



iiNet Limited
Tel +61 8 9214 2222
<http://www.iinet.net.au>

A.C.N. 068 628 937
Fax + 61 8 9214 2211

16 September 2003

ACQUISITION OF IHUG

iiNet today announced it has entered into an agreement to purchase the business of ihug in Australia and New Zealand. ihug generates annual revenues of \$48 million from 170,000 active services.

The consideration for the purchase of the ihug business will be \$30.1 million in cash plus the issue of 23.7 million iiNet shares. The cash component of the consideration will be funded by a fully underwritten placement of 14.9 million shares at \$2.05 per share to raise \$30.6 million.

The transaction is subject to the approval of iiNet shareholders, the Overseas Investment Commission and other conditions precedent as set out in the attached Notice of General Meeting. Completion is expected during the third week of October following a meeting of iiNet shareholders on 17 October 2003.

Further details on the proposed transaction are outlined in the attached Notice of General Meeting, accompanying presentation and media release.

CONTACTS

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CHIEF FINANCIAL OFFICER
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Acquisition of



October 2003

Michael Malone – Managing Director

Clayton Hollingsworth – Chief Financial Officer



iiNet Strategy & ihug

↻ Strategy

- To develop iiNet as a leading ISP
 - Exploit iiNet's cost base through acquisition
 - Rollout infrastructure
 - Rapidly grow DSL customer base & capitalise on economies
- Apply strict financial hurdles

↻ ihug

- Perfect fit
 - Fills market gaps
 - Provides telephony experience
 - Infrastructure focus
- Takes iiNet to the next level

ihug snapshot

- ↻ Established in 1994
- ↻ Privately held by 10 shareholder groups
- ↻ Strong brand
 - Top 10 ISP Australia
 - Number 3 ISP in New Zealand
- ↻ 170,000 actives services
 - 70,000 Australia/100,000 in New Zealand
 - \$48 million Revenue
 - \$17.8 million EBITDA (annualised June quarter 2003)

Transaction

↻ Consideration

- \$72 million

- \$30 million cash

- 24 million iiNet shares issued at \$1.75

↻ Acquisition of unencumbered assets

↻ Founding shareholders escrowed

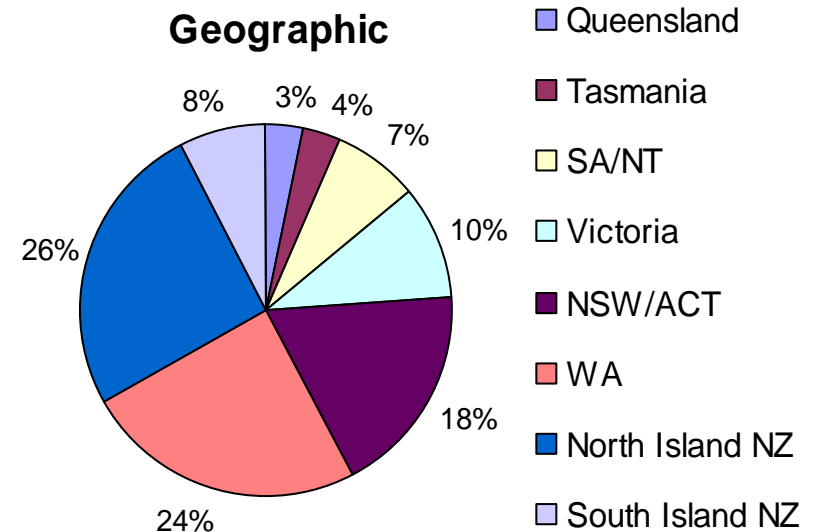
↻ Management and staff retained

Combined Business

➤ 3rd largest ISP in New Zealand

➤ 5th largest ISP in Australia

	ilNet	ihug	Combined
Broadband	30,000	11,000	41,000
Dial-up	90,000	129,000	219,000
Telephony	-	23,500	23,500
Other	14,000	8,500	22,500
Total	134,000	172,000	306,000



