solutions adding value

interim shareholder report

for the six months to 31 December 2006

the Data#3 team: The pictures throughout capture some of the Data#3 team at work across Australia.

"We are delighted to continue the run of 'best ever' performances we have delivered over the past four years. The interim dividend of 14 cents per share is a 27% increase on the previous corresponding period and, in a market where the balance between skills and costs continues to remain delicate, we are well placed for another strong year."

Richard Anderson - Chairman

An outline of our business

Data#3 is a significant national Information and Communication Technology (ICT) solutions company. Our 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."

Our core values define our culture – excellence and innovation; honesty and integrity; taking responsibility; flexibility and adaptability; making decisions quickly; and always going the extra mile to exceed expectations.

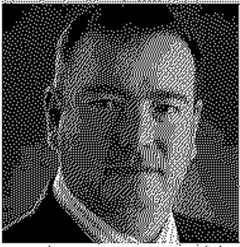
Data#3 specialises in the following:

- Software licensing and software asset management
- Application and infrastructure integration, outsourcing and remote management
- Product sourcing and related integration services
- Optimisation of data centre infrastructure
- Contract and permanent recruitment.

These areas of specialisation focus discretely on developing and applying market-leading expertise in the technologies and services that underpin their specialisations. They then apply this expertise to deliver ICT solutions that ensure customers achieve their business objectives.

The business is supported by a range of Corporate Services functions covering finance, legal, internal systems and human resources.

Financial Summary



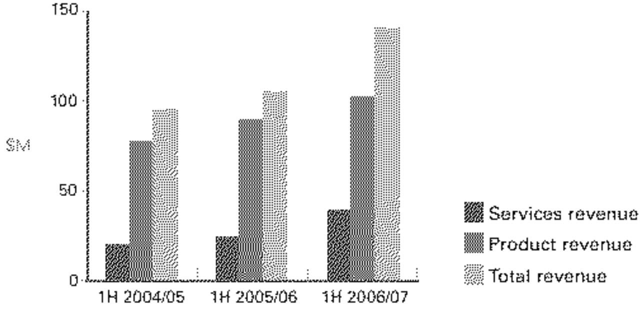
	Half-Year 2006/07 $'000	Half-Year 2005/06 $'000	Change 2005/06 to 2006/07
Consolidated Income Statement			
For the half-year ended 31 December 2006			
Sales revenue			
– Products	102,536	88,069	**+ 16%**
– Services	32,959	24,361	**+ 35%**
Other revenue	273	402	
Total revenue	135,768	112,832	**+ 20%**
EBITDA [Earnings before interest (net), tax, depreciation and amortisation expense]	4,356	3,657	**+ 19%**
Profit from ordinary activities before income tax expense	4,328	3,825	**+ 13%**
Net profit after income tax	3,037	2,598	**+ 17%**
Earnings per share	19.46 cents	16.85 cents	**+ 15.5%**
Dividends per share	14.0 cents	11.0 cents	**+ 27%**

The net cash flow from operating activities is typically an outflow in the first half. The net operating cash outflow of $8.6M was higher than usual due to collection delays with a small number of major customers and the payment of the associated suppliers. We do not see this as any significant collection risk. Aged debtors' balances and days' sales outstanding remained ahead of target, and interest-bearing debt remained minimal.

Under the on-market share buy-back program introduced on 1 September 2006, 44,115 shares were acquired during the period at a cost $176,460 and were subsequently cancelled. No new shares were issued during the period.

