

ile phone company

# contents

Chairman's Report	2
The Year in Review	4
Financial Overview	6
The Board of Directors	8

MI the value direct mobile phone company

# chairman's report

**The year ended 30 June 2001 was full of contrasts for Mobile Innovations (MI). It began with Vodafone pursuing an aggressive customer acquisition strategy, which allowed MI to grow its customer base rapidly and record strong profits. Confidence was high and the Board declared its first dividend since listing, paying an interim dividend of one cent per share in May.**



Will Jephcott **Chairman**

In the second half of the year the market slowed and more notably, we were unable to secure any clear direction or strategy from Vodafone. However, the growth and momentum from the first half enabled MI to achieve a 30% rise in net profit after tax from \$2.3 million to \$3.0 million. MI ended the year with a strong customer base in Australia of 185,000, an increase of 53%, no debt and cash of \$1.1 million.

These results include a loss of \$413,000 representing MI's share of start-up costs for the Look Mobile joint venture and \$757,000 of costs associated with a marketing agreement in New Zealand with Telecom New Zealand. Look Mobile is expected to break even in the current year. Telecom New Zealand decided in June 2001 not to proceed with a proposed joint venture, resulting in the closure of MI's New Zealand operations.

A decline in the general economic climate and particularly in the telecommunications market became apparent in early 2001. Overall growth in the mobile phone market slowed because of the high level of market penetration. Competition between the major mobile phone companies intensified as they sought to maintain or increase market share and secure their position before the introduction of mobile number portability in September 2001.

With 185,000 customers, a solid trading history with Vodafone and no debt, Mobile Innovations was in a strong position to weather a downturn in the market. Indeed, it was the Board's expectation that the opportunities afforded by the introduction of mobile number portability would lead to new types of direct marketing opportunities for Vodafone and MI.

In August 2001, Vodafone informed MI that it no longer intended to use the company as a source of new customers. MI believes this is contrary to Vodafone's obligations under the Agent Service Provider (ASP) agreement. The ASP provides MI with the exclusive right to undertake all non-electronic direct marketing for Vodafone and to manage, for a fee, the customers it connects to the Vodafone network. The ASP has a further seven years to run.

Discussions with Vodafone have not reached any satisfactory outcome. Therefore, to protect the interests of shareholders, the Board has been left with no option but to commence legal proceedings seeking orders that Vodafone complies with its obligations under the ASP. As a consequence of Vodafone's actions, the company's operations are being scaled back, particularly in the marketing and customer acquisition areas, although core competencies are being retained. The management of our existing customer base continues as the company's main revenue and profit source.

Unless Vodafone changes its current strategy, we expect an erosion in our customer base because of increased customer churn with the introduction of number portability. Despite this, MI is expected to trade profitably and with positive cashflow during the financial year ending 30 June 2002.

Given the circumstances, the Board has reluctantly decided to not declare a final dividend.

On behalf of the Board I would like to pay special tribute to and thank our staff who have remained loyal and dedicated through these difficult times.

M! the fast direct mobile phone company



# the year

Jonathan Marchbank **Chief Executive Officer**

## Australia

As our chairman has outlined, the year was split into two halves. In the period up until January, we experienced major growth in activity levels and subscriber numbers. We went from connecting 4,000 customers per month at the end of the 2000 financial year, to a peak of 12,000 customers in November. On average, new customer growth was about 8,000 a month over the first six months of the financial year. This growth came as a result of a conscious strategy by Vodafone to grow and attempt to compete with Optus for the number two position in the Australian mobile market.

