



Annual General Meeting

FY 2005/2006



**Data#3 Limited**  
**2006 AGM - Chairman's Address**  
**8<sup>th</sup> November 2006**

**Data#3 Chairman**

*Richard Anderson*

Ladies and Gentlemen,

Welcome to this 2006 Annual General Meeting of Data#3 Limited.

Once again we are particularly delighted to welcome you to the company's corporate and Brisbane office, the sixth occasion on which the annual meeting has been held here.

The company's annual report issued with the notice of today's meeting presents the 2006 financial year results and the financial position as at 30 June 2006. The report reveals another excellent result which again demonstrates the company's ability to sustain and improve financial performance. The payment of the full year dividend of 28 cents per share comes directly from this improvement in financial results. As was the case last year, this result was achieved through consistently strong business performance across all the company's product and services offerings.

Performance in key areas such as receivables collections, cash management and cost control continues to be first rate. Over the last four financial years our balance sheet has strengthened appreciably with net assets increasing from \$7.9 million at 30 June 2002 to \$16.9 million at 30 June 2006.

Our prime objectives for the 2007 financial year are to continue to build sustainable profitability through appropriate investments and to improve on the record performance of 2006.

At the end of the first quarter we are slightly ahead of plan. Our Managing Director John Grant will provide further details in his address.

Concerns over global and Australian economic and business conditions continue to dominate our customers' expenditure programs and trading has been very competitive on price and hence margin. As explained in the Chairman's report in the 2006 annual report we expect market conditions to contract slightly in the 2007 financial year but to remain strong and we are confident of solid results through to the half-year and will be positioning for this to continue for the full year.

The declaration of a final 2006 dividend of 17 cents per share is very pleasing for all concerned - shareholders, management and the Board. Combined with the first half dividend of 11 cents this represents a total dividend of 28 cents per share for the 2006 financial year and 76% of profits available for distribution. Presuming business performance holds we expect to continue the payment of dividends of this proportion or higher.

The policy of geographic and service expansion set out in 1997 when the company listed on the ASX remains in place. We are focusing further expansion clearly in the areas of technology infrastructure and services, recruitment, and software licensing and asset management. As was the case last year we are intent on further growth and continue to see that as being predominantly organic but will continue to examine all opportunities that reasonably may be expected to enhance the company's results and financial position.

The recently completed strategy review and business planning for 2007 further refined the company's business model as the means by which it can produce acceptable total returns to shareholders. Targets have been established for these returns and the Board and the management team's remuneration is structured in line with these targets.

The remuneration report which is included in the annual report will be put to the meeting for adoption. A strong focus on remuneration is exercised across the business. The Board believes that both the levels and structure of remuneration are in line with the market and appropriate to produce the results we are targeting. The actual remuneration of the senior management team of 12 was on average \$255,000 with 37% based on performance against financial and non-financial targets and hence at risk.

The basic structure of the business is unchanged with five national areas of specialisation operating through a geographical presence in regional Queensland, Brisbane, Sydney, Melbourne and Canberra. However the senior management team under John Grant's leadership is extending this expertise based approach to one that is also "solutions oriented". John will explain this more fully in his address.

At last year's meeting I commented that we were delighted to see gains in share price reflect the sustained performance. This continued through 2006 with the share price \$3.00 at 30 June 2005 and \$3.70 at 30 June 2006. As you know on 1 September 2006 the Board commenced an on-market share buy-back with the dual aim of improving shareholder returns on a sustainable basis and reducing volatility in the company's share price. Yesterday the price of the company's shares closed at \$4.78 Under the buy-back program the company has purchased 44,115 shares at a total cost of \$176,460. In accordance with the requirements of the Companies Act these shares have been cancelled. We are pleased with this further improvement in the share price since the commencement of the buy-back program and, subject to future profitability, intend to maintain the momentum by further improving dividend returns to shareholders.

During the year Mr Howard Stack retired from his position as a non-executive director on the company's Board and at the close of today's meeting Mr Graham Clark will also retire as a non-executive director. Both of these directors provided excellent service to the company during their time on the board. On behalf of shareholders I thank them for their efforts over a considerable number of years. Their wisdom and guidance was most valuable in steering the company to the very sound financial position it enjoys today.

