Data#3 Limited
2010 AGM - Chairman's Address
5th November 2010

Ladies and Gentlemen,

Welcome again to the 2010 Annual General Meeting of Data#3 Limited. Those of you who have attended previous meetings will note we've changed locations for this meeting from our offices at Toowong. We had hoped to have been able to hold it in our new premises at 67 High Street just next door to our old ones however delays in completing the fit-out caused us to relocate to the splendid surroundings of Brisbane's Polo Club.

The company's annual report issued with the notice of today's meeting presents the 2010 financial year results and the financial position as at 30th June 2010. This report reveals another excellent result demonstrating again the company's ability to sustain and improve financial performance, even in the face of very difficult global economic conditions. The payment of the full year dividend of 56 cents per share comes directly from this improvement in financial results. This result was achieved with significant improvement in contribution from our services businesses, accompanying strong revenue growth in our volume hardware and software businesses.

Performance in key areas such as receivables collections, cash management and cost control continues to be first rate. Our balance sheet strengthened further with net tangible assets increasing from $17.9 million at 30 June 2009 to $20.9 million at 30 June 2010.

The declaration of a final 2010 dividend of 33 cents per share is very pleasing for all concerned - shareholders, management and the board. Combined with the first half dividend of 23 cents this represents a total dividend of 56 cents per share for the 2010 financial year and distribution of 79% of available profits. Assuming business performance holds as I have indicated, we expect to continue the payment of dividends of this proportion or higher.

Whilst today domestic economic conditions for the 2011 year look to be improving the global situation remains less certain. As a result our operating environment continues to be difficult to forecast. We are seeing increased levels of investment by our customers but continued diligence on price and value. This together with higher levels of market competition sees continuing pressure on pricing and margins balanced by a diversified business with much of our revenue under contract.

Given this backdrop our objectives for the 2011 financial year remain to gain marketshare, continue to build sustainable profitability through appropriate investments and to improve on the record performance of 2010. The senior leadership team has built this year's plan to achieve those objectives on the foundations established last year with continuing focus on the three key areas that underpin our strategy – remarkable people, outstanding solutions and organisational excellence.

At the end of October we are ahead of plan and our first half is expected to be significantly ahead of last year's. John Grant will provide further details in his address.

The policy of geographic and service expansion set out in 1997 when the company listed on the ASX remains. Facilities in Perth have been expanded recently, and plans are underway to expand facilities in Brisbane, Sydney and Melbourne between now and the end of the financial year. However the basic structure of the business has remained unchanged with national areas of specialisation operating through this expanded geographical presence.

The 2011 business plans incorporate a number of minor structural changes aimed at further focussing responsibility and driving growth and marketshare gain at better than average industry rates. We see growth as vital in a difficult market and whilst it continues to be predominantly organic we expect conditions to again present opportunities to enhance the company's results and financial position.

It has been pleasing to see the strong share price performance over the past year and the total shareholder return reflects the sustained performance and profitability of the company.

Understandably there continues to be a great deal of scrutiny of executive remuneration by investors.

The remuneration report which is included in the annual report will be put to the meeting for adoption. Within Data#3, as in previous years, targets to produce acceptable total returns to shareholders have been established and the management team's remuneration is structured in line with these targets. In addition, shareholders would be aware that remuneration needs to attract, reward and retain and in setting remuneration, we're very conscious of the balance that must exist between expense levels and attracting and retaining key people – they ultimately make the difference.

We benchmark remuneration every year against industry benchmarks to ensure they are appropriate and 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 key personnel in the annual report are those who drive our business and as has been commented on previously, they have done an excellent job over a long period.

I commend the remuneration report to the meeting for adoption.

As you know on 1st 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. We believe that the buy-back program has contributed significantly to the resilience of the price of the shares against the overall market and has also resulted in reduced volatility. However based on the particularly strong share price performance over the past year we decided not to renew the buy-back period when it lapsed on 31st August 2010.

There is an item for your consideration on today's agenda for Terry Powell's reappointment to the board. As many of you know Terry was one of the original founders of Data#3 and has played a pivotal role in the development and evolution of the business. His extensive knowledge and experience are extremely valuable to Data#3 and his re-election has the unanimous support of his fellow directors.

I will now ask our Managing Director, John Grant, to the microphone to address operational aspects of the company's 2010 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 2010 Annual General Meeting.