Financial

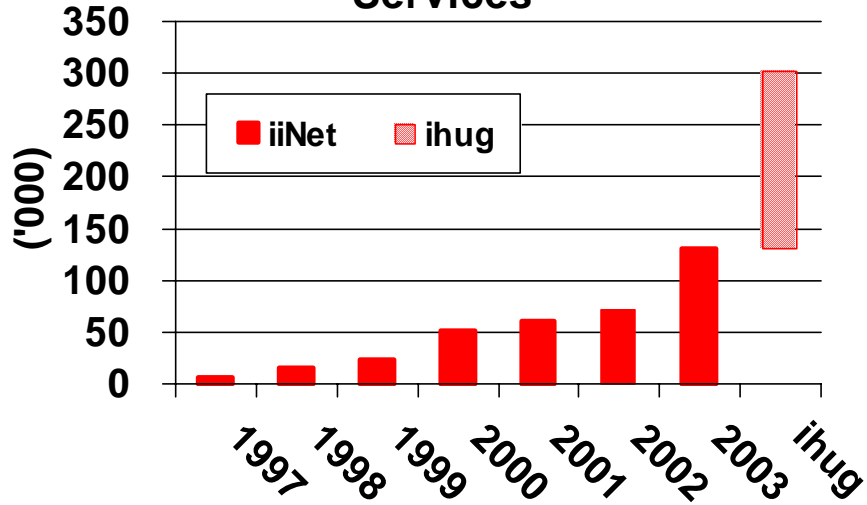
AUS\$'000	iiNet 30 June 2003	ihug June quarter annualised	Combined
Revenue	40,321	48,356	88,677
EBITDA	11,681	17,784	29,465
EBITA	7,745	15,941	23,686
EBIT	7,250	15,941	13,732*
NPAT	5,157	10,840	6,180*
NPATBA	5,654	10,840	16,134
EPS – pre goodwill	14.2		20.5
Price earnings times @\$2.05	14.4		10.0

* Post amortisation of goodwill on acquisition

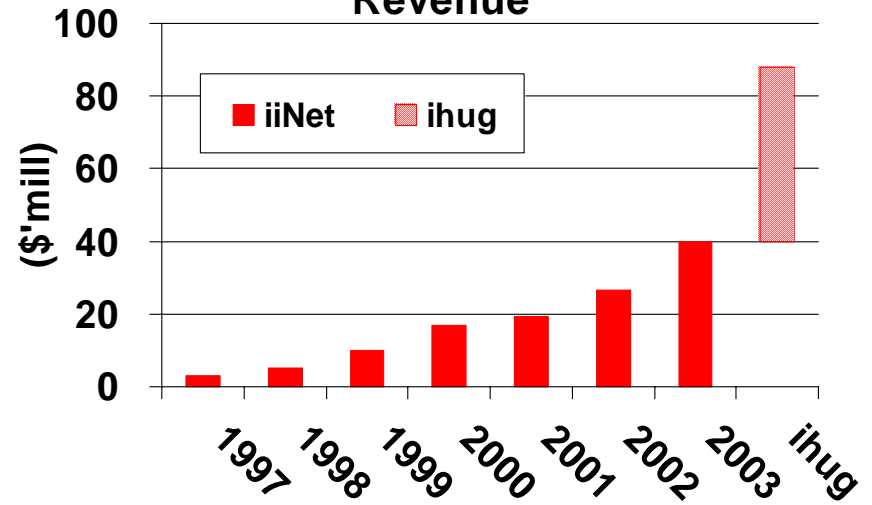
- iiNet 30 June 2003
- ihug quarterly result June 2003
 - normalised
 - annualised
- Potential synergies not included
- Amortisation – 10 years
- Date 21 October 2003
- Strong balance sheet