Of course Graham Clark is one of the founders of the business. In the 29 years since its commencement Graham has been intimately involved in the development, direction and management of the company. Graham, in acknowledging this outstanding service it is entirely appropriate to place on record not only the appreciation of the company's shareholders but also that of the many people who have worked with you in making Data<sup>#3</sup> the outstanding company it is today.

Ladies and gentlemen, I am pleased to ask you to acknowledge the wonderful role Graham Clark has played in the evolution of Data<sup>#</sup>3.

I will now ask our Managing Director, Mr John Grant, to the microphone to address operational aspects of the company's 2006 performance and the outlook for the current period. At the completion of his address I will invite your comments and questions regarding the annual report, the remuneration report and further information that we have released today.

Thank you for your continuing interest in the company and your attendance at this 2006 Annual General Meeting.

Richard Anderson  
Chairman  
Data<sup>#</sup>3 Limited

**Data#3 Limited**  
**2006 AGM - MD's Review of Operations**  
**8th November 2006**

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**Data#3 Managing Director**

*John Grant*

Ladies and Gentlemen

Firstly let me share the Chairman's welcome to you. It's a pleasure once again to have our shareholders, key members of our management team and other friends of the company to our head office.

## **2005/2006 Summary ....**

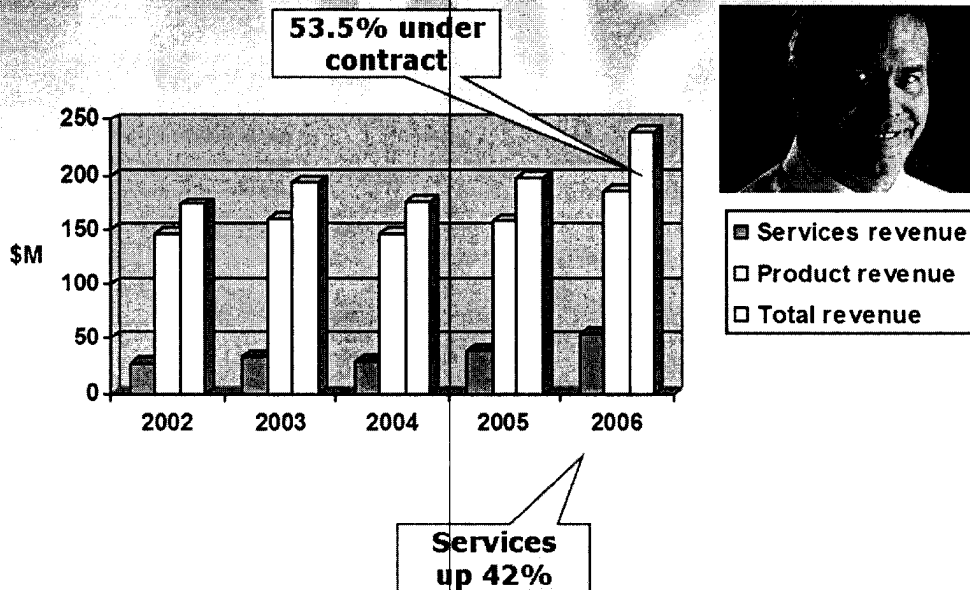
*“2006 was an outstanding year.*

*While a strong market provided a platform for this, our ‘expertise-oriented’ value proposition gave us competitive advantage that translated into performance ahead of target in most areas of the business and a 47% increase in dividend.”*

2006 by any measure was an outstanding year. While a strong market provided a platform for this, our ‘expertise-oriented’ value proposition gave us competitive advantage that translated into performance ahead of target in most areas of the business and a 47% increase in dividend.