Richard Anderson
Chairman
Data#3 Limited

Data#3 Limited
2010 AGM - MD's Review of Operations
5th November 2010

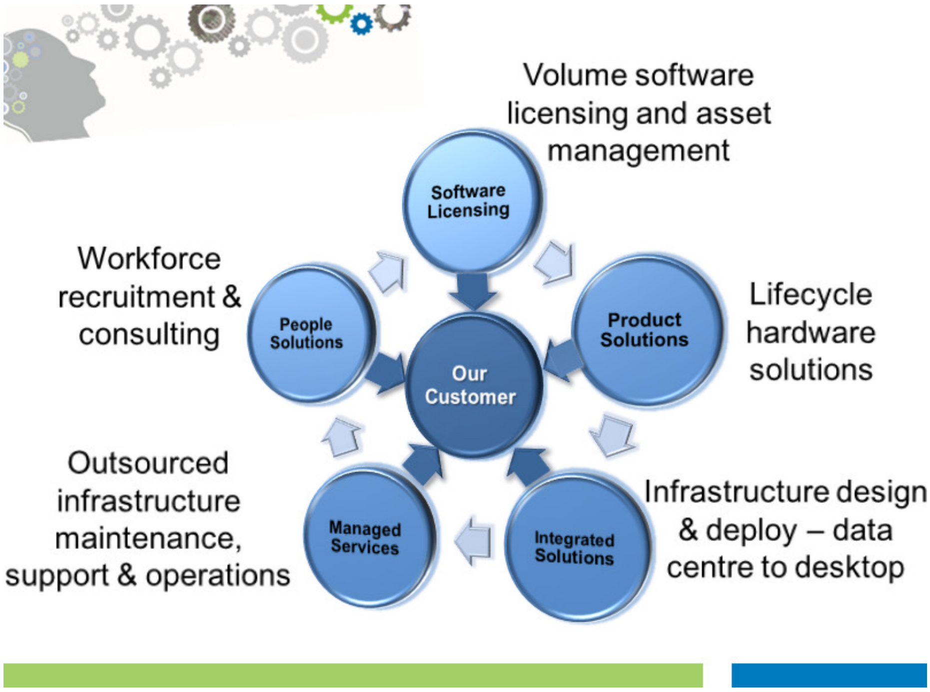
Ladies and Gentlemen

Firstly let me share the Chairman's welcome to you. It's a pleasure once again to be able to formally address our shareholders and other friends of the company.

Let me start by briefly sharing with you once again, the vision we have for our company.

There has been no change in the last year - our vision is to be an exceptional company. By exceptional we mean one that unites to enable our customers' success through technology; inspires our people to do their best every day; and rewards investors' confidence and support. We believe we will have achieved this vision when over 90% of our key customers consistently tell us that our ICT solutions and expertise have empowered their success; when over 90% of our people consistently tell us they are inspired to do their best every day; and when returns to investors are consistently within the 90th percentile of that of like listed companies. As shareholders, I would hope you see that we are well on our way to achieving this vision.

What we do remains focused on our customers' success.



Through 5 areas of specialisation, we help them apply software and hardware technology and people to achieve their business goals. Through Software Licensing and asset management we answer our customers' need to optimise and manage the acquisition of software in volume; through Product Solutions we offer our customers lifecycle hardware solutions including cost-effective procurement, warehousing, implementation and disposal; through Integrated Solutions we help our customers design and deploy technology infrastructure for the data centre, network and desktop; through Managed Services we help our customers optimise the operation, maintenance and support of their ICT systems through outsourcing; and through People Solutions we help our customers recruit the appropriate IT people for their organisation.

These 5 areas have proven to be a resilient portfolio of offerings over recent years and together provide many of our customers with one place to shop.

By any measure 2010 was another outstanding year. I say this with the backdrop of continued restraint as a consequence of global economic conditions, significant pressure on our customers which translated to a very demanding environment for our people and a year in which we invested heavily in improving business systems and processes. That we performed so well is testimony to the market positioning we have worked hard for many years to achieve and the tenacity and plain hard work of our people. There were a number of highlights worth noting:

2010 Highlights

Services contribution to profit +95%

The most significant trend in financial performance was the contribution to profit from our services businesses. This increased by 95%, from $3.6 million to $7.1 million. Overall services revenues increased 7% to $85.0 million with project and Managed Services revenues in our Infrastructure Solutions business increasing by 28% and 34% respectively. These gains offset a decline of 22% in our People Solutions' recruitment and contracting revenues as we moved the focus to maximising profit following the very difficult 2009 year.

Product revenues increased 14% to $513.6 million but with strong growth in sales of licensed software and volume hardware product at lower margins and proportionally higher sales and processing costs, product profit growth was limited to 5% from $17.3 million to $18.1 million. Overall we are very comfortable with this trend.

2010 Highlights

National leadership in Volume Products

Our product businesses are now the clear leaders nationally and with continued growth and enhancement of our supply chain systems we see increasing levels of profitability in the future.

2010 Highlights

Cost ratio declined to 83.4%

Our measure of productivity – the cost ratio i.e. expenses as a % of gross margin dollars – improved, decreasing from 84.3% in the previous year to 83.4% more than accommodating a 40% increase in investment in improving business systems and a 20% increase in corporate expenses.

2010 Highlights

92.7% of our people recommend to others

While slightly down on the previous year, we were delighted that, in such a tough year, 92.7% of our people indicated that they would recommend Data#3 as an employer to others in the industry. We continued to expand the learning environment by increasing instructor led training coupled with online training which increased by 42%. Under our Leadership Development Program, our people commenced 51 nationally recognised business skills qualifications including Diploma of Management and Certificate IV certifications in Frontline Management, Human Resources and Project Management. We also improved expertise and certification levels in technologies from all of our major vendor partners ensuring we retain the market leading expertise necessary to win in the market and meet the expectations our customers have of our solutions.