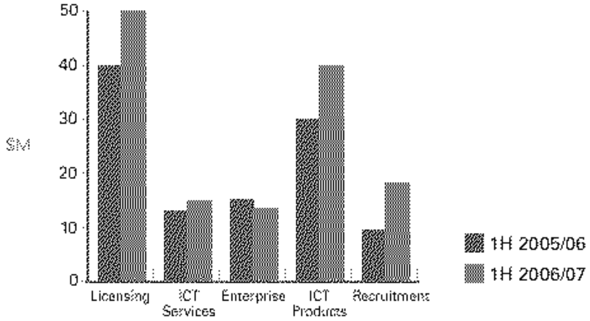
Financial Trends

Total Revenue



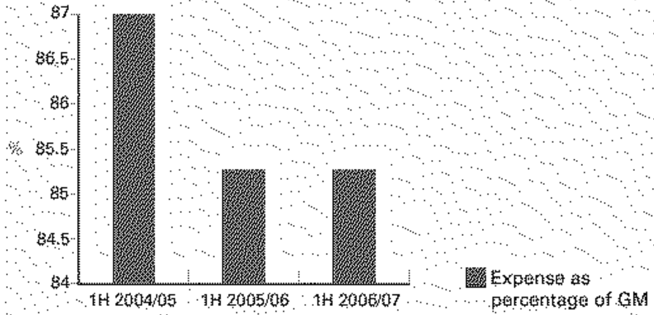
Total revenue grew by 20% to $135.8 million, with service revenue increasing 35% and product revenue increasing 16%

Revenue by Business Area



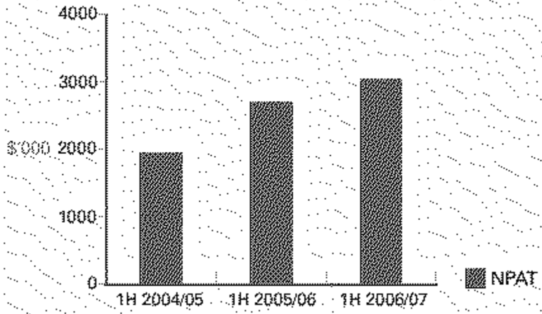
Particularly strong growth from Licensing (up 24%), ICT Products (up 22%) and Recruitment (up 61%)

Internal Expense



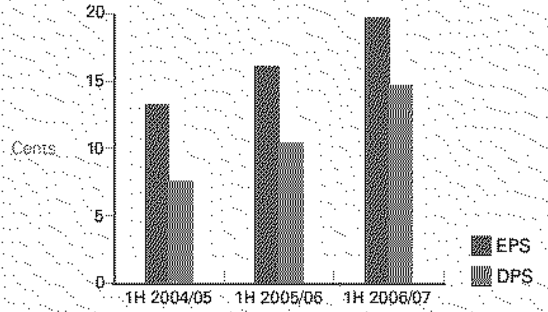
Internal staff costs & operating expenses as a percentage of gross margin remained unchanged

Net Profit After Tax



Net profit after tax increased by 17% to $3.0 million

Earnings Per Share & Dividends Per Share



Basic earnings per share up 15.5% to 19.46 cents
Dividends per share up 27% to 14 cents, representing a 72% payout

Operational Highlights

Performance to date against the high level *"expectations for 2007"* we set out in the 2006 Annual Report is as follows:

- *Expectations for Licensing Solutions – "we see our Software Licensing and Software Asset Management offerings maintaining market leadership and driving high double digit revenue growth at margins similar to the previous year"*
  - meeting expectations with revenue growth of 24% over the previous corresponding period to $49.6M

- *Expectations for ICT Services – "we believe we can achieve low double digit growth in revenue at similar margin to the previous year and offset increases in people costs in a competitive market through the scale afforded by that growth"*
  - meeting expectations with revenue growing 13% over the previous corresponding period to $15.3M but higher staff and administration expense reduced contribution to group profit

- *Expectations for Enterprise Infrastructure Solutions – "it is likely that margin will come under further pressure and expense will increase. We are introducing annuity revenue streams around management and support to start to offset this trend, but do not see this having significant impact in the current year"*
  - meeting expectations with revenue down on the previous corresponding period but with an improving outlook and progress in introducing annuity-oriented support offerings utilising our ICT Services' Managed Services Centre



