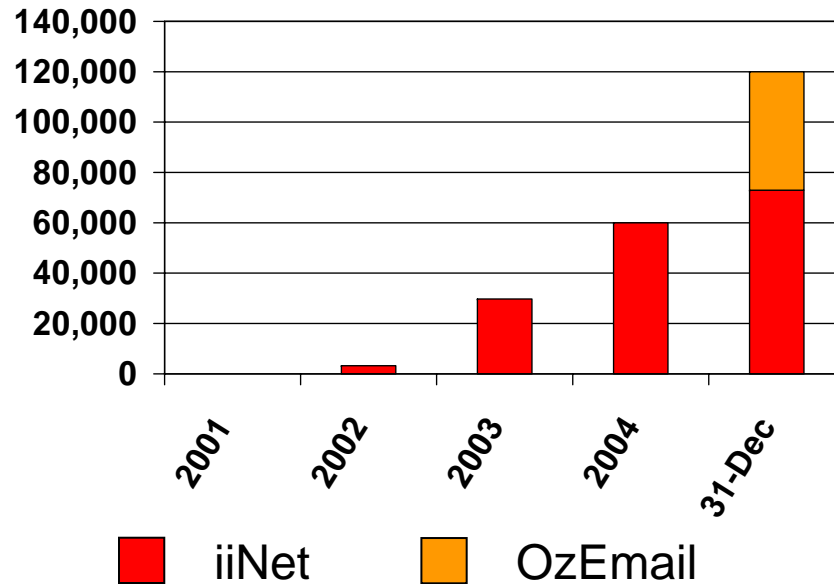
iiNet Monthly ARPU



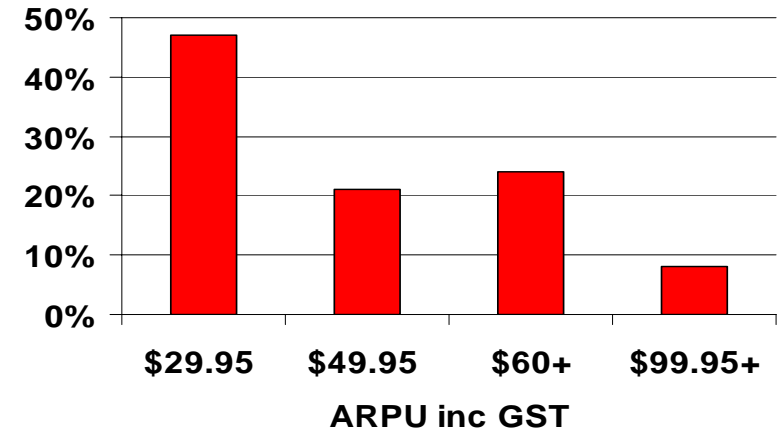
DSL

- iiNet strong offering
 - iibroadband2 (1.5Mb to 8Mb)
- Ability to upsell OzEmail clients