2010 Highlights

Met 92.5% customer expectations

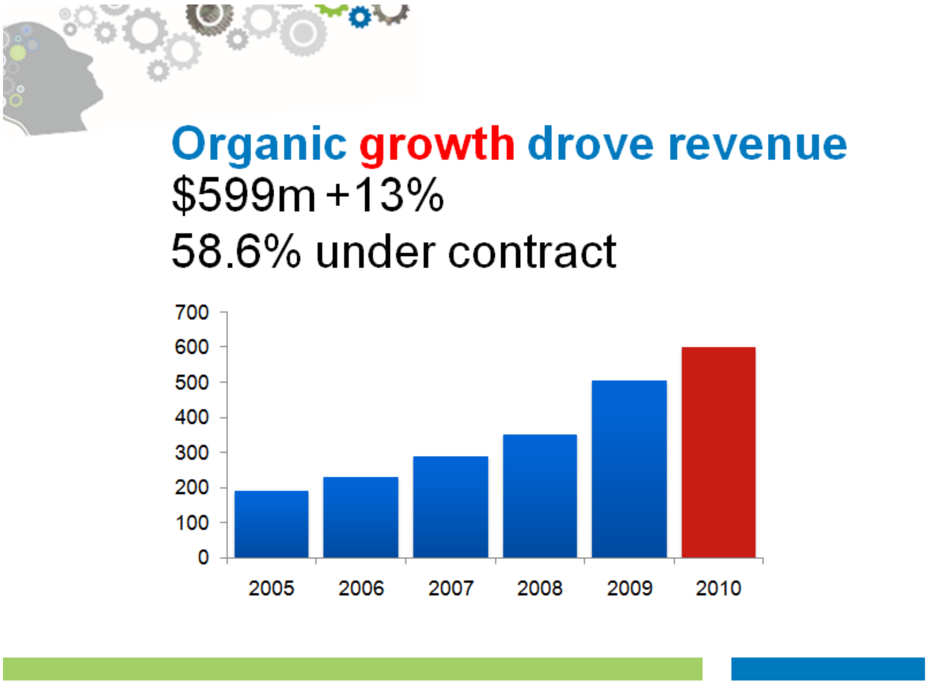
In an environment where our customers remained under considerable pressure to do more with less and one which we made more difficult in the first half as we migrated to new sales order and purchasing systems, overall satisfaction levels pleasingly remained on a par with the previous year. 92.5% indicated their expectations were either met or exceeded and 78.5% indicating their expectations were exceeded. We were particularly pleased with increased satisfaction with our needs-identification and account management capabilities and the products and services we offer.

2010 Highlights

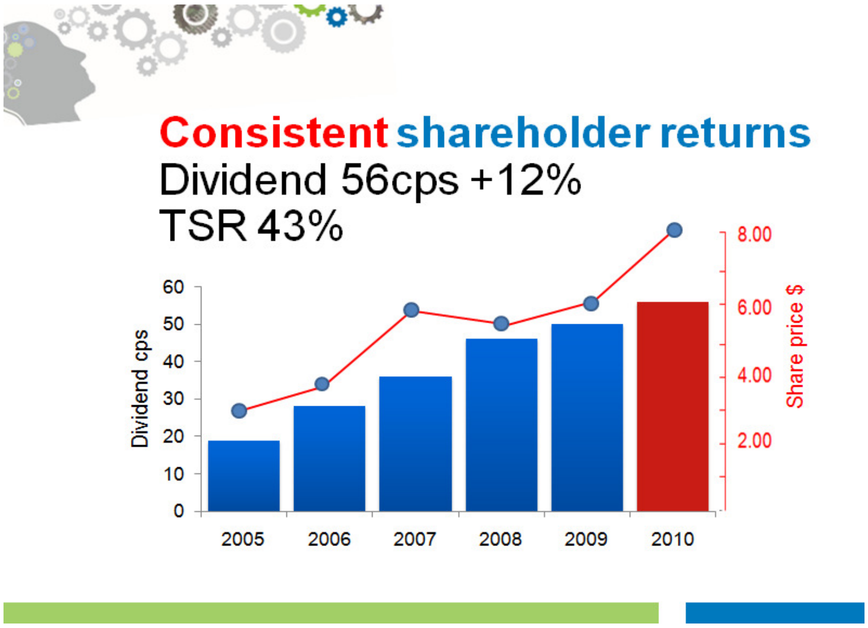
28 partner awards

Our vendor partners continued to indicate their support with 28 awards received during the year including Microsoft's Licensing Solutions and Security Solutions Partner of the Year, HP Australia's Top Desktop Partner, Cisco's Alliance Manager of the Year, Ingram Micro's Partner of the Year, Symantec's Australian Specialist Partner of the Year and Adobe's Gold Partner of the Year. In addition, peer recognition included winning the ARN Enterprise Reseller of the Year award for the fourth year in a row.

These milestones were topped off by another 'best ever' financial performance.

