Data#3

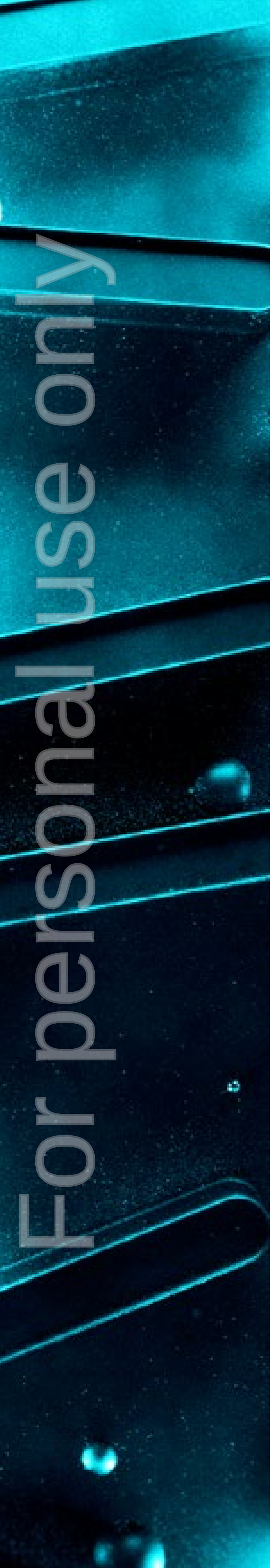
2019—Annual Report

We harness the power of people and technology for a better future.

A leading Australian IT services and solutions provider, Data#3 Limited (DTL) is focused on helping customers solve complex business challenges using innovative technology solutions.

Built on a foundation of 40 years' experience, combined with world-leading vendor technologies, Data#3 delivers an integrated array of solutions spanning cloud, mobility, security, data & analytics and IT lifecycle management. These technology solutions are delivered by combining Data#3's services across consulting, project services and managed services.

Listed on the ASX in 1997, Data#3 reported revenues of $1.4 billion in the FY19 financial year and has more than 1,200 employees. Headquartered in Brisbane, it has facilities across 12 locations in Australia and Fiji.



Contents

A message from the Chief Executive Officer

To our shareholders,

Progress in FY19

Looking back at the performance this past financial year, I'm delighted to report that the consolidated Data#3 business delivered a record result. Total revenue increased by 19.8% to $1,415.6 million, with product revenue up 21.3% to $1,167.4 million and services revenue up 13.3% to $246.9 million.

A highlight for the team was the 35.3% growth in public cloud-based revenue, reaching $362.2 million this financial year. This is one of the fastest growing segments of the market, and this growth demonstrates that the Data#3 team is doing a great job in helping customers to leverage this technology for business advantage.

We continued to partner with world-leading technology vendors and consider the nurturing and management of these partnerships a core focus for the team. Technology adoption and customer experience remained a priority for our vendors, which aligned closely to our strategy.

I'm also pleased to share that we made significant progress across our three strategic objectives: increasing services margins, improving overall customer experience and helping customers to succeed in this era of digital transformation.

Enabling our customers in this era of digital transformation

Our vision is to harness the power of people and technology for a better future and this is something that I'm very pleased to say we live and breathe at Data#3.

From a technology point of view, digital transformation is at the forefront of customers' strategies, and this is fuelling growth in the market. Our customers consistently tell us that we are helping them to achieve their digital business and technology objectives. The full year results demonstrate the strength and relevance of our portfolio of solutions and associated services, from consulting, delivered by Business Aspect, through to design, implementation and ongoing support.

Data#3 has many unique points of differentiation including our services and solutions, our vendor partnerships, and most importantly, our people. The combination of these attributes is what separates us from our competitors and provides a unique value proposition for our customers.

Harnessing the power of our people

From a people perspective, I consider that our team of over 1,200 employees are the best in Australia. We attract and retain brilliant people and it's their collective skills that help to implement and deliver the innovative solutions we provide for our customers. In addition to this, our staff consider Data#3 a great place to work, which was validated for the fourth consecutive year via the HRD Employer of Choice award for organisations over 500 people and across all sectors of the Australian market. Our culture is very important to me and the Data#3 team and is ingrained in everything we do. It's what makes us who we are as a business.

Supporting our community

A really important aspect of business is giving back to the community and this is something I'm passionate about. This financial year we announced a new charity partner, Lifeline. It is the first time we have supported a national charity involved in mental health. The worthy cause was selected by our employees, and we are committed to making a meaningful difference through fundraising and volunteering activities.

