



Theta Systems Limited

ANNUAL REPORT

April 2009 – March 2010

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Contents

About Theta	2
Chair and Chief Executive's Report.....	3-5
Performance	3
2009/10 Highlights	4
Our People.....	5
Looking Forward.....	5
Customers	6
Practices	7-9
Governance.....	10
Giving Back.....	11

*We create
smart
technology
solutions.*

*You get
sustainable
results.*



About Theta

Founded in 1995, Theta is an Auckland-based information technology consultancy. We employ more than 70 experienced professionals and provide services to customers throughout New Zealand, Australia, United Kingdom and Canada.

We work with organisations in various industry sectors, helping them to select, implement, enhance, maintain and integrate systems.

The company is organised into specialist **Practices** or **Centres of Excellence**, headed up by experienced managers.

Our attitude is **customer first** and we regard our people as our greatest asset.

Chair and Chief Executive's Report

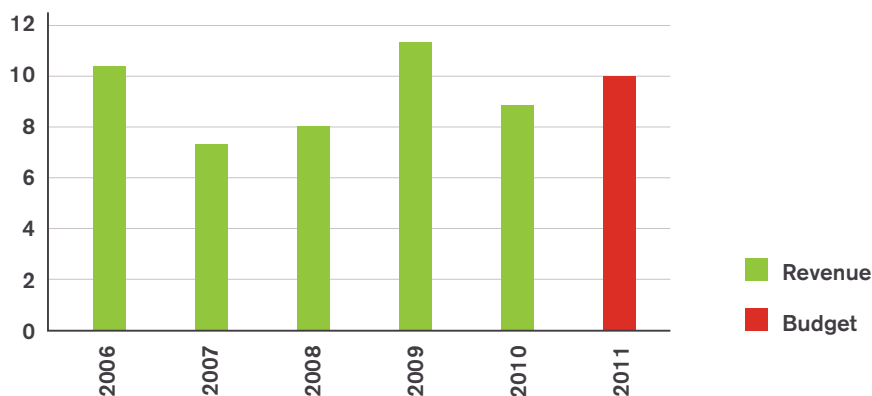
PERFORMANCE

A solid performance with an eye to the future

2009/10 was a difficult year for business worldwide. We set our revenue target at 10% below our record setting 2008/09 year, and both management and board are extremely pleased to have achieved this goal.

We are also grateful to the loyal customers who understand the competitive advantage information technology can bring, and have continued to support and work with us. The biggest of these are Genesis Energy and Southern Cross Health Society.

Revenue (\$M) 2006 – 2011



Financially the company is in a robust position. Theta has no external debt and maintains a conservative dividend policy. This ensures the company has the resources to see it through inevitable economic cycles, to take advantage of opportunities and has the ability to fund its growth.

Weathering the recessionary storm

For the most part justifiable project work went ahead in 2009/10, although economic uncertainty saw some projects postponed as customers adopted a “wait-and-see” attitude to the recession.

The medium term effect was underutilised staff so we embarked on a retention programme mid year, undertaking internal project work and lower margin projects to keep our valuable people on board. This did reduce profits, but left us well positioned for the February 2010 upturn.

With a new year and more positive economic indicators we immediately noticed a difference. Our average daily revenue increased by 20% from February 2010 and has remained at this level.

Geographical diversification

As per stage one in our geographic expansion plans we have a business development presence in Wellington. Encouragingly, we have already completed some small projects and are in dialogue with complementary providers in this market.

2009/10 HIGHLIGHTS



Project highlights

We earned a Supreme Award nomination in the Business Impact Solution of the Year category at the Microsoft New Zealand Partner Awards. Our Software Development practice built an innovative mobile services application for VirCom EMS that has delivered significant productivity gains for the metering services provider. It runs on a Motorola FR68 mobile device, and uses the device's GPS, barcode scanner and camera to capture information, minimise errors, and maximise automation.

Our Business Intelligence practice worked with Heritage Hotels Management (HHM) to integrate complex and disparate information from their six hotels using the MS Data Warehouse and Business Intelligence suite of products. The project is now complete and has delivered relevant and timely information to sales, marketing and senior management in the form of reports and executive dashboards. Phase 2 of the project will align this BI capability with the new HHM property management system (Opera).

Research and innovation (R&I)

Late 2009 saw the launch of our research and innovation programme. Led by Software Development Practice Manager Andrew Taylor, R&I is designed to help our customers innovate, grow their businesses and keep ahead of the competition, while improving Theta's own technology, processes and services.

Prototyping new cloud services like Microsoft's Azure development platform has been an early highlight of this programme. We have also analysed and investigated candidate ideas such as cloud-based business intelligence offerings and composite application framework development, and developed proof of concept work using Microsoft BizTalk server.