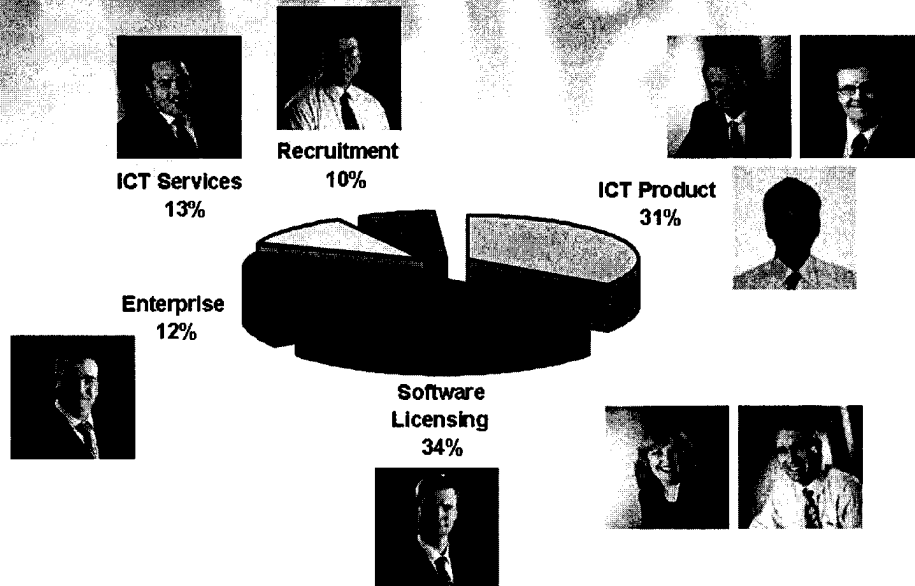
2006 financial performance, while consigned to history and covered in detail in the annual report has a number of points deserving of comment:

## Revenue Trends 2002 – 2006



Overseen by General Manager Laurence Baynham, total revenue for the year finished at \$240 million against the previous year's \$197 million – an increase of 22%. In particular, services revenue increased from \$38 million in the previous year to \$54 million – an increase of 42% - and 53.5% of total revenue, up from 51%, was delivered under some form of customer contract.

## Revenue by area of specialisation



Most of our areas of specialisation grew, some very strongly:

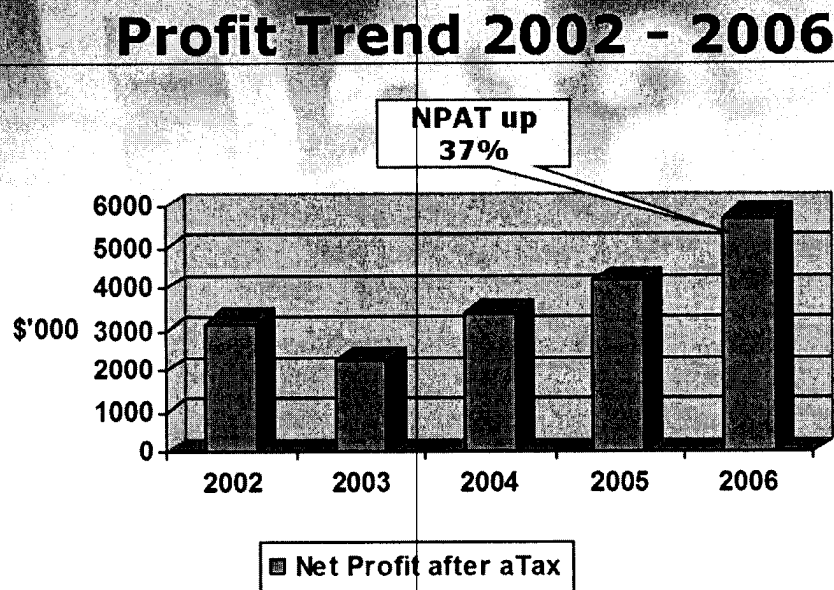
- a) Brad Colledge's team in Licensing Solutions once again achieved an outstanding result representing 34% of overall revenue and growing 35% over the previous year. In the process the team introduced many new customers to Data#3 and received two of Microsoft's top awards – the Large Account Reseller of the Year for Asia/Pacific and most significantly, the Global Award for Software Asset Management.
- b) ICT Services under Pat Murphy grew revenue 21% over the previous year with strong increases in revenue from Integration Services related to Microsoft and Cisco technologies, and in Outsourcing. This offset a decline in revenue from the Managed Services Centre. Contrary to the overall company trend, staff costs as a percentage of gross margin increased in a market short of skills needed to maintain our competitive positioning. The year was capped with a nomination as one of three finalists in Microsoft's 2006 Global Partner of the Year Award for Advanced Infrastructure Solutions and the award as 2006 Partner of the Year for Infrastructure Solutions for Australia and New Zealand.
- c) Our Enterprise Infrastructure Solutions area of specialisation under Bruce Crouch suffered delays in being able to fill out the team with the appropriate people and this together with a mid-year reorientation of management in NSW saw gross margin and contribution to profit decline over the previous year. Offsetting this, momentum developed



around new 'virtualisation' offerings and the expertise of the team was rewarded with a third award as IBM's Storage Partner of the Year.

