



18 August 2003

MERGER NEGOTIATIONS WITH IHUG

iiNet refers to the article in the West Australian dated 16 August 2003. iiNet confirms that it is in merger negotiations with the owners of internet service provider (ISP), ihug and that the Company is conducting due diligence.

ihug provides services to approximately 150,000 customers and is the third largest ISP in New Zealand and one of the top ten ISPs in Australia.

Over the next two to three weeks iiNet hopes to move to a position in which terms of the transaction are agreed, due diligence is complete and other matters are resolved. As foreshadowed in the announcement to the ASX dated 6 August 2003 iiNet anticipates that a mix of iiNet shares and cash will be used as the consideration for any transaction. iiNet will need to raise capital to complete any transaction.

Whilst iiNet will not be drawn into pricing speculation the Company notes that the price per subscriber referred to in the West Australian article is not reflective of the price applicable to a substantial ISP. iiNet will not comment further on media speculation on pricing or other terms.

A handwritten signature in black ink, appearing to read "Clayton Hollingsworth".

Clayton Hollingsworth
Company Secretary