Moving to the cloud

Internally, we've continued our focus on improving processes and practices. A highlight in this area was outsourcing our email to the cloud. We've switched to MS Online Services, eliminating the need for back-ups, software upgrades and disaster recovery equipment – a move that has saved us money and kept our technical staff focused on customer needs. The knowledge gained from this migration added to the work done under Research and Innovation places us in a strong position to determine how our customers can benefit from cloud technologies.

New website generates new business

Since we launched the new Theta website in January 2009, our visitor numbers have almost doubled. We've noticed an increase in the number of leads originating from the website, including an inquiry from Conferenz that led to redevelopment work and ongoing application support. We built our site on Drupal, a popular and widely implemented open source content management system, and have gone on to implement Drupal solutions for clients too.



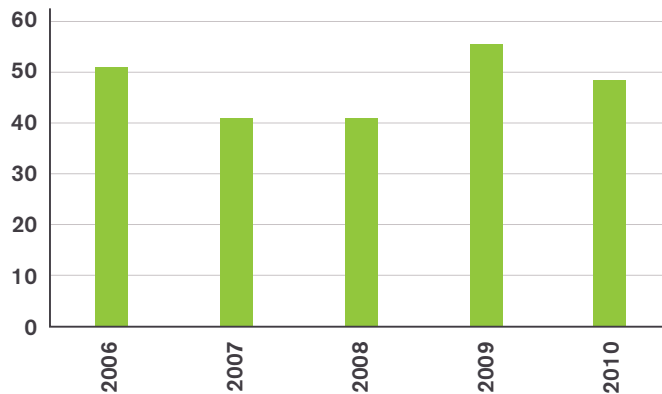
OUR PEOPLE

We're known throughout the IT industry as a high quality partner with experienced staff, specialist skills and a proven track record. Our people are our core asset, and we recognise their hard work and commitment to Theta and our clients in what was in many ways a challenging year.

Bucking the global trend, our staff numbers took only a small dip from an all time high of 56 full-time equivalents in the year ending March 2009 to 49 in this financial year – still well above 2007 and 2008.

Theta also has a wide network of consultants who remain loyal to the company - ensuring specific expertise can be harnessed seamlessly for the advantage of our customers.

Average FTEs 2006 – 2010



Tragically we experienced a significant loss in January this year, when our leader and friend, CEO Steve Saunders, died suddenly of a heart attack. This report and Theta's resilience in 2009 is in many ways a tribute to Steve's leadership. After time as interim CEO and a rigorous appointment process, long time Theta Sales Director Rob Lee took the helm in March 2010. Susan Paterson, Theta's longest-serving independent director, was appointed as Theta's new Chair. Our business continuity plan meant the transition went smoothly.

LOOKING FORWARD

In recent years we have consolidated our position with key clients, particularly in the Auckland market. We've weathered last year's recessionary storm, and are now well placed to grow. We are expanding our customer and geographical base, and have acquisition possibilities on the horizon. Particular areas of focus for growth include Microsoft .NET, Microsoft Dynamics NAV and cloud computing.



Rob Lee
CEO

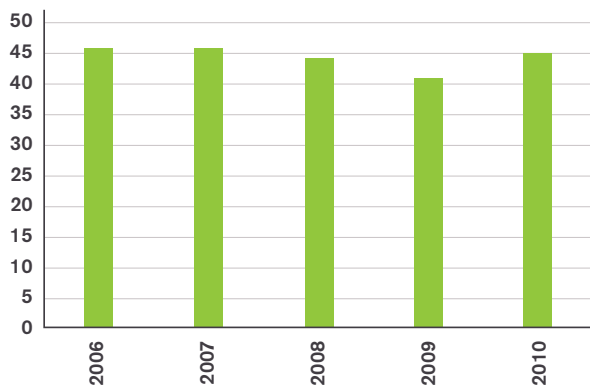


Susan Paterson
Chair

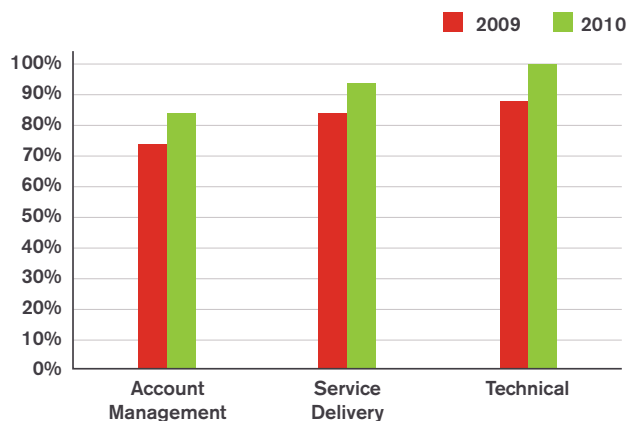
Customers

In 2009-10 we created smart technology solutions for 45 customers – ten percent more than in the previous year. We also measured increasing levels of customer satisfaction in all areas of service – most notably every respondent to our annual customer satisfaction survey was satisfied or very satisfied with our technical performance.