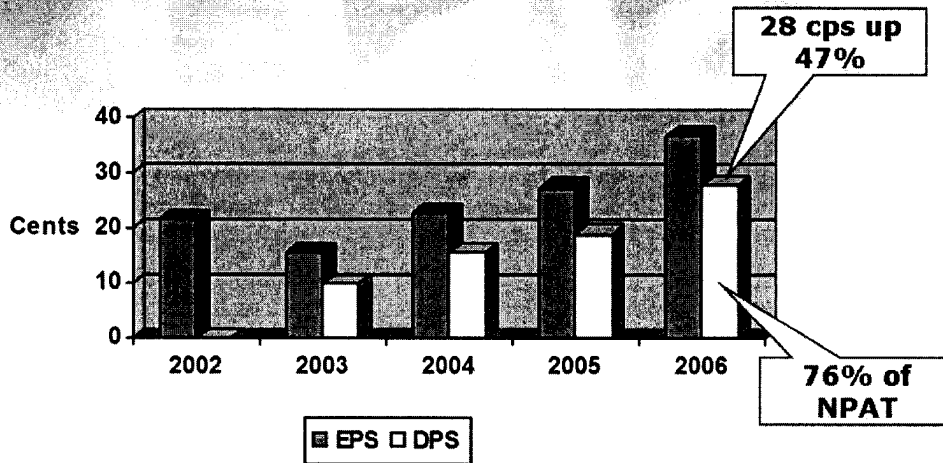
- d) The ICT Products area, driven by our State Managers in Queensland, Mark Esler, New South Wales, Paul Crouch and in Victoria, now headed by Jon Rackham achieved substantial growth in revenue from Cisco products and stability in margins of volume desktop and server product. This area completed the year 12% up on revenue and 37% up in contribution to profit and retained its position as Cisco's fastest growing partner in Australia.
- e) Warren Peter's Recruitment Solutions had another very strong year in a market where demand clearly exceeded supply. Revenue increased by 78% and its consultants further developed their expertise in resourcing for the application software and managed services markets and also won two preferred supplier agreements late in the year which should see it in good position for another strong performance in 2007.

The business was once again supported in its achievements by strong contributions from the teams in Corporate Services led by Brem Hill and in Human Resources led by Lindy MacPherson.



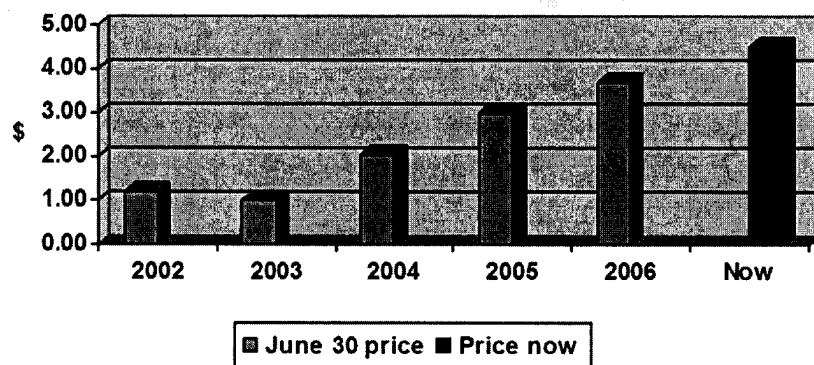
Net profit after tax increased by 37% from \$4.2 million to \$5.7 million and the balance sheet continued to strengthen with the company remaining essentially debt free.

## EPS/Dividend Trends 2002 - 2006



Basic earnings per share increased by 35% from 27.4 cents to 36.9 cents and the full year dividend of 28 cents per share was 47% up on the previous year and represented a payout ratio of 76%.

## Share Price Trend 2002 - 2006



Share price increased from \$3.00 at 30 June 2005 to \$3.70 at 30 June this year and has increased further to \$4.78 yesterday with the buyback introduced on September 1 helping to manage the volatility we have experienced in previous years. The full year saw total returns to shareholders exceeding 33%.

