



Mobile Innovations

2002 Annual Report

**“creating innovative
customer experiences”**



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Chairman Will Jephcott



CEO Ilkka Tales

CHAIRMAN AND CEO'S REPORT

Results

The 2002 financial year was clearly a very difficult year generally and particularly in the telecommunications industry. Despite this climate, and the ongoing legal dispute with Vodafone, Mobile Innovations finished the year in the black posting a net profit after tax of \$259,000, down 91% from the previous year.

Revenues decreased by 65% to \$22.4 million due to little or no support from Vodafone for new customer acquisitions. Approximately \$3.6 million of fees and reimbursable expenses was not included in revenue as it is in dispute and forms part of legal proceedings against Vodafone. Customer acquisition-related costs of \$2.4 million, incurred in relation to the disputed revenue, were expensed in the current year.

During the year a significant restructuring of the operations was undertaken to enable the company to continue trading profitably and remain cash positive in radically changed business circumstances. Unfortunately the restructuring involved a significant reduction in staff numbers, from 170 to 95.

Jonathan Marchbank stepped aside as CEO and continues as a Non Executive Director. Ilkka Tales, our COO, was promoted to CEO in April 2002.

Litigation against Vodafone

The backbone of Mobile Innovations is the exclusive 10-year Agent Service Provider (ASP) agreement with Vodafone. This agreement allows Mobile Innovations to acquire customers to the Vodafone network through direct channels. In October 2001 Vodafone directed Mobile Innovations to cease all direct marketing by imposing a zero acquisition target for subsequent quarters.

As that was considered to be a repudiation of the ASP Agreement by Vodafone your directors were left with little choice other than to commence litigation to retain maximum value in the business for shareholders. A hearing date has been set down for 17 February 2003 and the case is expected to run for four weeks.

The litigation has been a considerable drain on management time and resources. A major impact on profit was the expensing of \$577,000 in litigation costs during the year. We have budgeted an extra cost of \$440,000 to complete the case.

In the meantime Mobile Innovations will continue in discussions with Vodafone from time to time.

ASP Operations

Excluding the September 2001 quarter, customer acquisition under the ASP Agreement has been limited to a small number of upgrades. As a consequence, customer churn and Vodafone's moratorium on acquiring new customers, our ASP customer base has reduced by 45,000 over the year to 140,000. Further reduction in the customer base has and will continue to occur while Vodafone maintains its current policies.

Given the restrictions our focus has been to reduce costs and ensure that our staff, despite the major restructuring in September 2001, remains loyal and committed. This has been achieved and we believe our customer service staff to be some of the best in the industry.

Mobile Innovations customer service staff were nominated in the Teleperformance Grand Prix for call center excellence at which they were placed 3rd in the telecommunications category, ahead of the major carriers. During the year we were also involved in a global assessment on Customer Relationship Management capability conducted by DMR (Fujitsu) Consulting where Mobile Innovations was perceived as a "mature proactive and interactive organisation" further testament to the quality of the staff and processes in place at Mobile Innovations.

The 2002 financial year was clearly a very difficult year generally and particularly in the telecommunications industry. Despite this climate, and the ongoing legal dispute with Vodafone, Mobile Innovations finished the year **in the black** posting a net profit after tax of \$259,000, down 91% from the previous year.

Look Mobile

The Look Mobile joint venture between Mobile Innovations and Clarinet Communications is the first virtual service provider in the telecommunications industry with a front-end sales team connecting corporate and small business enterprise customers to Vodafone via retail and corporate sales forces. For this we receive a percentage of revenue from Vodafone along with a connection fee per customer. Look's customer base increased during the year by 19500 to a total of 28000 at June 2002. Mobile Innovations owns 50% of Look and receives a fee for managing its customer base as well as sharing in its profit.

The original business case for Look forecasted the business to reach profitability by 2002. We are very proud of the staff and management in achieving a profit of \$62,000 in 2002. The success of the business during difficult times is attributable to the strategic partnership between Clarinet and Mobile, and to the dedication and enthusiasm of the staff involved in building the business. To date, Vodafone has supported this business, which has contributed significantly to Vodafone's business connections in the past year.

New Business initiatives

Mobile Innovations is prohibited by the ASP agreement from entering into any mobile telephony initiatives with other operators in Australia. We have begun to establish relationships with corporate customers who require customer management skills and call centre capabilities which are our core competencies. These initiatives are relatively small to date. We are seeking to develop these opportunities organically within our existing resource base.

Outlook

The business has been restructured to reflect the reduced activity levels and is expected to continue to trade profitably and with positive cash flow. While new business initiatives have been and will continue to be reviewed and implemented the fundamental value of the business relates to the ASP Agreement.

Your directors and the management are confident with regard to Mobile Innovations' rights in the disputes raised with Vodafone.

The board remains united and committed to our shareholders and to ensuring a fair and equitable outcome in the litigation against Vodafone. Thank you for your ongoing support of the company through this difficult time.



CFO Ralph Stonnell

2002 CFO'S REPORT

This year's result was substantially marred by Mobile Innovation's dispute with Vodafone. Total revenues decreased by 65% to \$ 22.4million and the net consolidated profit after tax (NPAT) reduced from \$3.0m in 2001 to \$259,000 in 2002.