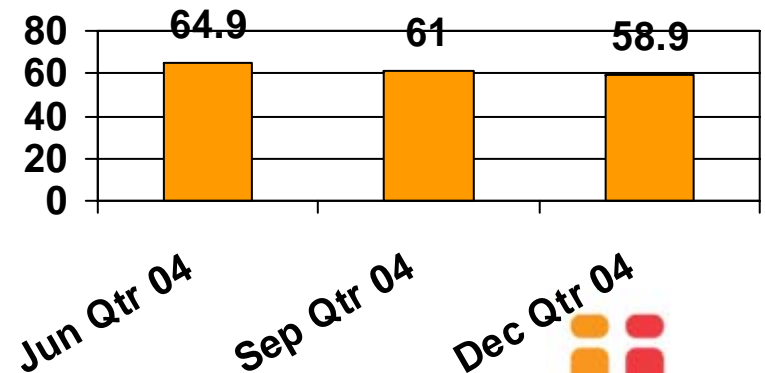
Services



OzEmail Customers



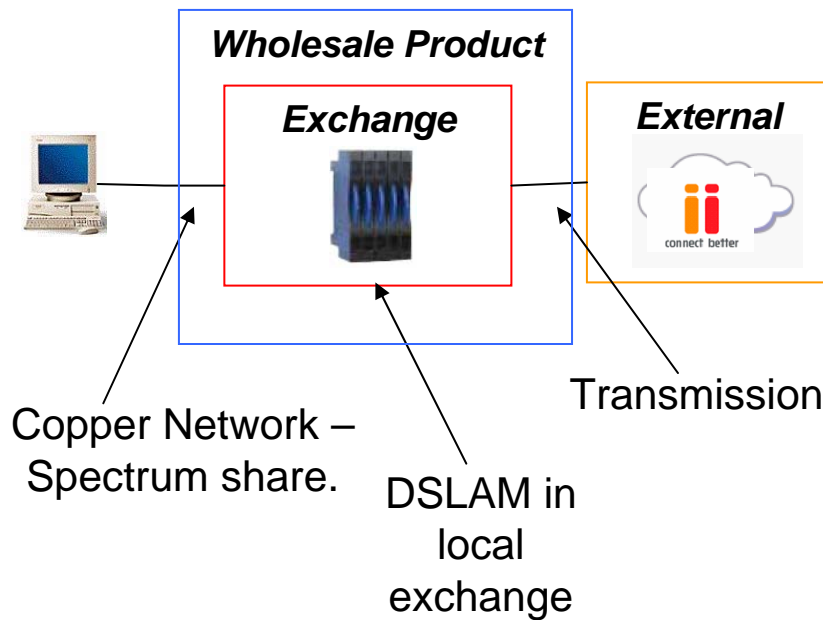
iiNet Monthly ARPU



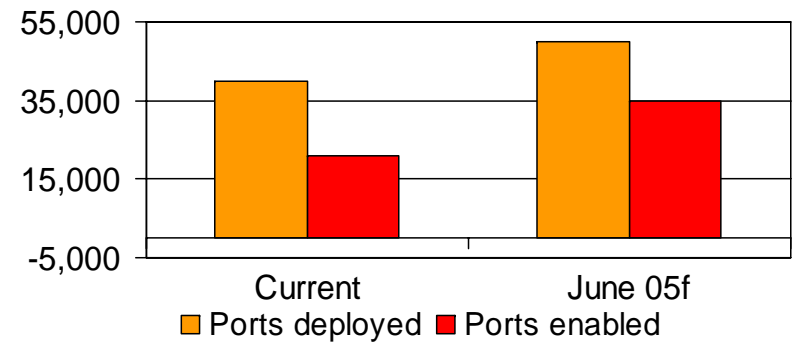
DSLAM

- 40,000 ports rolled out
- iiNet \$9 mill investment, 2005
- Less than 2 year payback