## Performance against non-financial measures

| Measure                                                                                                                    |  |   |
|----------------------------------------------------------------------------------------------------------------------------|--|---|
| Customer Satisfaction                                                                                                      |  | ✓ |
| Customer Engagement - Cross-sell index<br>(average number of our areas of specialisation engaged in our top 100 customers) |  | ✓ |
| Employee satisfaction                                                                                                      |  | ✓ |
| Expertise - Vendor sales and certification targets                                                                         |  | ✓ |
| Cash management – collections and ageing                                                                                   |  | ✓ |

In addition to the financial aspects we target a number of non-financial measures.

We achieved our target to improve customer satisfaction over the previous year doing so in 8 out of 9 areas.

We grew our cross-sell index (the average number of our areas of specialisation engaged in our top 100 customers) by 45% over the previous year.

In terms of our people, we achieved our target with 90% of our people indicating Data#3 is an excellent company to work for and one that they would recommend to others in the industry. In a market where the ability to execute and drive growth is dependent on recruiting and retaining the right people and where the 'hunt' for talent has never been more pronounced, this is an excellent result. We also provided international, award winning ICT and business skills training programs via our e-Learning program.

We achieved all key vendor sales targets receiving several sales and service awards in the process and retained or improved certification levels across all vendors

And finally, we met all our cash management targets improving performance on the previous year.

*....looking forward*

As I said at the outset 2006 was an outstanding year for the company – our best ever. However, given its now November our focus is clearly on the current year.

## **Our Vision ....**

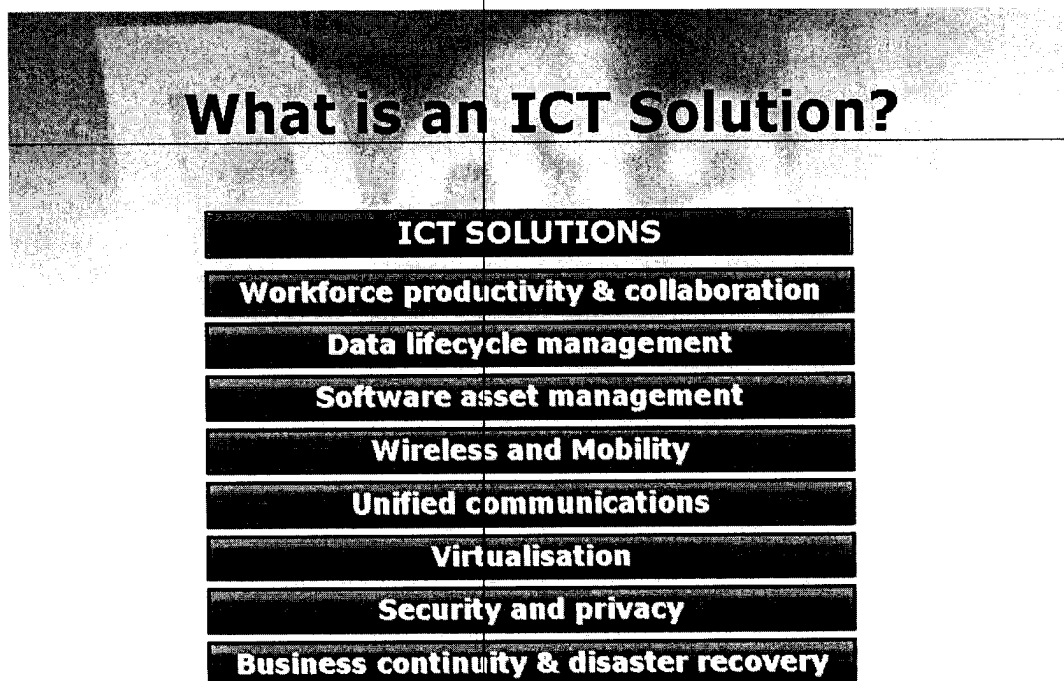
*Data#3's Vision is to be recognised as  
Australia's leading ICT Solutions  
Company....  
the one that everyone wants to work for  
buy from  
or own shares in"*

The Vision we have for our company is unchanged and clearly reflects the interests of all stakeholders:

*"Our Vision is for Data#3 to be recognized as Australia's leading ICT Solutions Company... the one that everyone wants to work for, buy from or own shares in"*

To ensure that we remain positioned for success, this year we are taking the next step in our strategic development by extending our 'expertise-oriented' value proposition for customers to one that is also 'solutions-oriented'. Our aim is to ensure that ICT Solutions from Data#3 deliver to both our customers' business and technology objectives. To support this we are developing a Solutions Framework underpinned by our market leading expertise and our culture of getting things done.