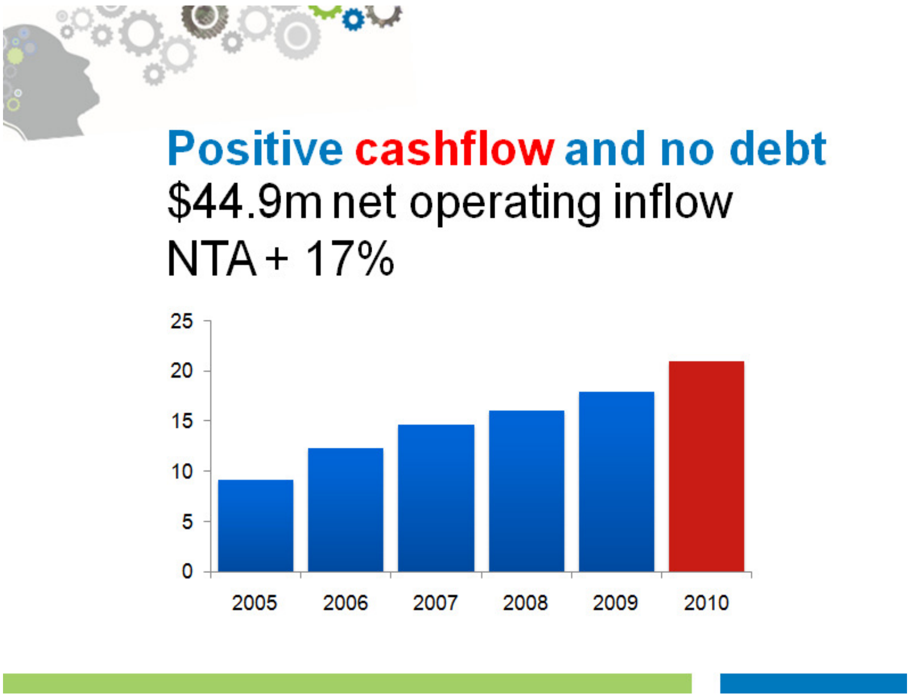


The strong history of organic growth we have demonstrated for many years continued with total revenue up 13% to $599 million with 58.6% under some form of term contract. For the fifteenth consecutive year Licensing Solutions grew revenue strongly, up 9% to $320 million, a significant achievement in a relatively flat market, and Infrastructure Solutions grew revenues 26% to $248 million.



Returns for shareholders in the year were outstanding with earnings of 70.9 cps delivering dividends of 56 cps – a 79% payout ratio – our highest ever. Together with a gain in share price of just over $2.00, the total shareholder return for the year was 43%.

While on the subject of returns to shareholders its interesting reflecting on share price performance over the last 5 years. The chart compares Data#3's share price against the Tech Sector Index and the S&P ASX 200 index. It has performed well ahead of both – 160% and 200% respectively.



Cash flow from operating activities was particularly strong with a total net inflow of $44.9 million, reflecting the significant timing benefit of receipts from customers in advance of payments to suppliers. This timing benefit was greater than in the previous year and consequently the $64.3 million year-end cash balance was inflated by temporary surplus funds. This has since substantially reduced with payments to creditors. Cash flow from investing activities was a net outflow of $0.4 million, reflecting payments for property, equipment and software assets.
Cash flow from financing activities was a net outflow of $8.2 million, comprised solely of dividend payments. Debt remains at zero and net tangible assets increased by 17% in the year to $20.9 million.

While there are always some things that can be done better and risks and market shifts to deal with, we feel very pleased with what we have achieved. We hope shareholders feel the same.

I've often commented that while our operating margins are slim, we operate in a very large market and that even in times of a downturn, we've demonstrated an ability to continue to grow by gaining market share. I thought I might help shareholders quantify this.

We operate in a large market
30.3b in 2010

	2010 $B	2011 $B	2012 $B	CAGR 2010-2013
Hardware	10.1	10.2	10.6	2.2%
Software	14.0	14.6	15.1	3.9%
Services	6.2	6.7	7.2	8.1%
Total IT	30.3	31.5	32.9	4.2%
Growth		**3.9%**	**4.4%**	

Based on IDC Australia's published numbers, the total market in Australia in 2010 for hardware, software and services was $30.3 billion. In the chart you can also see the projected growth rates in 2011 and 2012 of 3.9% and 4.4% respectively.

While a leader, our share is small
2% in 2010

A$B	2010	DTL revenue	DTL % market
Hardware	10.1	194	1.9%
Software	14.0	320	2.3%
Services	6.2	85	1.3%
Total IT	30.3	599	2.0%
Growth			

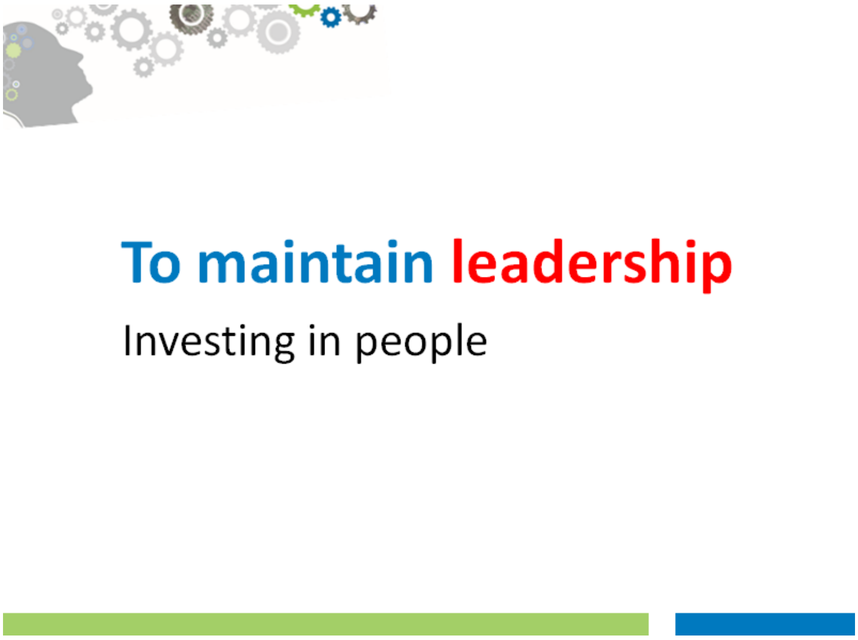
While we are undoubtedly a leader in these markets, at $599 million in revenue, our share is only 2%. Even if the addressable market is a half or a third of this, we are still a very small proportion and have significant opportunity to continue to grow organically in the years to come – particularly given the national access we have built.

We see opportunity

...for all our businesses

...in all geographies

Consequently we see opportunity for all our businesses in all geographies.