Customer numbers 2006 – 2010



Customers satisfied or extremely satisfied with performance



What customers say about us

“This application represents a big leap in productivity for us. We used to manage installations using paper-based job sheets – processing a maximum of 300 jobs per day with an error rate of 10-20%. Now we can process 600 installations per day, and the data quality has improved dramatically, with the error rate less than 5%.”

Craig Shepherd, CEO, VirCom EMS

“We’re extremely happy with how the project has gone ... using the Pentaho Data Integration tool saved us both time and money. While we made numerous changes to the interfaces during the project ... Theta was able to quickly adapt the interfaces to the changing demands, and still come in on time and under budget.”

Mark Clayton, Business Information Manager, Stevenson Group

“The Theta team feel like an extension of our business!”

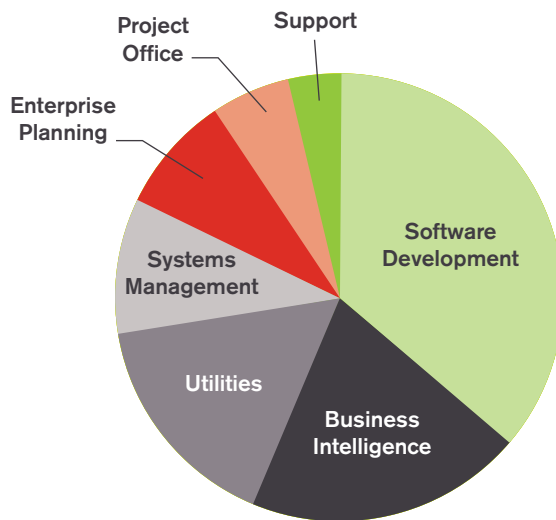
Lee Hohaia, Southern Cross Health Society

Practices

Theta is organised into six specialist practices, supported by project management services. We use many popular technologies, both proprietary and open source. We are a Microsoft partner with Gold certification, a Qlikview implementer and an IBM and Oracle partner.

All of our practices were profitable in 2009/10 although revenues across the practices were flat or down, reflecting depressed economic conditions.

09/10 Revenue by practice



Software Development & Integration (SWDI)

The SWDI practice creates and integrates bespoke software including web, mobile, desktop and cloud solutions, and integrates new and existing systems using best-of-breed technology.

We are focused on delivering the right solution for customers and are technology-neutral - as comfortable working with the latest Microsoft products as with Open Source toolsets. Our specialist language skills include Microsoft .NET, Java, Oracle PL/SQL and PowerBuilder.

We've developed and support Microsoft solutions including websites, BizTalk integration middleware, Windows Mobile applications and Windows Azure cloud applications. In the Open Source and Java space we've developed rich web applications using Spring and ICEFaces, intranet solutions on Drupal and LifeRay, and data integration solutions with Pentaho.

The Software Development and Integration practice accounted for 35% of Theta's revenue and 30% of the margin for the 09/10 financial year. 33 different consultants worked in the practice during the year, with an average team size of around 20. While some customers placed projects on hold, Southern Cross Healthcare continued to keep us busy. We delivered several projects for Stevenson, including some excellent open source data integration work. Our mobile application for VirCom EMS was a very successful project for the customer – and earned us a Supreme Award nomination in the Business Impact Solution of the Year category at the Microsoft New Zealand Partner Awards.

We expect our dual strategy of Microsoft and Open Source will continue to yield good business in the future. We also believe integration is a good space to be in, as it requires specialist skills customers don't readily have and has the potential to provide a steady stream of repeat business. Cloud computing is another important trend for this practice.

Practices continued...

Business Intelligence

Our Business Intelligence practice works with customers to transform their data into information, leading to fresh insights and business opportunities. Our network of technology partners includes Qliktech, Microsoft, Oracle, Wherescape, and Cognos

In the last year, 13 consultants worked on 281 projects for 15 customers. We acquired four new customers - University of Auckland, Esquires Coffee, Manukau Leisure Services and OfficeMax - and continued to work with many of our existing customers over periods of change.



In the year ahead, we expect to deliver more open source and cloud-based business intelligence solutions, and see increasing numbers of SME clients interested in the benefits that business intelligence can bring to their companies.

Utilities Centre of Excellence

The Utilities Centre of Excellence works with energy sector clients in New Zealand, Australia and worldwide to provide smart solutions in areas of energy trading, energy risk, power generation, business intelligence and Business-to-Business integration. Our customers include organisations involved in generation, distribution, retail and risk.