This will sound like 'mumbo jumbo' to some so let me take a minute to explain.



Firstly, what do we mean by an ICT Solution? The slide shows typical ICT Solutions that we are offering to our customers. To deliver any of these we apply our expertise to integrate, implement or support a range of technologies from our partners – Cisco, HP, IBM and Microsoft – to deliver a business and/or technology outcome. An ICT Solution allows our customer to gain the business benefits of technology without the complexity. In addition, when a customer chooses to work with an ICT Solutions company they reduce the need to have their own ICT skills in-house and can focus on getting on with their core business.

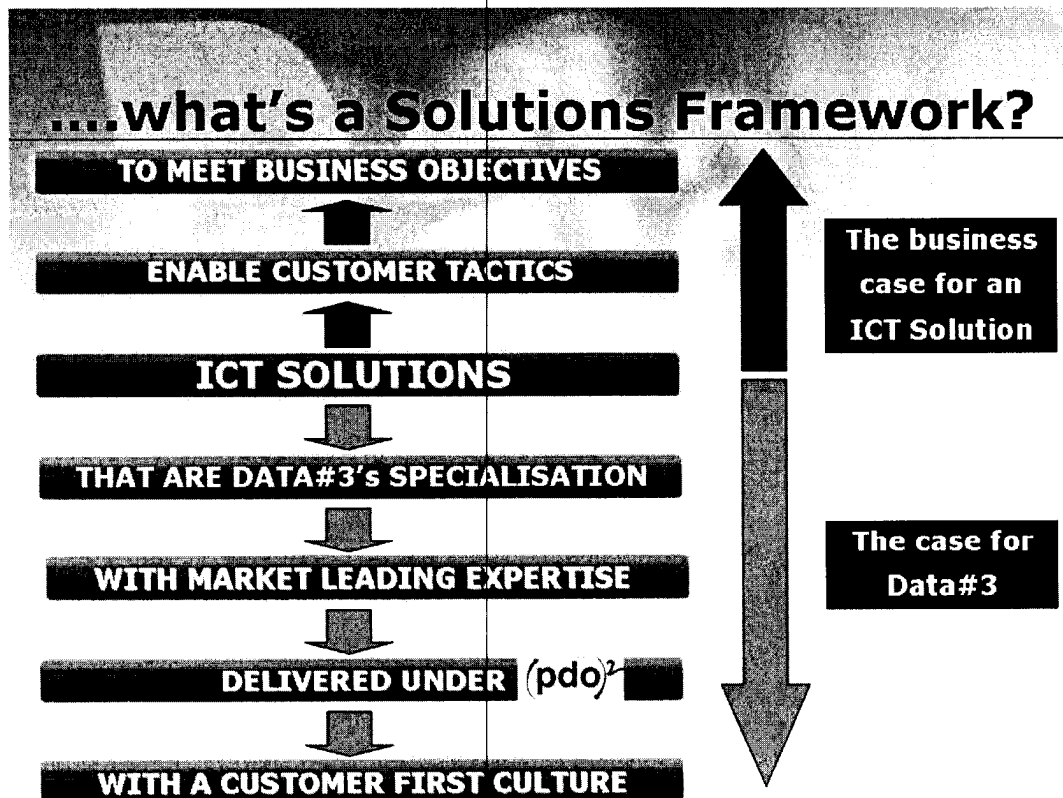
## **.....extending our value proposition for customers**

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*.....extending 'expertise-oriented'  
to 'solutions-oriented'.....*

*.....extending from a technology outcome  
based on expertise to a business  
outcome based on a solution.....*

Secondly, what do we mean when we say 'extending our expertise-oriented value proposition for customers to one that is also solutions-oriented'? Our expertise-oriented value proposition positions us as having market-leading expertise in technologies from global leaders such as Cisco Systems and Microsoft applied to deliver a technology outcome for our customer. A solutions-oriented value proposition targets business outcomes based on an ICT Solution. For example our Unified Communications Solutions merges voice, data, fax and email to allow our customers tactically to increase productivity of their people, improve business processes, and enhance the agility of their organisation. Enabling these tactics in turn allows them to achieve business outcomes such as enhancing competitiveness and reducing operating costs.