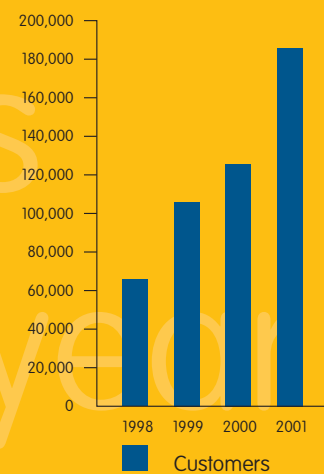
Operationally, MI managed the ramp up in activity levels very well. The investment in systems and processes over the 2000 calendar year was significant and these investments proved to deliver efficiencies in both cost and volume handling. In simple terms, the volume of transactions handled each month doubled over a six month period, due to the urgency of Vodafone's growth aspirations. Clearly, staff numbers grew over this period, but the actual overhead cost per connection reduced dramatically as economies of scale kicked in.

As MI moved quickly and efficiently to meet the demands of an increase in business, Vodafone's directives changed. It became clear between January and March 2001 that the strategy from Vodafone was no longer volume-

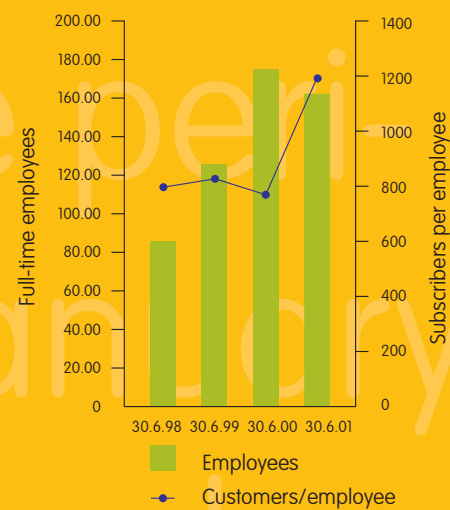
related market share and MI was asked to wind back its sales programs quite dramatically. Direct marketing programs pick up momentum over time, and it took several months to get connections back to low levels. The reduction was dramatic and by the end of the year the focus had moved from volume sales to value sales and then, due to the lack of available funds from Vodafone, minimal sales from June. This was followed by instructions from Vodafone to MI, requiring MI to stop acquiring customers from October 2001.

The current scenario – as of September 2001 – is that MI will contend that Vodafone's actions are not lawful under the ASP agreement. This action will take nine to 12 months and will be heard in the Supreme Court of NSW. During this period, MI will scale down its marketing operations and integrate those departments or close them. Staffing levels will fall to below 100, down from more than 200 during the peak selling period. The MI business will be scaled to the billing, customer care and retention of its existing customer base. Despite the change in market conditions and Vodafone's position, these activities will enable MI to remain profitable and solvent over the coming financial year, pending the outcome of its legal action against Vodafone.

## Customers



## Customers per employee



# in review

## New Zealand

Early in the 2001 financial year, we were invited by Telecom New Zealand to enter into an initial agreement for direct marketing to mobile customers. Mobile Innovations NZ (MINZ) co-located in Auckland with sister companies Innovations and Homecare and ran a very successful campaign from August 2000. By November, there were about 8,000 MINZ customers and Telecom had decided that MINZ would be well positioned as a joint-venture (JV) partner, performing a direct marketing role within its existing customer base as well as recruiting new customers through direct marketing channels.

A Heads of Agreement was signed early in 2001, and at this time contracts were negotiated. New Zealand market conditions then deteriorated and over a period of three months, Telecom's enthusiasm waned. In June we were informed Telecom did not wish to proceed with the JV. The ongoing relationship that was subsequently offered would not have been as profitable as either the initial agreement or the JV, with greater risks for MI. Reluctantly we closed the Auckland office, and took losses in New Zealand. Had the JV been formed we had anticipated a break-even result.

## Look Mobile

Mobile Innovations' investment in Look Mobile, in conjunction with joint-venture partner Clarinet, has proceeded well. The customer growth has been slower than expected, mainly for Vodafone-specific reasons, but this has meant that cash burn has been slower than anticipated and the business is now cashflow positive and self-funding. There are now approximately 12,000 Look Mobile customers sourced from more than 200 retail outlets, located primarily down the eastern seaboard of Australia.

