FONE ZONE

FY2007 Half Year Results Presentation

27 February 2007

Agenda

- Financial performance
- Operating update
- NextG roll-out
- FY2007 outlook

Financial performance

- Operating revenue up 13% on H1 06 to $99.1M
- EBITDA $6.1M – in line with December guidance
- EPS 1.55 cents
- $9.8 million operating cash flow for the half
- Interim dividend – 1.0 cent per share

Results for six months to 31 December 2006

	Six months to Dec 2006 ($M)	Six months to Dec 2005 ($M)	*Change (%)*
Total operating revenue	99.1	87.9	*13%*
Gross operating margin^	42.6	43.6	*- 2%*
Gross operating %	43%	50%	*-7%*
EBITDA	6.1	10.4	*- 41%*
EBIT	3.3	8.3	*- 60%*
Net profit after tax	1.9	6.2	*- 69%*
Earnings per share (cents)	1.55	4.97	*- 69%*

^ Gross Operating Margin includes gross margin on handset sales plus Telstra incentives and commissions, and other revenue

Cash Flow summary

		$M
Opening Cash		12.0
Cash Flow from Operating	9.8	
Cash Flow from Investing	(7.4)	
Cash Flow from Financing	(6.2)	
Net increase in Cash		(3.8)
Cash as at 31 December		8.2
Interest Bearing Debt		(12.6)
Net Cash/(Debt)		(4.4)

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Operating update

- **Successful integration of Communiqué**
  - All stores rebranded under Fone Zone banner
  - Annualised profit uplift of approximately 20%
- **Opened 5 new stores**
  - 4 Fone Zone stores
  - 1 Telstra Licensed Shop
- **Continued growth in connections and handset sales**
  - Outcome and incentive payments stable despite loss of customer quality incentive payment (as previously flagged) and focus of incentives on NextG in December quarter

Operating update

- **Drop in EBITDA principally caused by a decline in gross operating margin from 50% to 43%**
  - The launch of NextG with limited range and supply in handsets constrained sales
  - Telstra's decision to promote NextG via less profitable subsidy model
  - Change in focus of dealer payments by Telstra onto NextG handsets, and reduced margins for other handsets
  - Reduction of the customer focused quality service payments ($1.5m for the half as previously advised)
  - Increase of overheads as a result of additional stores
  - Increase of expense for Share Options ($700k)

- **Depreciation and Amortisation Charges up**
  - Communiqué impact on charges for store fit out (depreciation) and identifiable intangibles (amortisation)

Example of MRO vs Subsidy

	MRO	Subsidy
Fone Zone Sale Price	$600	$0
Telstra Rebate Price	$0	$400
Cost of Handset	$400	$400
Gross Profit	$200	$0
Incentive	$50	$50
Gross Operating Margin before trailing commissions	$250	$50
Trailing (Example only of commissions earned over the period of the customers contracted service period.)	$96 ($4 per/mth x 24)	$96 ($4 per/mth x 24)

How have we responded?

- **Focused on the new MRO targeted Telstra plans**
- **Reviewed operating cost structure**
  - Introduced new staffing level appropriate to the new environment based on a store grading assessment
  - Streamlined our CARE programme

NextG roll-out

- **Subsidy/MRO % split drives Fone Zone gross operating margin**

	Subsidy %	Outright sale %	
		MRO	Other
Jul – Dec 2005	31	58	11
Jul – Dec 2006	57	39	4
Jan 2007	44	45	11