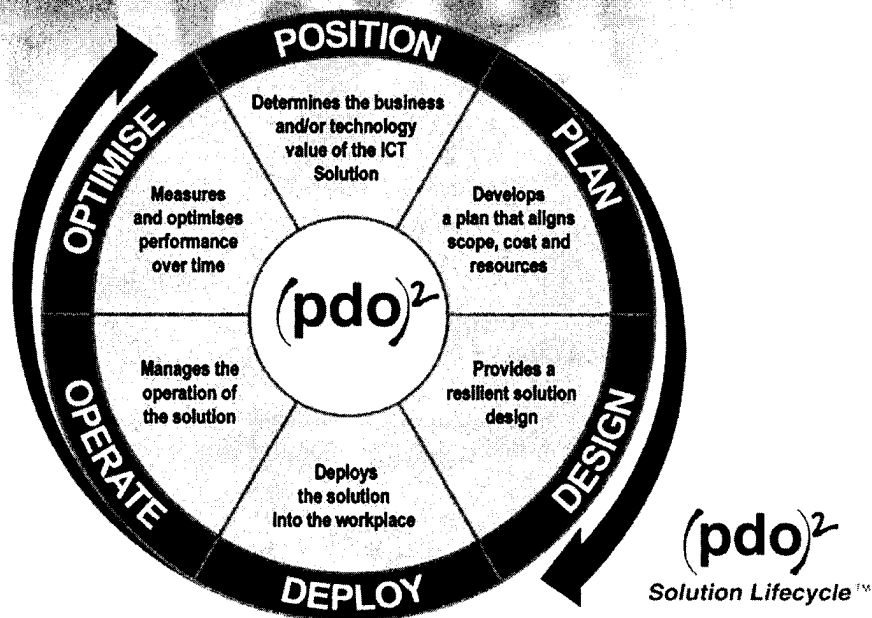
Thirdly, what do we mean by a Solutions Framework?

This framework defines how we connect the dots between a business outcome and the delivery of our ICT Solution.

Working up the framework, the business case can be built for an ICT Solution that enables tactics that achieve business objectives.

Working down the framework the business case can be built for an ICT Solution from Data#3 – one in which we are specialists, one that is underpinned by market leading expertise and a portfolio of products and services from global vendors, and one that is delivered under an unique methodology (PDO)<sup>2</sup> – which I'll come back to – and with a culture that puts customers first.

## ...an unique methodology



And finally what do we mean by 'an unique methodology (PDO)<sup>2</sup>'?

(PDO)<sup>2</sup> – trademark pending – is the methodology by which we execute.

The Position phase determines the business and/or technology value of the ICT Solution - the business case.

The Plan phase looks at the feasibility of implementing the ICT Solution from Data<sup>#3</sup> and delivers a project plan that aligns scope, cost and resources with the business case and the rationale for choosing Data<sup>#3</sup>.

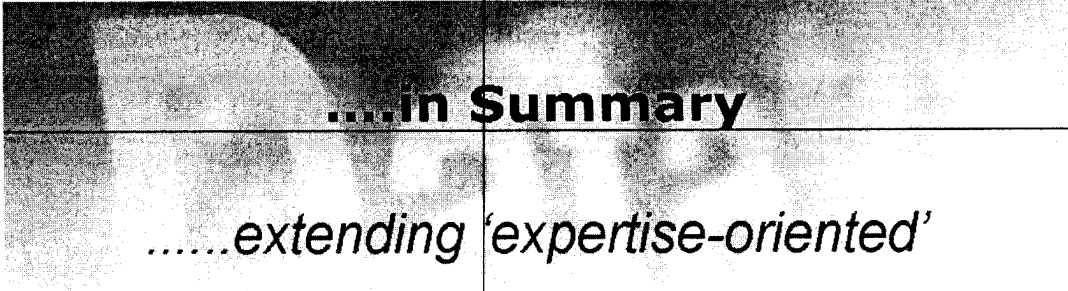
The Design phase provides a detailed design for the solution – the technologies required, the specific skills, the sourcing strategy etc.

