

Media Release

iiNet to acquire Internode, Australia's largest privately owned broadband services company

22 December 2011 – iiNet Limited (ASX: IIN) has entered into binding documentation to acquire Internode Pty Ltd (Internode) and associated companies, Australia's largest privately owned broadband services company, for \$105 million. Based in South Australia, Internode has approximately 260,000 active Internet and phone services, including approximately 190,000 broadband subscribers.

Acquisition Highlights

- Acquisition of 190,000 broadband subscribers and 260,000 active services
- Expected pro forma FY12 revenue of approximately \$180 million and pro forma FY12 EBITDA of approximately \$25 million, prior to synergies
- Synergies available from on-net migration, bandwidth, backhaul, inter-capital transmission and the integration of systems and suppliers
- Synergies expected to contribute incremental EBITDA of \$7 million realised within FY13
- \$105 million acquisition price represents a 4.2x expected pre-synergies FY12 EBITDA multiple and a 3.3x post-synergies pro forma EBITDA multiple
- Expected to be EPS accretive in FY13 pre-synergies
- 15,000 off-net subscribers expected to be migrated to iiNet's network
- Very strong brand based in South Australia, with customers in all states and territories
- Experienced management team with deep local relationships
- Compatible network infrastructure, extending iiNet's DSLAM footprint by over 36 exchanges and requiring only ongoing maintenance capital expenditure
- To be funded through the issue of approximately 12 million iiNet shares to Simon Hackett with the balance to be paid in cash net of Internode's existing debt, from cash on hand and an extension of iiNet's current debt facilities. Simon Hackett has agreed to standstill and tender provisions (see below) for a period of one year
- Comfortable debt profile post acquisition with pro forma net debt balance today of \$250 million
- Settlement expected to be complete by 29 February 2012

iiNet's Chief Executive Officer, Michael Malone, said the acquisition strengthens the Company's position as the leading challenger brand and "the new number 2 provider" of DSL broadband.

"Internode is an attractive acquisition, consistent with our strategy of building scale in anticipation of the national broadband network (NBN) market. Internode's experienced management team and excellent customer satisfaction record will allow iiNet to efficiently grow its presence in the South Australian and Eastern State markets."

“Internode is a successful company with an impressive reputation,” said Mr Malone. “The two companies are clearly a good fit with their strong cultural alignment, industry-leading customer service and shared commitment to innovation.”

Internode will trade as a separate business unit, retaining its brand under the management of founder Simon Hackett and his experienced team.

Simon Hackett, Managing Director and the largest shareholder of Internode, said he and his management team are delighted to be merging with iiNet and are excited about participating in the opportunities ahead.

“This is a unique opportunity to increase our presence nationally.” Mr Hackett said. “Internode’s track record of consistently topping national ISP customer satisfaction surveys matches iiNet’s own customer focused corporate strategy. The best teams in the business have joined forces at last.”

"We have highly compatible business approaches, unrivalled excellence in innovation around networks, technology and content, and we gain the obvious benefits of substantially increased scale. The transaction will cement a strong and sustainable future for Internode, our staff, and our customers nationally".

Simon Hackett will receive a placement of approximately 12 million shares in iiNet, or 7.5% of the fully diluted capital of iiNet. The balance, net of Internode’s existing debt, will be paid in cash upon completion, which is expected by 29 February 2012.

Simon Hackett has agreed to standstill and tender provisions with iiNet for a period of 12 months from the date of completion. Under the standstill provision, Simon Hackett (and affiliates) is prevented from acquiring or soliciting a shareholding in iiNet greater than 7.5% of its issued capital. Under the tender provision, Simon Hackett has agreed to tender his (and affiliates) shareholding in iiNet into any takeover offer, scheme of arrangement or other merger recommended by a simple majority of the iiNet board.

The acquisition of Internode is subject to a number of procedural conditions and will be funded by the extension of iiNet’s existing bank financing facilities to \$300 million.

The acquisition of Internode is expected to be earnings per share accretive pre-synergies in FY13. Synergies generated through on-net migration, and integration of bandwidth, backhaul, and inter-capital transmission capacity will provide further value accretion for iiNet shareholders.

Mr Malone said the merger with Internode strengthens the Company’s position in the NBN environment and will allow iiNet to leverage the market opportunities presented from a base of greater scale. This transaction consolidates iiNet’s national presence by bringing together the two leading customer service focused brands in the industry.” said Mr Malone.

iiNet is advised by Azure Capital Limited with legal advice being provided by Middletons.

– ENDS –

Media Interviews:

iiNet Chief Executive Officer Michael Malone, iiNet Chief Financial Officer David Buckingham and Internode Managing Director, Simon Hackett available for media interviews via a teleconference at 4.30pm (EST).

Teleconference details:

Thursday 22 December 2011 at 4.30pm EST
Tel: 1 800 558 698 or (02) 9009 0729
PIN: 725596

For further information, please contact:

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About iiNet

iiNet is Australia's second largest DSL Internet Service Provider (ISP) 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.