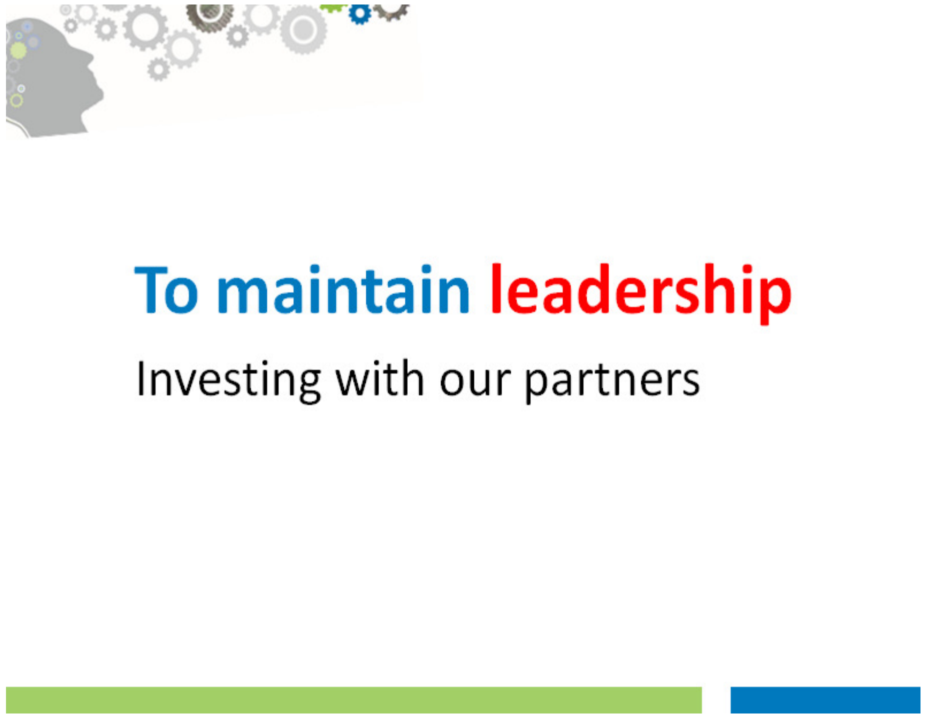
To maintain leadership we are investing in a number of areas. We are investing more in our people to make them better leaders, managers, professionals, engineers and individuals. We are enhancing career planning and are aiming to recruit the best people in the market.

2011 will see significant investment in new premises. We have already relocated our rapidly expanding Western Australian team into new premises in West Perth, are relocating our Brisbane teams to new premises in late November and, having taken additional space in Sydney, we will complete a refit of the existing offices in late April. As well we will be relocating our Sydney and Victorian warehousing and configuration teams into expanded facilities in the second half. In doing so we will be adopting a more flexible and mobile working environment, capitalising on the technology our people have and increasing the capacity of the premises we lease.

To maintain leadership

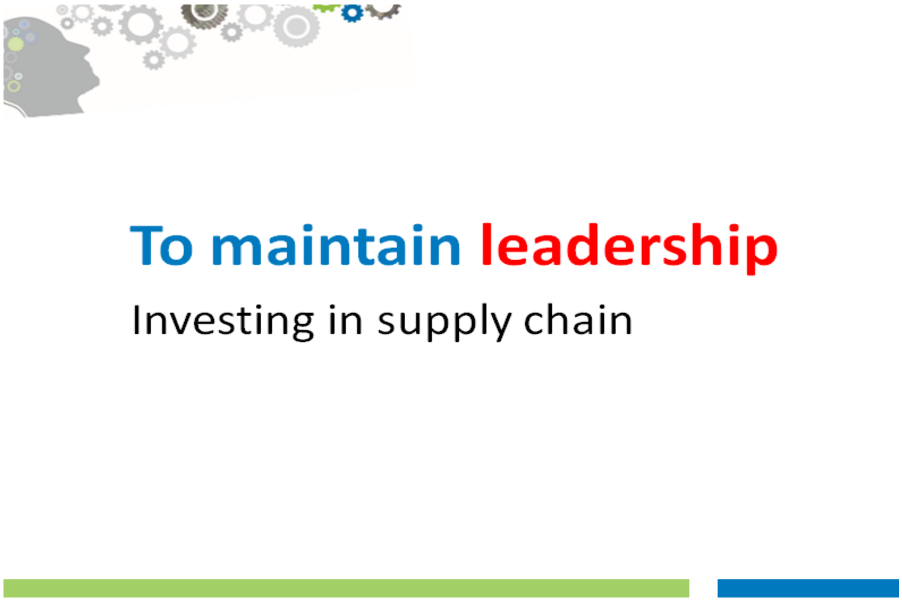
Investing in new offerings

Our continuing success is reliant on ensuring the offerings we provide our customers remain aligned to their needs. With new technology consumptions models now emerging, it is critical we invest in developing and extending what we currently offer. In 2010 we have funded a 'Future Solutions Forum' with fulltime leadership. We will develop a clear path for all our solutions across the full range of customer technology consumption models – from product, through expertise, solutions, outsourcing and as a service. We will create on-demand capacity where appropriate and commercially viable, will deliver environmentally sustainable offerings in our products businesses, will lead the market for cloud based software licensing and will start two new practices for workplace productivity and strategic consulting.