The Deploy phase implements the solution into the business and, in itself, has other sub-phases covering such as project management, testing and training.

The Operate phase is the physical operation and its management – a task in most cases taken on predominantly by the customer but in some cases such as with our outsourcing and managed services customers, by us.

And finally the Optimise phase measures performance against the original business case and optimises this over time.





## **....in Summary**

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*.....extending 'expertise-oriented'  
to 'solutions-oriented'.....*

## **Solutions Framework**

**(pdo)<sup>2</sup>**

**Solution Lifecycle™**

So in summary, we are extending our 'expertise-oriented' value proposition for customers to one that is also 'solutions-oriented'. For some customers, our value will remain in the expertise we can apply to deliver the technology outcome. For others who want to avoid the technical complexity and focus on business outcomes, our value will be delivering ICT Solutions that do just that. We are doing this under a Solutions Framework that connects the dots between a business outcome and the delivery of our ICT Solution, using a unique lifecycle methodology (PDO)<sup>2</sup> that guides execution.

Fully implementing our Solutions Framework and (PDO)<sup>2</sup> is not a small task and will extend beyond this financial year. We firmly believe that it will allow us to further differentiate ourselves from competitors, provide solutions of unparalleled value to our customers and as a consequence, underpin sustained financial performance.

## Projected 2007 Performance ....

*"For 2007 we believe we can once again improve financial performance over the 2006 result and deliver dividends near the top of the sector"*

In terms of performance, this year we believe we can once again improve over the 2006 result and deliver dividends near the top of the sector.

## **Market assumptions for 2007**

|                      |                                                    |
|----------------------|----------------------------------------------------|
| <b>The economy</b>   | <b>Will contract somewhat but remain positive</b>  |
| <b>Our customers</b> | <b>ICT solutions seen as strategic investments</b> |
| <b>Our people</b>    | <b>Will recruit and retain the right people</b>    |
| <b>Competitors</b>   | <b>We will be able to retain differentiation</b>   |
| <b>Our Vendors</b>   | <b>Will drive growth and technology leadership</b> |
| <b>Technology</b>    | <b>Will be able to predict their impact</b>        |

In saying this, we have made a number of assumptions:

- The macro economy will remain positive even if contracting somewhat – and at this stage we are comfortable that this is the case.
- Our customers will retain the view that ICT solutions are strategic and will consequently maintain a 'positive' view of ICT investment – in general we are comfortable that this is the case however business remains very competitive with little opportunity to recoup higher operating costs through price increases. We are also watching changes in Government attitudes to ICT with an increasing trend to consolidation in all jurisdictions and a need FOR US to adapt and partner accordingly.
- We will be able to recruit and retain the right people and deploy them to deliver revenue growth – this continues as the major area of concern for us and for most players in the industry. While we are on track with our recruitment plan it has come at higher cost so far this year compared to the previous corresponding period.
- Our competitive positioning embodied in the Solutions Framework will allow us to maintain or improve current success rates against competitors – we have seen revenue growth of almost 20% over the previous corresponding period so far this year.
- Our key vendors will continue to drive growth and technology leadership and our partnerships will be at least maintained or strengthened – we are comfortable this is the case and that we can reconcile competing technologies amongst our key vendors.

- We will be able to predict the effect of emerging technologies and adapt accordingly – we are comfortable that most of the technology directions influencing customer planning offer an opportunity for us.

At the end of the first quarter actual performance is slightly ahead of plan and we are predicting profit before tax for the half up around 10% on the previous year, which would be an excellent outcome. We will keep shareholders posted if this situation changes.

**....in closing**

*....thank you....*

In closing, in 2006 we had a terrific result both in financial and operational terms. Shareholders have been rewarded with strong dividends and capital gain and we have taken steps to reduce volatility in the share price. We are comfortable about the outlook for the half-year and, while there are pressures across elements of the business, believe we have a strategy that will improve our performance through the full year and beyond. The management team and staff are to be congratulated for their commitment to the task and are well prepared for this year.

Thank you.

John Grant  
Managing Director  
Data<sup>#</sup>3 Limited