The great opportunity for Look Mobile is using the existing infrastructure of MI to connect, bill and service their customer base, which means Look Mobile's overheads are kept low, and the company will turn profitable quickly.

## Outlook

Mobile Innovations expects to remain profitable and solvent while managing its existing customer base during the 2001-2 financial year. The business is essentially in a holding pattern until the Vodafone disputes are resolved commercially or legally, and a path forward is defined.

**M!** the **easy** direct mobile phone company

# financial

# overview



**Mobile Innovations' financial performance improved during the 2000-2001 financial year, with sales revenue increasing 34% to \$63.2 million and earnings before interest, tax, depreciation and amortisation (EBITDA) increasing by 18% to \$7.1 million.**

## Ralph Stonell Chief Financial Officer

Mobile Innovations' primary source of income, as in the previous year, is derived from its agent service provider (ASP) agreement with Vodafone. In this agreement, MI earns revenues from acquiring, retaining and managing subscribers on behalf of Vodafone.

During the year, approximately 71% (2000:75%) of MI's sales revenue came from acquiring and retaining subscribers. This revenue stream contributed less than 45% (2000:40%) to EBITDA. MI's subscriber management

revenue stream accounted for approximately 19% (2000:20%) of sales revenue but contributed over 50% (2000:50%) to EBITDA.

Also, during the year MI started the Look Mobile joint venture and entered into a trial marketing campaign in New Zealand with Telecom New Zealand. In January 2000, MI sold its long-distance subscriber base, which traded under the name "Innocom", to Worldxchange Telecommunications.

## Cashflow and Statement of Financial Position

The consolidated cash position reduced from \$3.1 million at 30 June 2000 to \$1.2 million as at 30 June 2001.

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

To pay the interim dividend to shareholders in May 2001	<b>\$1.1m</b>
Fund the Look Mobile joint venture	<b>\$0.8m</b>
Fund the New Zealand operations	<b>\$1.0m</b>
Further enhance the capabilities of Selcomm*	<b>\$2.2m</b>
Purchase of other plant and equipment	<b>\$1.2m</b>

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

## Dividends

In respect of the full year ended 30 June 2001, an interim dividend of one cent per share franked to 100% at 34% corporate tax rate was paid to the holders of fully paid ordinary shares on 1 May 2001.

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 2001.

## Profit and Loss Summary

	2001 \$m	2000 \$m
Sales revenue	<b>63.2</b>	<b>47.2</b>
EBITDA	<b>7.1</b>	<b>6.0</b>
Depreciation and Amortisation	<b>(1.9)</b>	<b>(1.5)</b>
EBIT (Earnings Before Interest and Tax)	<b>5.1</b>	<b>4.5</b>
Interest Received	<b>0.1</b>	<b>0.2</b>
EBT (Earnings Before Tax)	<b>5.2</b>	<b>4.7</b>
Abnormal Items	<b>—</b>	<b>(0.7)</b>
Tax Expense	<b>(2.2)</b>	<b>(1.7)</b>
NPAT (Net Profit After Tax)	<b>3.0</b>	<b>2.3</b>

**M!** the **smart** direct mobile phone company

# the board of directors



**WILL JEPHCOTT**  
Non-executive  
chairman; aged 51

Appointed chairman of Mobile Innovations in 1999, Will Jephcott has more than 18 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**  
CEO and executive  
director; aged 36

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. In July 2000, Jonathan was promoted to chief executive officer of Mobile Innovations.



**NIGEL BRAMWELL**  
Non-executive  
director; aged 44

Nigel Bramwell was the managing director of Mobile Innovations from the company's inception until July 2000. Now, in his position as a non-executive director, he will be focusing on overseas business opportunities for the company. Nigel brings valuable industry and management experience, having spent more than 18 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 52

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 49

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.