The 2002 result includes \$577,000 of expensed legal costs relating to the Vodafone court case and excludes \$3.58million of disputed revenues. The disputed revenues mainly relate to the recovery, from Vodafone, of \$2.4m in customer acquisition related costs incurred and expensed in the year ended June 2002.

Also, during the year Look Mobile turned profitable, Innocom Systems ceased operations and Mobile Innovations New Zealand limited was liquidated.

Profit and Loss Summary

	2002 \$'000s	2001 \$'000s
Sales Revenue	22,407	63,224
Earnings Before Interest Tax Depreciation and Amortisation	2,564	7,037
Depreciation and Amortisation	(2,162)	(1,861)
Earnings Before Interest and Tax	402	5,176
Interest Received	38	111
Interest Paid	(76)	(53)
Earnings Before Tax *	364	5,234
Tax Expense	(105)	(2,229)
NPAT	259	3,005

*The significant items that contributed to Earnings before Tax are:

Customer Acquisition and Management Profit	2,868	8,076
50% Share of Look Mobile's Profit/(Loss)	31	(413)
Mobile Innovations New Zealand Profit/(Loss)	(100)	(757)
Innocom Systems Profit/(Loss)	(12)	(75)
Vodafone litigation costs	(577)	Nil
Other #	(1,846)	(1,597)
Profit before tax	364	5,234

Includes amongst other items Directors fees, public company related costs, a proportion of the restructuring costs, executives time spent on the Vodafone case and exploring business development opportunities.

Cashflow:

Despite significant restructuring costs and expenses related to the Vodafone dispute the consolidated cash position marginally increased from \$1.167million at 30 June 2001 to \$1.195 million as at 30 June 2002.

Cash generated during the year was used, amongst other things, for the following purposes:

	2002 \$'000s	2001 \$'000s
Customer acquisition costs not reimbursed by Vodafone	2,365	-
Legal costs for the court case against Vodafone	577	-
Purchase of other plant and equipment	174	1,186
Funding the Look Mobile joint venture	100	800
Enhancement of *Selcomm capabilities	123	2,326
Fund New Zealand operations	64	793
Interim dividend	-	1,110

*Selcomm is MI's customer care ,billing and fulfillment platform

\$3.58 million of disputed revenue relating to the year ended June 2002 was not received from Vodafone.

Dividends:

Due to the current circumstances, the directors did not recommend the payment of a final dividend in respect of the financial year ended 30 June 2002.

the board of directors



WILL JEPHCOTT

Non-executive chairman; aged 52

Appointed chairman of Mobile Innovations in 1999, Will Jephcott has more than 19 years' experience in corporate advice and investment banking, specialising in mergers and acquisitions, corporate and project finance, and general financial advice. He is a senior adviser with Merrill Lynch International (Australia) Limited. Will is also the deputy chairman of ROC Oil Company Limited.



JONATHAN MARCHBANK
Non-executive director; aged 37

Jonathan Marchbank has been in the cellular industry since 1988, originally joining Nokia UK as sales and operations manager. Jonathan moved to Australia in 1991 to establish Nokia's Australian business. By 1993, Nokia had formed a subsidiary company in Sydney and Jonathan became managing director of Nokia Mobile Phones Australia/NZ. In 1996, Jonathan joined Philips Consumer Communications, initially as general manager for the Pacific region, and later that year as president for Asia-Pacific, based in Singapore. In 1998, he returned to Australia as managing director, mobiles, at Telstra, before joining Mobile Innovations in January 2000 as managing director, mobiles. Jonathan was chief executive officer of Mobile Innovations from July 2000 to May 2002. Jonathan is currently Managing Director of Virgin Mobile in Singapore.



NIGEL BRAMWELL
Non-executive director; aged 45

Nigel Bramwell was the managing director of Mobile Innovations from the company's inception until July 2000. Nigel brings valuable industry and management experience, having spent more than 19 years in the telecommunications industry. Nigel served for four years as director for The Carphone Group Ltd, one of the UK's first independent mobile phone distributors. In 1985, he founded International Communications Ltd, a UK-based Vodafone Group and Cellnet service provider, and served as its managing director until 1991. In late 1991, Nigel co-founded Cellphones Direct Ltd (UK). Cellphones Direct was one of the first companies in the UK to sell mobile phones using direct marketing techniques, through partnership arrangements with companies such as American Express and extensive off-the-page advertising.



CHRIS SHAW
Non-executive director; aged 53

Chris Shaw was appointed a director in 1994. He is currently an executive director of Innovations Holdings Pty Limited, publisher of Australia's widest circulating direct marketing catalogue. Chris co-founded Innovations in 1985 and is responsible for the group's operations in Australia and New Zealand. Strategic acquisitions and the launch of a number of new business ventures have made Innovations one of Australia's leading home shopping groups. A chartered accountant, Chris formerly held positions in financial consulting and direct marketing.



NEIL GAMBLE
Non-executive director; aged 50

Neil Gamble has been a senior executive of some high-profile public companies, including a term as managing director of the Wormald Group operations in Europe, Middle East and Americas, chief executive officer of Australis Media Ltd, CEO of Star City Holdings Ltd. Last year Neil was appointed CEO of Solution 6 Holdings Ltd. and still holds non-executive directorships in Stargames Ltd. and Hartley Poynton JDV Ltd.

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