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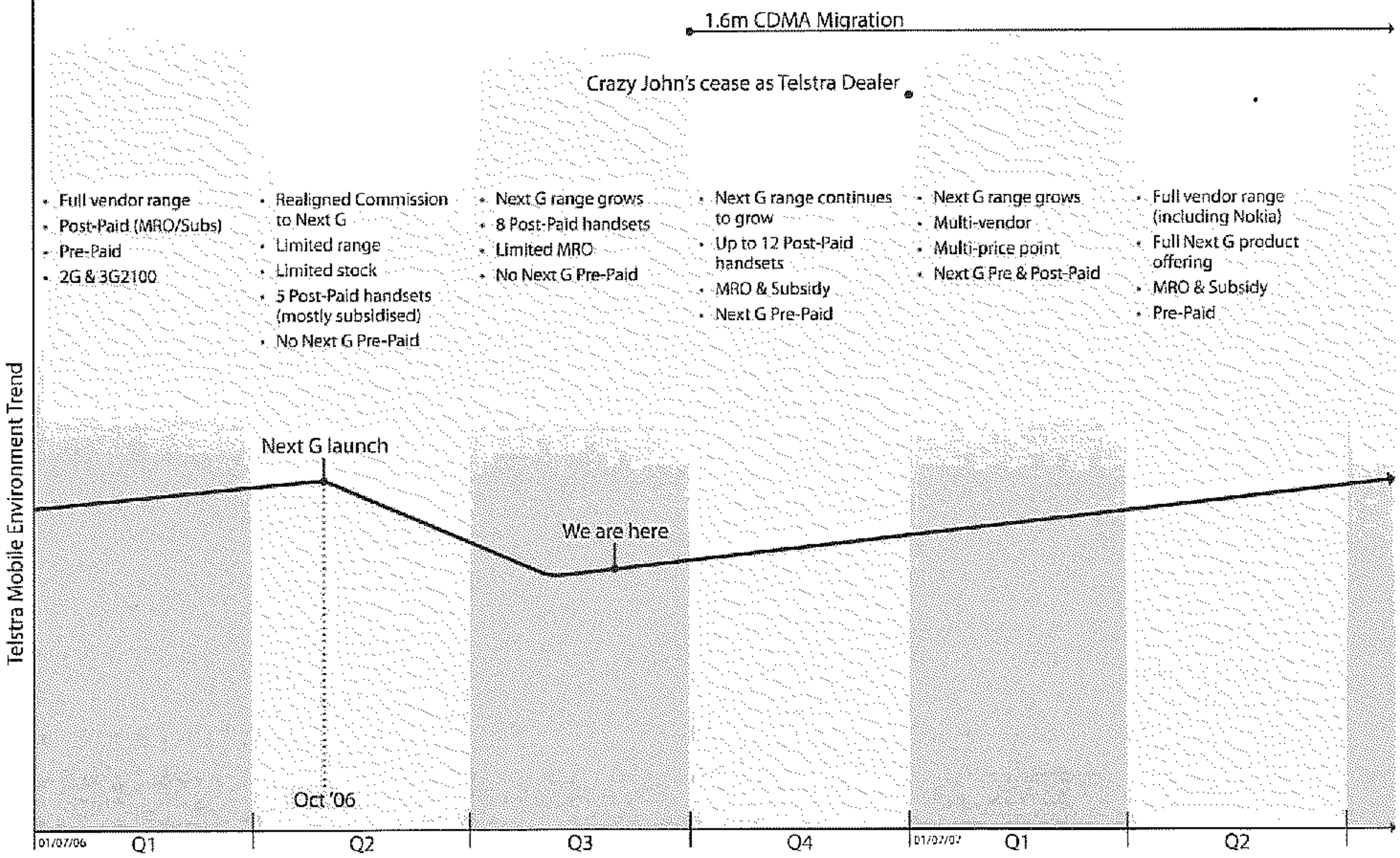
Outlook for 2007



Outlook for FY2007

- **Continuing recovery in gross operating margin**
  - Growing range of NextG Handsets
  - Recovery in MRO handset sales
  - Introduction of NextG prepaid
  - Operating cost reduction programme

- **Connections and handset sales to continue to grow**
  - CDMA migration starts in March 2007 – 1.6M customers to migrate by early 2008 – expected 640,000 additional handset sales during 2007.
  - Crazy John's Telstra Agreement ceases June 2007
  - 4-5 new stores in H2 FY2007

- **Expect EBITDA to improve in second half to give net EBITDA decline of circa 25% for full year to June 2007**
  - Positive impact of cost structure review
  - Reported EBITDA – H2 2006: $10.4M, FY 2006: $21.1M
  - $3.5m H2 FY2007depreciation and amortisation charges compared to $2.4m H2 FY2006

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