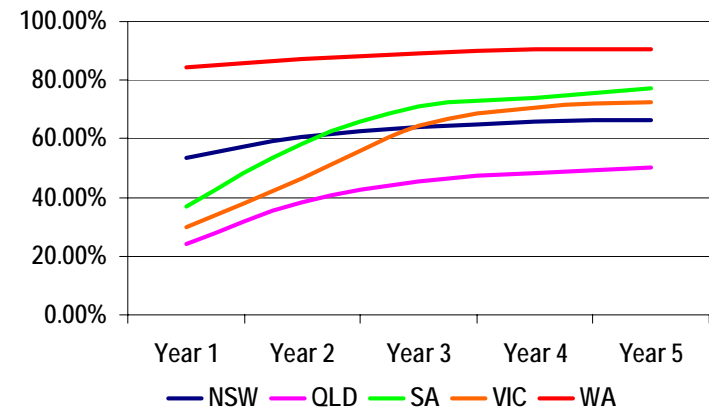
Exchanges



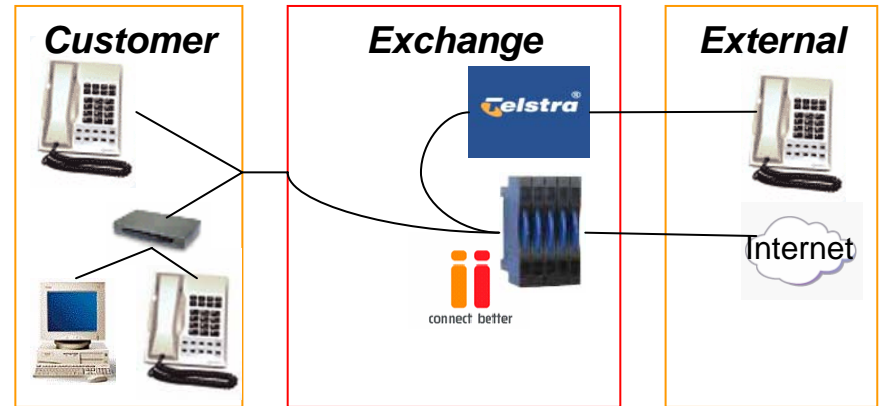
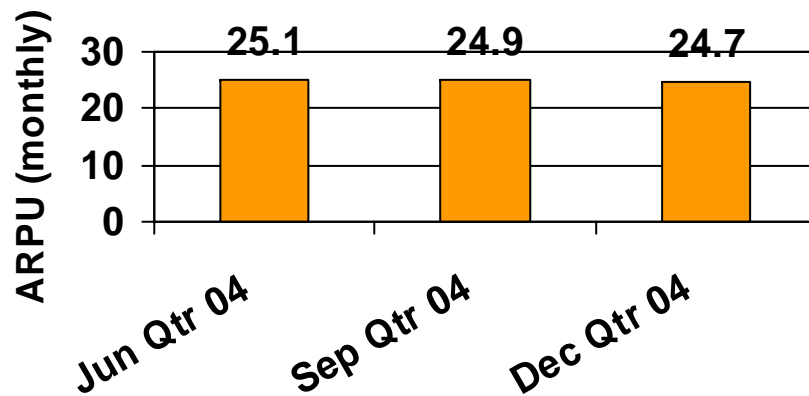
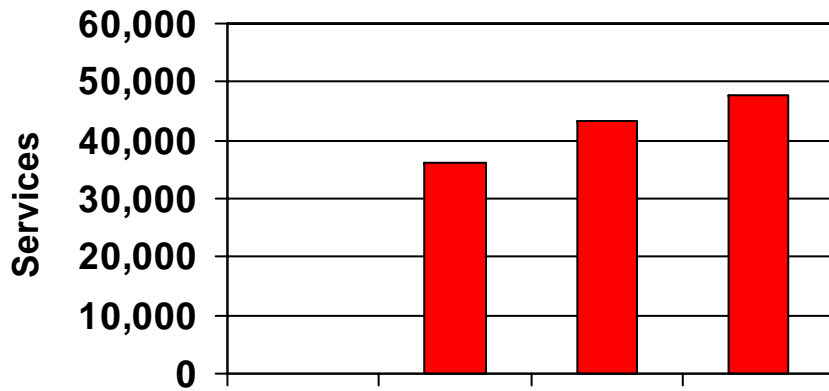
Ports Enabled & Deployed



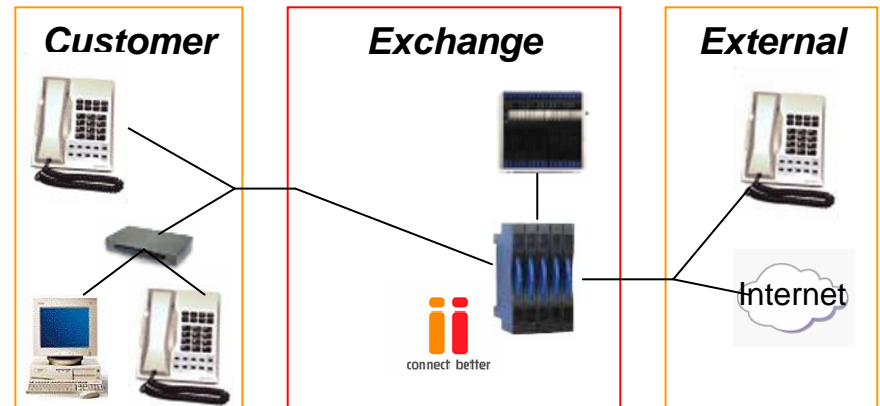
Coverage iiNet + OzEmail



Telephony



iiNet installs a DSLAM (Ericsson EDA) and through LSS can supply ADSL to the customer. iiNet VoIP product can be delivered over the broadband connection - providing a second line