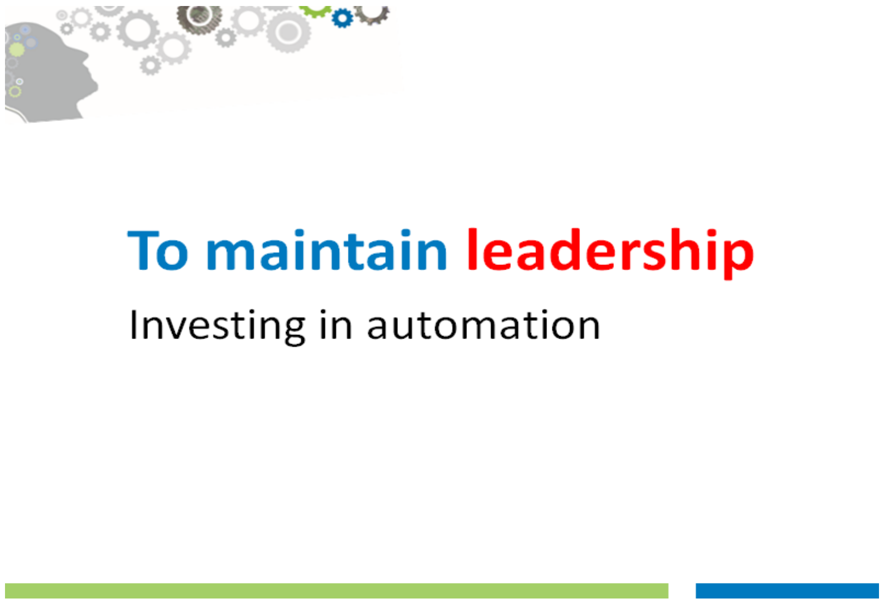


Much of this will be done with our partners. In addition we are co-investing in additional go-to-market activities and resources to stimulate and develop new areas of opportunity.

We will enhance our current direct sales models with investments in in-house telemarketing and inside sales teams.



And to accommodate strong demand for volume products as part of lifecycle product and integrated solutions, we are enhancing our supply chain systems with significant investment in a new customer portal for quotation, ordering and eCommerce; integration of our ordering systems with those of our suppliers; and automation of many manual supply chain processes. We see these investments providing competitive differentiation and lowering transaction costs.



And elsewhere throughout the business, we continue to 'practice what we preach' so to speak, investing in further automating business and management processes.

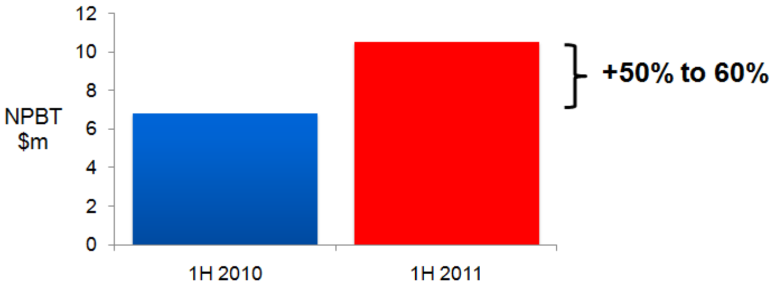
In total these investments are significant. However we have a large business with significant market opportunity. If we are to capitalise on this these investments are key.

Market and outlook

Let’s now look ahead. IDC is forecasting growth in IT expenditure – our revenue – between 3.5 and 4% in 2011. Our planning assumptions take into account both positive and negative influences. On the positive side, we are projecting improving conditions in the business sector as organisations bring projects back on line to lower their cost of operations, improve their ability to compete and to open new markets; and an increasingly positive perception by partners and customers of our business’s stability and strength and the experience and expertise of our people and our processes. On the negative, we’re assuming continuing pressure on government expenditure as all jurisdictions move to lower cost by consolidating procurement and to address the debt on their balance sheets; continuing pressure on sales margins as customers apply diligence to expenditure; upward pressure on labour costs as confidence returns and as increased competition for the best skills increases; and upward pressure on occupancy costs. Our stated objective for 2011 is to improve on the performance of 2010.

½ year outlook is very strong

½ year NPBT up approx 50 to 60% on pcp



With preliminary October numbers in, it's very pleasing to say that we are performing very strongly tracking ahead of plan. Current forecasts for November and December while early and subject to many variables, predict we will finish the first half with net profit before tax in the approximate range of $10 million to $11 million, up approximately 50% to 60% on the previous corresponding period. This is a great position to be in however we would caution shareholders against projecting these results into the full year. We have seen some shift in seasonality toward the first half and we will be incurring a range of occupancy and people related expenses in the second half which are not in the first half. We will advise shareholders should things change materially and will provide more details at the half year.