The ongoing deregulation of the energy industry and more recent changes such as smart metering and the emissions trading scheme (ETS) continue to increase information requirements in this sector. The physical volume of data is increasing too, leading to the continued growth of data warehousing and business intelligence. Complexity has also increased. Energy trading, for example, now requires more integration with other business areas and more advanced toolset capability.

We work closely with our Business Intelligence and Software Development & Integration practices, and in the last year delivered 233 projects for 22 customers. A noticeable trend was the drive to reduce operational costs – something we were able to deliver for many customers through system improvements and automation measures.

In the year ahead, we'll continue to help our customers manage legislative change, including new GST and ETS requirements. We will be involved in some of the Gentrack (NZ-developed customer information system) upgrades NZ electricity companies need to make this year, and will as always focus on repeatable processes, simple technology solutions, standardisation of approach, use of productivity tools, and automated and self-diagnosing/healing applications.

Enterprise Planning

We are a specialist implementer of Microsoft Dynamics™ NAV - an integrated Enterprise Resource Planning (ERP) solution designed for growing mid-market companies - with one of the most experienced Microsoft Dynamics™ NAV teams in New Zealand.

In 2009/10 we worked with four existing customers on Microsoft Dynamics™ NAV implementations. We also developed four new add-ons to extend the capabilities of Microsoft Dynamics™ NAV - a QlikView Connector, and modules to help customers manage consignments, vehicle fleet and advanced landed costs.

In the year ahead we have partnered with Microsoft to offer a 'Smart Move' package, allowing companies to switch to a new Financial Management and Enterprise Resource Planning system with minimum fuss at a guaranteed fixed price. We are also developing new add-ons and targeted, industry-specific ERP solutions.

Practices continued...

We are an Oracle partner too, supporting a number of customers using Oracle FMS, and have the expertise to carry out upgrades to later versions of the application. In 2009/10 we completed an upgrade to R12 and continued ongoing support. In the year ahead further upgrades are planned.

Systems Management

The Systems Management practice provides operational management services, database and infrastructure design, application support and open source product implementation and support. The team has specialist database design and management skills with a particular focus on Oracle and MS SQL. We also support DB2 and Sybase databases and the open source MySQL.

Managed services - fixed contracts such as daily checks and operational tasks – offers a steady income stream and contributes half of the revenue for this practice, with project work making up the remainder. Our team of four managed ten contracts in 2009/10. Through managed services we also maintain a close daily working relationship with customers that benefits the whole business.

Support

The Support practice is our frontline service desk team. In 2009/10 we responded to 5360 issues and requests and provided proactive services such as daily checks and tasks for six customers. Our team of three provides a high value service, above and beyond the “logging and flogging” of support tickets.

Our focus in the year ahead is to move towards a fully outsourced service desk offering. The selection and implementation of new service desk toolsets will increase capacity and efficiency and lay a solid foundation for this growth.



Governance

BOARD OF DIRECTORS



Susan Paterson



Bob Gray



Matt Owen



Lee Benson

Theta is a privately owned company with four main shareholders. The shareholders elect the board. Directors are elected based on the value they bring to the board. Each is experienced in business and provides value by contributing to corporate governance matters, conceptual thinking and strategic planning. The directors play an important part in providing guidance to management to enable them to increase the profitable growth of Theta in the years ahead.

Theta's board is currently made up of two independent directors, Bob Gray and chair Susan Paterson, and two executive directors, Matt Owen and Lee Benson.

Matt and Lee were two of Theta's founders and have worked in the company since 1995. The board of directors, initially made up of the 4 shareholders, started meeting on a regular basis from 2000. From September 2003 independent directors, including an independent chairman, were added to the board. Following changes to the company ownership in 2006, the managing director role was replaced by a CEO role, filled by Steve Saunders. Two additional independent directors, Bob and Susan, were appointed in 2008. Following Steve Saunders' passing in 2010 Susan took the role of chair.

In 2009/10 there were 12 board meetings with the following attendance:

	Meetings Attended
Susan Paterson	12
Lee Benson	12
Bob Gray	11
Matt Owen	12
Steve Saunders	9

The Board has a policy of annual evaluation of individual and board performance. Any issues identified are discussed and action taken to improve on those areas.

Director independence

For a director to be considered independent, he or she must not be an executive and must have no disqualifying relationship with the company.

Ethics and managing risk

The Board is committed to the highest standards of ethical conduct and provides employees and representatives with clear guidelines on those standards.

The Board has overall responsibility for the company's system of risk management. Financial statements are prepared monthly and reviewed by the board to monitor management's performance against budget goals and objectives. The board requires managers to identify and respond to risk exposures.

Giving Back

Each year the staff and management of Theta contribute to the community in many ways, including participation in:

- **Auckland City Mission's Christmas Appeal**
- **Loud Shirt Day**, supporting the treatment of child hearing disorders by cochlear implant or hearing aid to enable them to listen and speak
- **Daffodil Day** for the Cancer Society

