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IINET TO SELL NEW ZEALAND BUSINESS

iiNet Limited (ASX: IIN) today announced that it has initiated a formal sales process for its New Zealand ISP business, ihug.

iiNet Executive Chairman Mr Peter Harley said that the decision had been made following a large number of unsolicited approaches to purchase ihug.

Mr Harley said that the Board of iiNet has decided to take advantage of the opportunity to realise an enhanced value for the business in the light of recent favourable regulatory decisions and the improved trading performance of the business.

He said that the capital from the ihug sale would be applied to funding further growth of the business in Australia and reducing gearing levels.

iiNet has appointed Grant Samuel in Auckland to manage the sale process. An information memorandum will be distributed at the end of July to potential purchasers and it is expected that the sale process will be completed by end of 2006.

“We are confident the timing is right for the sale of ihug” said Mr Harley.

“Following the recent strategic review of the business, the Board re-affirmed its commitment to further develop iiNet’s Australian business and concluded that the New Zealand operation was outside this key focus of activity.”

“In addition, in May, the New Zealand Government announced that Unbundled Local Loop and naked DSL would become available in the near future.” “Since then, there has been considerable interest in ihug and we have taken the view that this is a good time to exit the New Zealand market and focus attention firmly on growing our Australian business.”

ihug was established in 1994 and expanded into Australia in 1998. iiNet acquired the Australian and New Zealand operations of ihug in 2003, which were of similar size. The Australian operation has since been integrated under the iiNet brand, while the New Zealand business has continued under the highly regarded ihug brand.

With over 120,000 services, ihug is now the third largest ISP in New Zealand, behind Telecom New Zealand’s xtra and Telstra Clear.

“Last year, there were substantial changes made to the New Zealand business,” said Mr Harley. “The product line and branding were overhauled, operating costs were reduced, and a new management team was recruited. The business is performing well and is growing solidly”

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