Investment considerations

Low liquidity

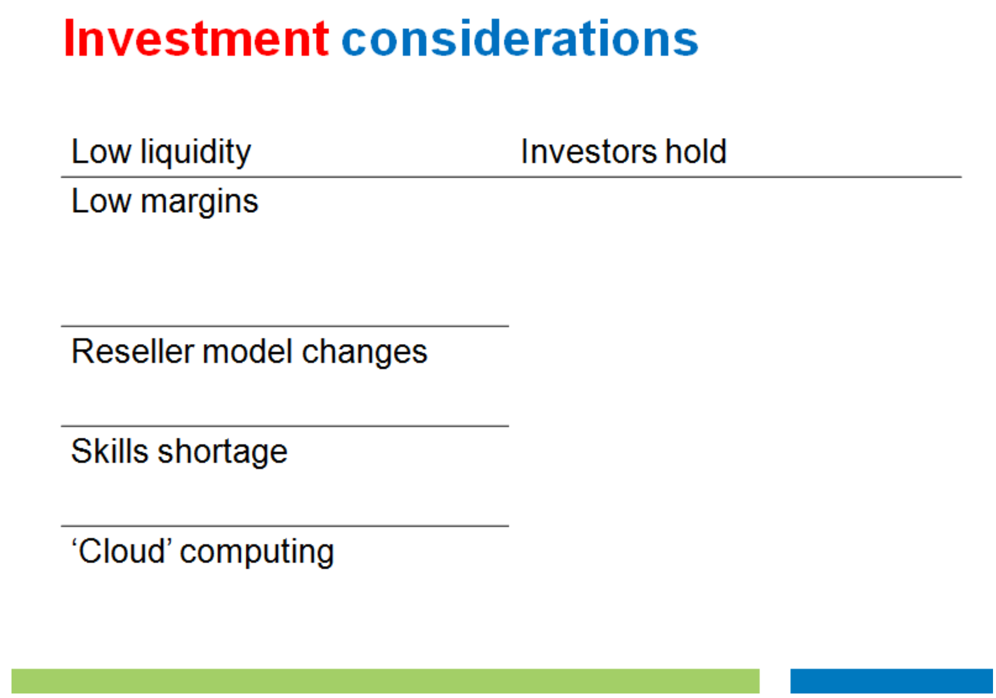
Low margins

Reseller model changes

Skills shortage

'Cloud' computing

With this in mind I thought I might finish by looking at the concerns a prospective investor might have in relation to our company. These invariably surface when our CFO, Brem Hill and I talk to shareholders and analysts each half year and generally fall into the categories of liquidity, margins, reseller models, skills and delivery models such as cloud computing.



Firstly liquidity – as an investor said to me recently, "If shareholders are concerned about getting in because there's insufficient liquidity to get out, they aren't the sort of shareholders you want." Another said "there's just not an opportunity to get set". Interesting perspectives! Unfortunately there isn't much we can do about liquidity. We have 15.4 million shares on issue and given we have focused primarily on organic growth, this capital structure is not easily changed.

Investment considerations

Low liquidity	Investors hold
Low margins	Large markets Investing in automation Relatively low risk
Reseller model changes	
Skills shortage	
'Cloud' computing	

Secondly low margins – we operate large parts of our business in very large high volume markets the major characteristic of which is low margins. This is a given in such markets and demands investment in a high degree of automation and repetitive, consistent processes which we are doing. Mitigating the low margins and compared to other areas of our sector, most of our business is relatively low risk. We are also growing parts of our business where sales margins are higher e.g. project and managed services but don't necessarily see sales margins improving while we have continuing opportunity for growth in volume hardware and software products.

Investment considerations

Low liquidity	Investors hold
Low margins	Large markets Investing in automation Relatively low risk
Reseller model changes	No indication Increased investment
Skills shortage	
'Cloud' computing	

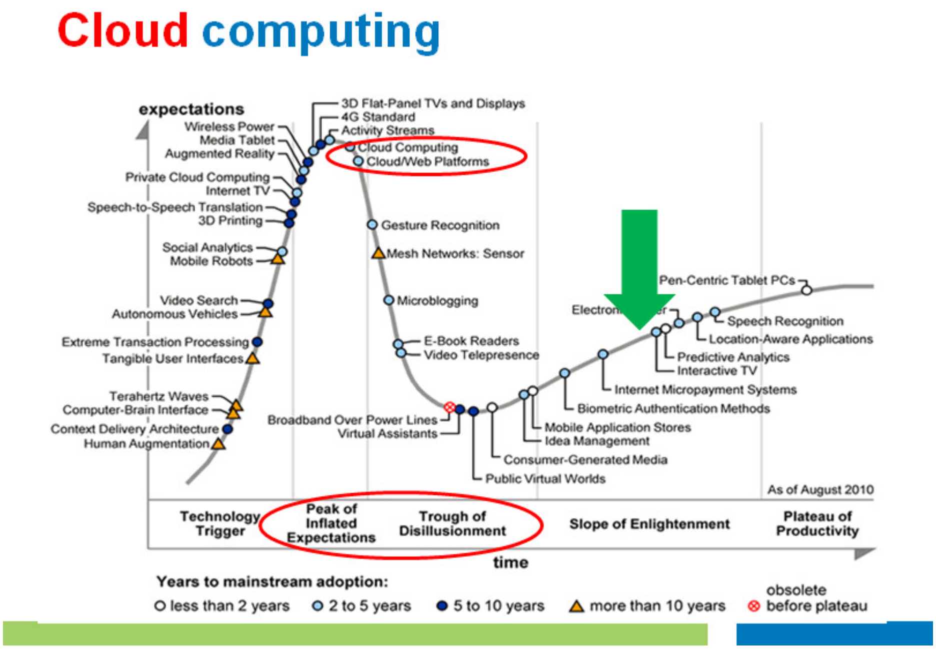
Thirdly, changes to our partners' reseller sales models – we don't see any de-commitment to the reseller model from any of our partners. In fact we're seeing the opposite with matched investment and rebate incentives directing us to areas of growth and opportunity. We're also seeing our market positioning as attractive to existing and new partners. Certainly the terms of these agreements with respect to margins and sales incentives can and do change but must always stay in balance with the objective of retaining an incentivised channel sales model.