Looking forward to FY20

As we look forward to FY20, we aim to capitalise on the predicted IT industry growth in the Australian market. Digital transformation will continue to drive technology investment providing further opportunity for Data#3's solutions and services.

Finally, I'm pleased that we delivered excellent shareholder returns in the last financial year. I'd like to finish by thanking you for your continued loyalty and support. I look forward to updating you on our further progress throughout the year.

Laurence Baynham
Chief Executive Officer and Managing Director

Data#3 transitions McGrath Estate Agents to new integrated managed service

Data#3 worked with one of Australia's most successful residential real estate groups, McGrath Estate Agents ("McGrath"), to deliver an integrated managed service.

McGrath's contract with its existing managed service provider was due to expire imminently, and they took the opportunity to go to the market to seek alternate options. The scope for the managed service included everything from service desk to server support, through to backup and recovery management.

Of vital importance for Brett Kelly, ICT Operations Manager for McGrath, was the skillset of the successful provider and the ability to strike a suitable balance between risk and service performance in being able to meet the tight timeline for transitioning to the new service.

"I was looking for a partner with strong ITIL skills, one that had the capability to manage high volumes, with good structure and good references," said Kelly.

Data#3 used its own service design methodology to collaborate with McGrath in the development of an integrated managed service. The new service delivered to the technical capabilities, support hours required, including governing processes, and service level agreement requirements, within McGrath's budget.

To meet McGrath's requirements and to demonstrate flexibility when transitioning to the new service, Data#3 devised a phased approach, which ensured core services were delivered ahead of their deadline – the holiday shutdown period.

With respect to the overall experience with Data#3, Kelly commented, *"They were very accommodating to our needs, which made the transition process very smooth. Data#3 has demonstrated precisely the process maturity I was looking for, and they have made my job a lot easier."*

A strategic managed service helps customers to focus on their core business and innovation, safe in the knowledge that assigned services or solutions are being confidently managed. Data#3 continues to work as a trusted extension of McGrath's team and is carrying out a continual service improvement process for further enhancement of the Data#3 managed service.

“With respect to the overall experience with Data#3, they were very accommodating to our needs, which made the transition process very smooth. Data#3 has demonstrated precisely the process maturity I was looking for, and they have made my job a lot easier.”

Brett Kelly, ICT Operations Manager, McGrath Estate Agents

Victoria's Office of Public Prosecutions creates modern working environment with Office 365 and Data#3

Data#3 worked with the Office of Public Prosecutions (OPP), Victoria's largest criminal legal practice, to implement Microsoft Office 365, enabling a modern working environment for staff.

The OPP's email and documentation systems were dependent on an aging Lotus Notes platform, which integrated with a whole of government Lotus Notes-based address book. Disaster recovery was a challenge and integration with mobile devices was especially difficult. With staff travelling to many of Victoria's courts daily, it was important for them to work as efficiently as possible. New staff who were used to working with more modern systems found it difficult to adapt to the Lotus Notes environment, placing an additional training burden on the busy IT team.

With many new features added to Office 365, the solution offered clear benefits to the business, but transitioning would be complex. Bruce Stafford, Manager of Information Technology Services at OPP, who issued a Request for Proposal seeking a partner for the project, commented, *"The Data#3 response had a specific plan about implementation, and the process they would go through was clearly documented. The level of detail made Data#3 stand out above the rest."*

Data#3 was engaged to migrate Lotus Notes to Exchange, and to provide a transfer of skills to the IT staff so they could confidently manage and support the new platform.

"The consultants became part of my team, and integrated well. They worked closely to transfer knowledge to my team – the partnership between our business and Data#3 was seamless," commented Stafford.