- *Expectations for ICT Product Solutions – "in a market that will grow at single digit rates and in which vendors going direct and consolidated purchasing trends within Government are issues, we plan to offset this through continued growth in revenue from communications products, further development of the lower cost tele-sales model and solution bundling"*
  - exceeding expectations with revenue growing 22% over the previous corresponding period to $39.9M
- *Expectations for Recruitment Solutions – "Recruitment is poised for another strong year with high double digit growth. Margins are expected to decline but to be offset by lower relative expense"*
  - exceeding expectations with revenue growing 61% over the previous corresponding period to $17.6M
- *Expectations for Cross-selling – "our sales incentive model for 2007 is targeted to generate a significant increase in referral opportunities across the areas of specialisation"*
  - meeting expectations with the cross-sell index for our major customers at the half year essentially in line with the previous year at 1.56. We are targeting to exceed the 2.27 achieved for the full 2006 year

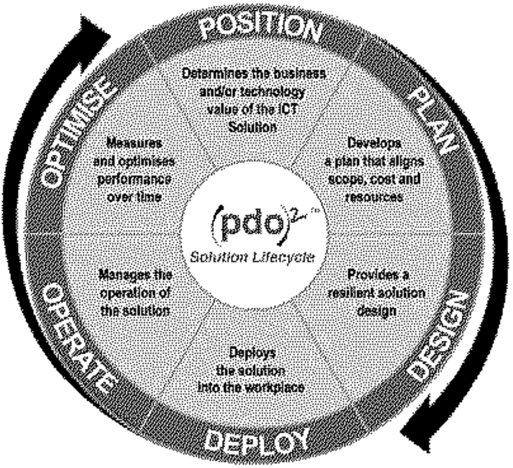
Strategic Development

Our annual report set out the major direction for strategic development as:

*"... transitioning our market leading expertise in technologies from global vendors into ICT Solutions delivered under a solution lifecycle we call (pdo)² which aims at ensuring that ICT Solutions from Data*3 deliver business benefit to our customers"*

$(pdo)^2$

Position – Plan – Design – Deploy – Operate – Optimise



$(pdo)^2$ has been developed to draw on the best practice frameworks from our key services partners such as Cisco and Microsoft, our customers, and from our experience over 30 years. Through this methodology, our team can provide a consistent approach focusing on one outcome irrespective of their area of expertise or skill set.

$(pdo)^2$ uses a basic framework that allows Data*3 and our customers to collaboratively achieve the proposed outcomes, and identify, document and manage risk.

We are on plan with the implementation of this framework.

Outlook for the full year

The 2006 Annual Report included a number of assumptions which underlie our outlook for financial performance in 2007. Having completed the half year, our assessment of how those assumptions are tracking is as follows:

- Our assumption on the macro economy was that it would *"remain positive even if contracting somewhat"*
  - remains true
- Our assumption on our customers' attitude to ICT investment was that they would *"retain the view that ICT solutions are strategic and maintain a positive view of ICT investment"*
  - remains true but with pricing competitive across all areas
- Our assumption on our people was that *"We will be able to recruit and retain the right people and deploy them to deliver revenue growth"*
  - essentially on track but challenges are emerging particularly in the services areas where the competition for talent has intensified
- Our assumption on our ability to retain competitive positioning was that it would *"allow us to maintain or improve current success rates"*
  - revenue growth is consistent with maintaining a strong competitive position and this will be enhanced as we roll-out our Solutions Framework and Lifecycle Methodology (pdo)[2]
- Our assumption regarding our key vendors is that they *"will continue to drive growth and technology leadership and our partnerships will be at least maintained or strengthened"*
  - remains true, but balance between co-operation and competition with vendor services' businesses presents challenges
- Our assumption regarding emerging technologies is that *"We will be able to predict the effect of emerging technologies and adapt accordingly"*
  - remains true.

In Summary

With a strong performance in the first half, we maintain the position put forward in the 2006 Annual Report that we are well positioned to improve financial performance for the full year over the record 2006 result and deliver dividends near the top of the sector.

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Data#3

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