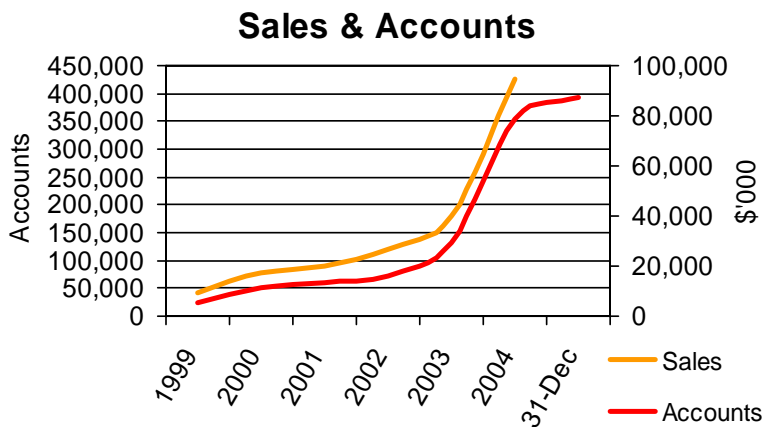
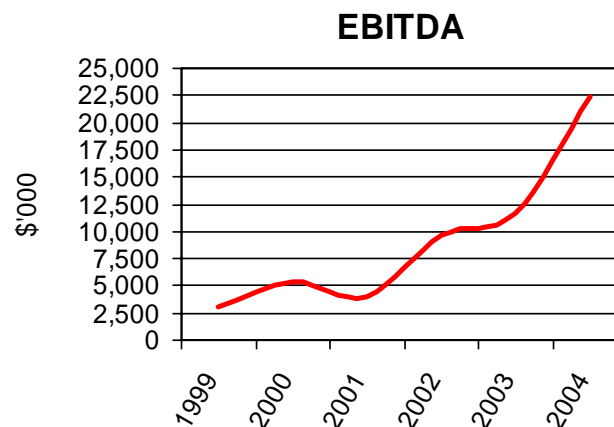


Using the Ericsson MSAN solution and migrating to ULL, iiNet can supply the "first line" POTS service to the customer. At the exchange, the analogue signal is converted to IP and transported back to the core network



Financials iiNet

31 December	2003	2004	△
Services (k)	310	390	↑26 %
Operating Revenue (\$m)	36.8	64.1	↑74 %
EBITDA (\$m)	8.2	15.1	↑83 %
Net Profit (before goodwill) (\$m)	3.7	7.2	↑94 %
Earnings per share (before goodwill) (¢)	5.8	8.4	↑45 %
Dividend (¢) fully franked	2.5	2.5	



Financials iiNet

- First half performance
 - DSLAMS
 - Rolled out 40,000 ports
 - Migrated 20,000 clients to iiNet DSLAMS
 - Products
 - New
 - iidialup2 with accelerator functionality
 - Launched free anti-spam and anti-virus
 - Developed
 - Local phone offering – launched in February
 - iibroadband2 offering – launched in February
 - Integrations
 - Commenced integration of Wave - New Zealand
 - Prepared for integration of Virtual Communities – inline with expectations
 - Disposed of Satellite business – non core

Financials iiNet

- Second half performance
 - Strategic decision to increase costs (\$2 million investment) to exploit leading product offering to add most value to OzEmail + iiNet
 - DSL cost structure
 - Move away from low cost 256k and 512k (~\$23 and \$28)
 - Lowest speed of 1.5mb (Telstra wholesale) (~\$52)
 - Subsidised by iiNet DSLAM products up to 8mb
 - Rollout of DSLAMS – ahead of full build case
 - Increased resources
 - Enhancement of iiNet Call Centre (↑ by 40 people)
 - Increased Australian marketing team (↑ to 14 people)
 - Increased marketing spend
 - Immediate wins
 - iibroadband2 – 6,450 accounts (1,250 new) 11 days since 1 February
 - local phone – 5,000 accounts 11 days since 1 February
 - iibroadband2 and local phone not yet advertised
 - Full year guidance including OzEmail \$37 million EBITDA

Financials OzEmail

Normalised Performance	\$ mill
EBITDA – pre marketing	26.2
Less - Marketing (excluding salaries)	6.2
EBITDA	20.0
Amortisation	
- Goodwill	4.1
- Subscriber base	5.6
Less Once Offs	
- Dual costs (network and office)	1.0