Investment considerations

Low liquidity	Investors hold
Low margins	Large markets
	Investing in automation
	Relatively low risk
Reseller model changes	No indication
	Increased investment
Skills shortage	Recruitment business
	Attractive employer
'Cloud' computing	

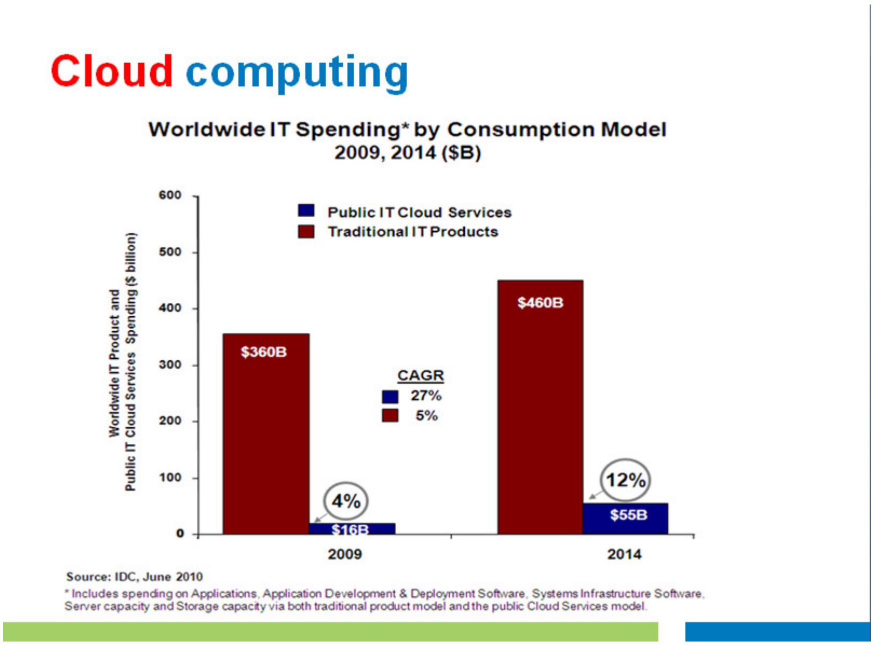
Fourthly skills shortages – our people's skills span a broad range of roles from sales to engineering to operations and logistics to administration. As we continue to grow, there will always be a shortage of good people in all these roles and this applies for all organisations in the sector. We have two advantages over others. We have a recruitment business inside our business – People Solutions – that provides access to candidates both for our customers and for us. We also have a very strong and hard earned brand as an attractive employer. Having said this, shortages can limit the rate at which we can grow and we work hard to counter this through developing our current people into their next roles.

And finally cloud computing – for those shareholders not familiar with the term, 'cloud' computing is where technology infrastructure and applications are delivered to the end user from an 'internet cloud' hosted from a data centre outside the ownership and management of the company the user works for. The additional attribute is that the application and computing resources delivered to the user can be turned on and off on demand – a little like water and electricity. Observing all the hype that is accompanying this emerging trend, one would have to think that the world as we know it has ended and a new one has started. And if this were the case and we had not adjusted our offerings for this new world, as a predominantly on-premises IT provider, we would be out of business. Obviously this isn't the case and to put it into perspective, perhaps you've heard of Gartner's Hype Cycle – the one that defines the technology life cycle.



The cycle maps expectations over time and essentially says that new technologies create massive expectations way out of line with reality and profit early in the cycle and that it is only over time and with significant investment that any particular technology can gain widespread adoption and generate sustained revenue and profit.

After the initial excitement and once reaching the ‘peak of inflated expectations’, significant investment is required to survive the ‘trough of disillusionment’ to gain widespread acknowledgement on the ‘slope of enlightenment’ and widespread adoption on the ‘plateau of productivity’. Gartner is positioning cloud computing just entering the trough of disillusionment’ and is forecasting it will reach the ‘plateau’ and widespread adoption in 2 to 5 years – which is actually a relatively short time. There is no doubt that providers are investing hundreds of millions of dollars worldwide and that there are very successful niche services such as those provided by SalesForce.com already available, however it is still very early days.



IDC has projected cloud computing revenues to grow from $16 billion globally to $55 billion by 2014 – a compound annual growth rate of 27%. To put this in perspective IDC is similarly forecasting traditional IT – our primary business today – to grow at 5% compound from $360 billion to $460 billion. So the market for our current products and services is forecast to remain immense.

Investment considerations

Low liquidity	Investors hold
Low margins	Large markets Investing in automation Relatively low risk
Reseller model changes	No indication Increased investment
Skills shortage	Recruitment business Attractive employer
'Cloud' computing	Small market/early adopters Extending offerings

And any prediction forecasting the demise of our business due to a massive and rapid shift to cloud computing is premature to say the least. However it is certain that our customers will adopt cloud computing to varying degrees over time and as I said earlier, we will develop a clear path for all our solutions across the full range of customer technology consumption models – from product, through expertise, solutions, outsourcing and as a service or cloud. We will create on-demand hardware and software capacity where appropriate and commercially viable and we will use our new strategic consulting practice to help our customers define where cloud computing is an appropriate technology consumption model for them.

And I guess finally, if past performance is the best indicator of likely future performance, an investment in Data#3 may not be a bad decision.

So as I hand back to Richard, we had a very strong result in a difficult market in 2010, are out-looking a very strong first half in 2011 and are investing to sustain growth and performance. We are strongly positioned whatever the market brings.

As I said in closing my review in the annual report, my thanks once again go to all our stakeholders - to the people who make up the Data#3 team who continue to apply their expertise diligently and consistently to deliver results for our customers and who tell us they find passion and purpose in a career at Data#3; to our customers who continue to place their faith in us to deliver ICT solutions that allow them to meet their business goals; to our suppliers whose support has shown the value of long and mutually respectful partnerships and whose market-leading technologies are the solid base on which our solutions are built; and to our shareholders whose continued support is yet again being rewarded with the appropriate returns.

John Grant
Managing Director
Data#3 Limited