Financial

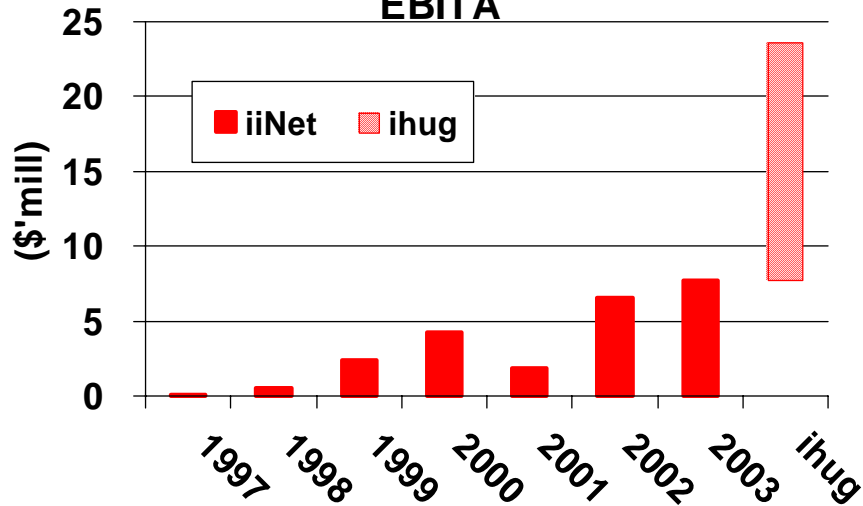
Services



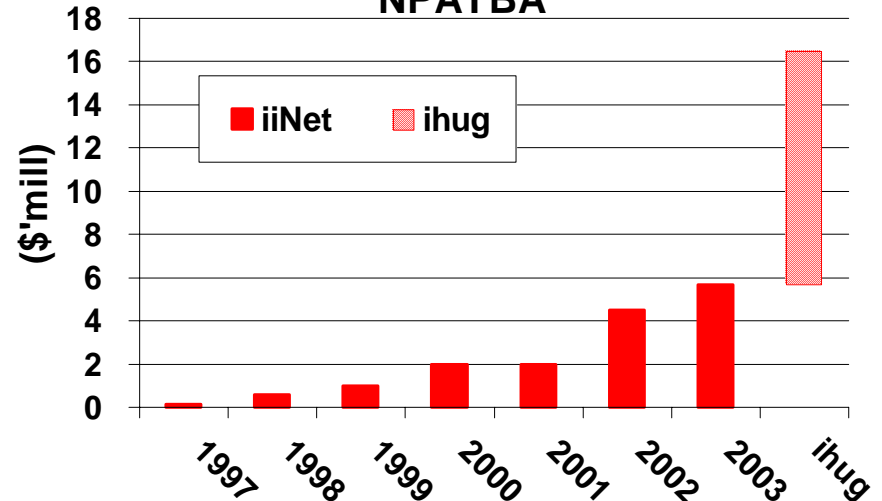
Revenue



EBITA



NPATBA



Integration

- ↪ Continue to grow the ihug brand
- ↪ Minimise any visible changes to customers
- ↪ Continue to grow broadband business
- ↪ Develop and build voice services
- ↪ Extend Quality Management System
- ↪ Integrate call centre technology to overflow to/from Australia
- ↪ Centralise financial functions

⚡ Earnings

- iiNet 2004 (pre ihug) earnings pre amortisation expected to be 20% - 25% higher than 2003
- Second half stronger than first
- ihug contributes from 21 October 2003

⚡ Funding

- Strong balance sheet
- Strong cash flow

⚡ Expected 2004 Dividends

- 100% of NPAT
- 50% of NPATBA

Summary

- ~ ihug and iiNet combined strength and scale
- ~ Geographic fit - ideal
- ~ Meets strict acquisition criteria
- ~ EPS positive - pre amortisation
- ~ Proven management discipline and process



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MEDIA RELEASE

iiNet and iHug Join Forces

iiNet, Australia's largest regional Internet Service Provider (ISP) will be combining with New Zealand based ihug to form a trans-Tasman Internet and communications company boasting 300,000 customers.

"We are extremely excited about this deal," said iiNet Managing Director Michael Malone. "The two businesses could not be a better fit. iiNet and ihug share very similar backgrounds and business objectives and both companies have a strong focus on providing a high standard of customer service and value for money."

ihug is one of Australia's top ten Internet Service Providers and is the third largest ISP in New Zealand. Established in Auckland in 1994, ihug expanded to the east coast of Australia in 1998. ihug today has approximately 170,000 active Internet and voice services across Australia and New Zealand.

iiNet was established in Perth in 1993 and launched onto the east coast in 1999. iiNet has built its core business on referral. It has expanded on the east coast through acquisitions and the recent introduction of blink broadband products

iiNet now has a customer base of 130,000, and is the #2 provider of broadband ADSL in Australia.

"Both iiNet and ihug have a well established customer base in dial up markets and both are rapidly growing their broadband products and services," said Mr Malone. "ihug also has a competitive voice business, which is an area that iiNet has long been keen to expand."

The transaction will cost iiNet \$30.1 million dollars in cash and a further 23.7 million in iiNet shares issued to the owners of ihug. Completion of the transaction is expected during the third week of October, following a meeting of iiNet shareholders.

All staff from iiNet and ihug will be retained when the companies join forces in late October.

The company will operate under both brands in Australia and under the ihug brand in New Zealand, with services remaining evenly distributed across Western Australia, the east Coast of Australia, and New Zealand.

Mr Malone said the focus of the two companies in the future would remain on providing customers with an affordable range of Internet related products and services. "Combining these organizations is all about establishing a successful partnership between two independent ISP's, who are looking forward to growing in size as a means of providing customers with access to an exciting range of innovative products and services at a competitive price."

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Australian Stock Exchange
2 The Esplanade Perth 6000

REINSTATEMENT OF SECURITIES TO OFFICIAL QUOTATION

iiNet Limited (IIN) requests reinstatement of its securities to official quotation following the release of an announcement by the Company relating to the acquisition of ihug and notice of general meeting

The Company confirms that all relevant information has been fully disclosed in compliance with Listing Rule 3.1.

Yours faithfully,

A handwritten signature in black ink that reads "Miranda Conti".

Miranda Conti
Company Secretary