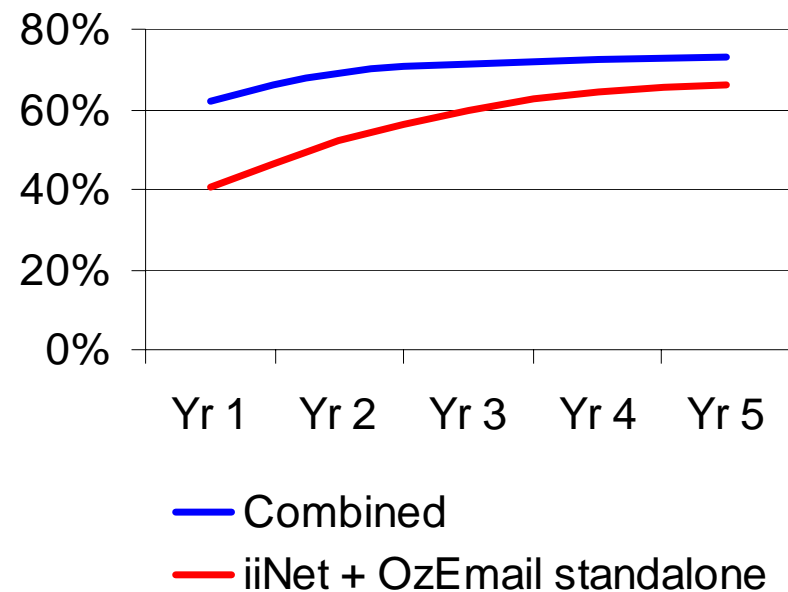
Financials OzEmail

- Dial
 - Currently uncompetitive offering
 - iiNet's Strategy, introduction of its leading iidial2 offering
- ADSL
 - High percentage of \$29.95 accounts
 - iiNet's Strategy – introduction of iiNet's iibroadband2 to lift ARPU and value to customer
- Phone
 - iiNet's Strategy – focus on bundled offerings
- Advertising
 - Focus on growth through targeted marketing and advertising
- Customer Service
 - iiNet's Strategy – Improvement of service levels with an additional 40 staff in the call centre as soon as practical
- Cost base
 - iiNet Dial & DSLAM network deployment

Benefits of Combined Scale

- DSLAMS
 - On a standalone basis iiNet would take 4 years to have more than 65% of its DSL clients on its own DSLAMs.
 - On a standalone basis OzEmail would take 5 years to have more than 65% of its DSL clients on its own DSLAMs.
 - The combined group achieves more than 65% of its clients on DSLAMS within less than 2 years.

Customers on DSLAMs



Summary

- OzEmail
 - Strong strategic and financial case
 - Earnings per share positive
 - Provides scale to achieve goals
 - Provides synergies through DSLAM deployment scale
- DSL
 - Lead Offering iibroadband2
 - DSLAM infrastructure successfully deployed
- Voice telephony
 - Opportunities in voice
 - Objective to move to full service
- CAPEX
 - OzEmail \$6 million and iiNet \$4million 2nd half 2005
 - DSLAM \$12.5 million and non-DSLAM \$4.9 million in 2006
- 2005/06
 - Strong position with own dial up and DSL infrastructure
 - Telephony upside
 - Scale and Brand of OzEmail

Appendix 1 iibroadband2

		<u>download speed (k)</u>	<u>upload speed (k)</u>	<u>quota (peak + offpeak)</u>	<u>monthly broadband cost</u>
pay as you go with iphone		1500 up to 8000	256 up to 1000	500MB, then \$0.06/MB	\$29.95 (\$59.95 cap)
starter	with iphone	1500 up to 8000	256 up to 1000	2GB + 2GB	\$39.95
	without iphone	1500	256	1GB + 1GB	\$49.95
light	with iphone	1500 up to 8000	256 up to 1000	10GB + 10GB	\$49.95
	without iphone	1500	256	5GB + 5GB	\$59.95
medium	with iphone	1500 up to 8000	256 up to 1000	20GB + 20GB	\$69.95
	without iphone	1500	256	10GB + 10GB	\$79.95
heavy	with iphone	1500 up to 8000	256 up to 1000	40GB + 40GB	\$89.95
	without iphone	1500	256	20GB + 20GB	\$99.95

Appendix 2 Glossary

- AU Australia
- ARPU Average Revenue Per User
- DSL Digital Subscriber Line
- DSLAM DSL Access Multiplexer
- ISP Internet Service Provider
- Local Loop Twisted Copper pair
- MSAN Multi Service Access Node
- NZ New Zealand
- POTS Plain Old Telephone System
- ULL Unconditioned Local Loop
- VOIP Voice Over Internet Protocol