

Managing Director's Report



Mark Rainbird
Managing Director

The global economic slowdown, influenced greatly by corporate collapses and ongoing worldwide terrorist activity, has seen a flow-through effect on the ICT industry. It would be fair to say that cautious ICT spending and investment patterns, as well as cost-cutting efforts in risk-adverse corporations across all sectors, resulted in lower-than-expected performance results by many ICT service providers around the globe.

Our result for 2002/03 has been heavily influenced by the industry downturn resulting in a poor financial performance in the first half. This, coupled with CITEC's limited profile in southern markets, resulted in revenue of \$126 million, only a marginal improvement on the 2001/02 result of \$125 million.

The result for the first half of the year was in part influenced by the management transition, which stalled the implementation of cost-reduction strategies. CITEC reported a loss of \$3.7 million (EBIT) for this period. In December 2002 I joined CITEC as Managing Director, and acknowledge the efforts of Mary-Lou Dutton (acting September-December 2003) and Greg McCallum (who retired in September 2003).

The need to aggressively face the market saw CITEC shift strategic priorities in the second half of the year to a renewed focus on sales and delivery. This, together with the implementation of cost reduction strategies, contributed to the performance turn-around for the second half of the year, with a result of \$1.35 million (EBIT).

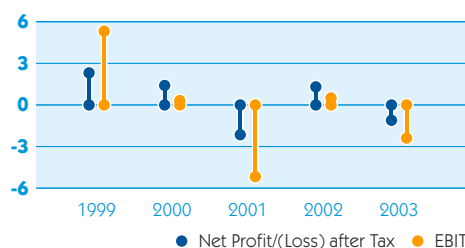
Concurrently, CITEC underwent a business transition with the implementation and continued development of major structural changes. As part of this transition, CITEC reviewed the business framework and business axioms, and identified the need for a common operating model. A focus on selling and delivering in the second half of the year saw a positive turnaround in earnings.

A pivotal point for CITEC's turnaround was in June when we signed a new A\$6 million, three-year agreement to deliver a full suite of ICT management and support services to Queensland Alumina Limited (QAL), part of the Rio Tinto Group. The contract includes full on-site service management, SAP infrastructure, help desk, technical systems administration, plus hardware provision and support.

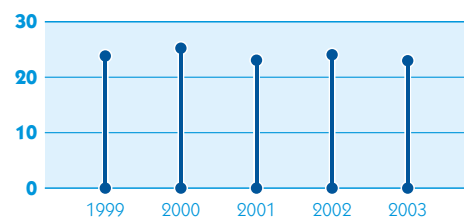
During 2002/03 CITEC:

- realigned the go-to-market model, creating industry verticals and business lines;
- employed more sales people in our Sydney and Melbourne offices to improve our market penetration nationally;
- refined the Service Delivery Model with the rollout of a new framework. The framework provides a more transparent, customer-focused Service Level Agreement (SLA) to better link our organisation's overall service management capability and deliver business benefits to the customer;
- undertook a portfolio analysis and devised a focused investment strategy with initiatives that better support our clients' requirements. In June 2003, CITEC signed a multimillion dollar contract for the purchase and deployment of Hewlett-Packard's (HP) industry-leading HP OpenView, an IT service management solution providing a comprehensive toolset to better monitor our complex environment;

Financial Performance in \$ millions
Year ended 30 June



Net Assets in \$ millions
Year ended 30 June





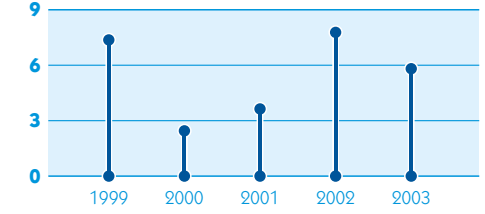
- invested in CCNET IP to introduce more flexible and cost-effective services for our network clients;
- established a CITEC Project Governance Committee to provide a single focus for all CITEC investment decisions, and ensure implementation and delivery;
- established a Project Management Office to support the Project Governance Committee by monitoring, reporting, measuring, establishing and maintaining methods, processes and standards for controlling projects and providing support for project managers;
- rolled out a new activity based business model (ABBM), providing greater visibility and control of our costing methodology;
- underwent a significant upgrade of our SAP financial management system, providing the platform for further system enhancements and improved functionality in the future; and
- Aurion Corporation, in which we have a majority stakeholding, performed well, posting a year-end profit of \$0.94 million. During the year we seconded a staff member to work with this HR and payroll software developer.

The Way Forward

Over the last five years the IT industry has become more competitive. However, despite tight times in the global information technology industry, CITEC still has an opportunity to consolidate and grow. Our aim now is to keep the business stable and then move it forward. CITEC is well positioned to compete on a national level, and we are confident that our strong capabilities, based around our people and offerings, will allow us to take advantage of our solid reputation and improve our position.

CITEC has been cautious yet optimistic in predicting prospects for the forthcoming financial year. While we can only hope for a strong recovery in the IT services market, even in the best of circumstances there are limits to how fast the massive IT services industry can rebound. Many of CITEC's competitors are large, play globally, target similar clients and offer similar services.

Cash Reserves in \$ millions
Year ended 30 June



This means CITEC has to be able to effectively differentiate itself from competitors, in the minds of clients and prospects, to continue to operate profitably. CITEC is achieving this differentiation by developing and raising market awareness of our brand and delivering outstanding service to our clients.

The coming year will see CITEC take advantage of our strong reputation by expanding into ICT professional services and pursuing bigger outsourcing projects. We intend to support larger providers as well as competing with them, and expand our current market share nationally.

The next six months will see the implementation of the recommendations from CITEC's IT review conducted by Opti Consulting, and the implementation of HP OpenView projects, to consolidate and standardise our IT service management operations and enhance our customer offerings. We will also appoint a Chief Information Officer - a first for CITEC. Our activity based costing program will improve our knowledge of costs and help us improve our pricing to win business. Our service delivery will be enhanced and supported by the best practice ITIL and ServiceEdge frameworks.

CITEC is actively following and anticipating market trends. By positioning ourselves to make the best use of our strengths and capabilities, CITEC can continue to win and keep business. We will do so by anticipating our customer needs and adapting and evolving services to become more transparent and better meet clients' changing business requirements. A utility-based computing model, service delivery frameworks and vendor and partner channel-to-market programs are high on the go-to-market strategic agenda for the coming year.

In 2003/04 we need to maintain a sales and marketing orientation and gain new clients while maintaining and protecting our current client base. Under the leadership of the General Manager, Sales and Marketing we plan to establish CITEC's profile as a national leader in the ICT industry.

I thank our clients and staff for supporting CITEC over the past year, and I hope we will continue to work together to fulfill our common objectives in paving the way forward.

Mark Rainbird
Managing Director