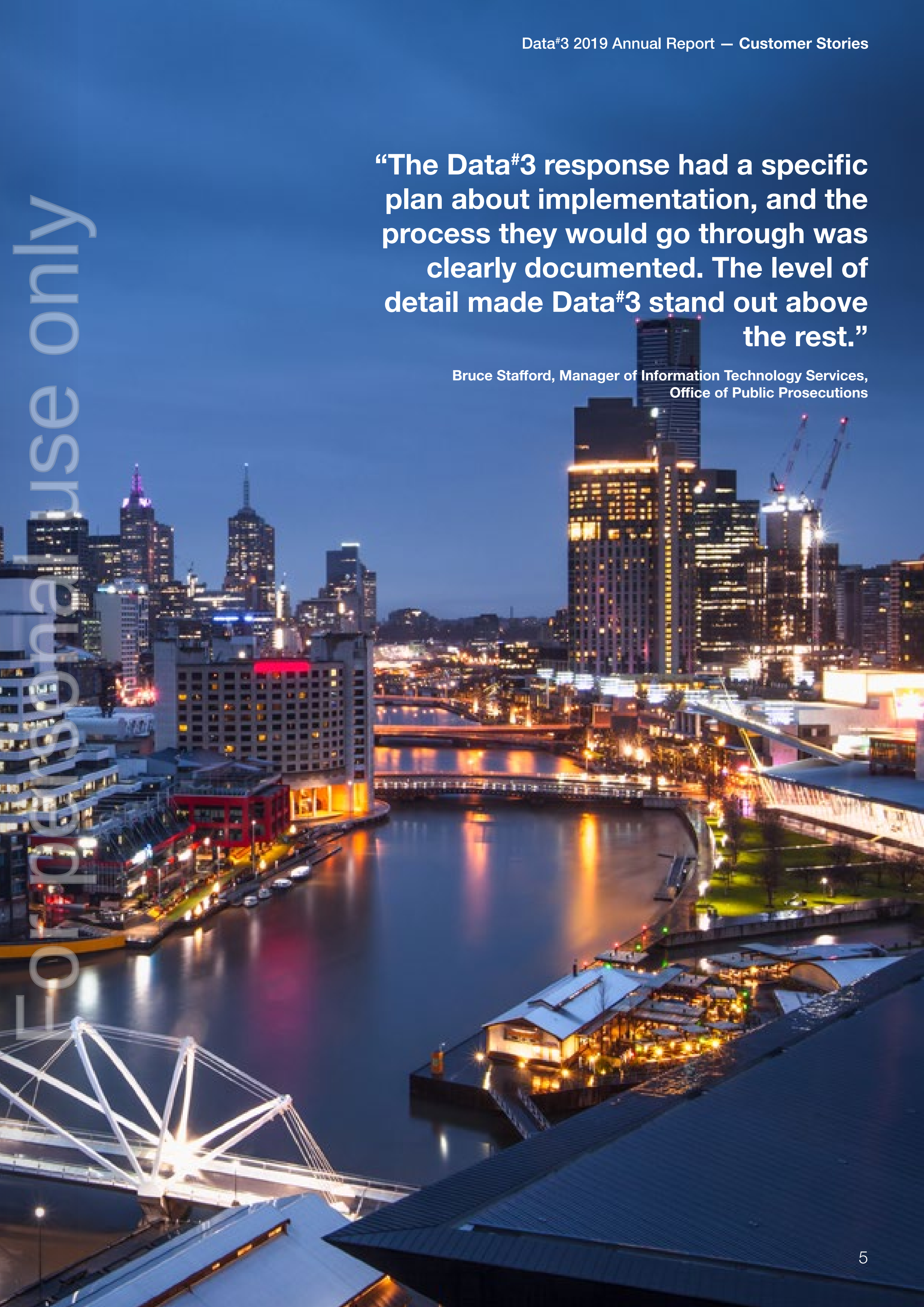
Since transitioning successfully to Office 365, the IT team no longer spends its time creating workarounds on a dated system. The time saved has been invested in more innovation-based projects.

"We can now divert our attention to several technology projects designed to make our users' lives easier. We are trialling a paperless workplace – we used to have volumes and volumes of paper, but now staff are getting documents in electronic format."

For Stafford, a highlight was that the combined OPP and Data#3 team met the challenge of a complex project, something he put down Data#3's exceptionally detailed planning for the unique OPP environment.

"Some people here had huge Lotus Notes mailboxes, with some up to 70 Gigabytes, but good planning meant we successfully migrated everyone without loss of any mail or data. We achieved what we set out to do, which is a fantastic result for the IT team and staff at OPP," concluded Stafford.

This is a fantastic example of the great skills of the Data#3 team. Helping customers to improve the way they work and gain more productivity is our core strength. Office 365 is a cloud-based subscription service that brings together the best tools for the way people work today. By combining best-in-class apps with powerful cloud services, Office 365 lets OPP create and collaborate anywhere on any device. Data#3 looks forward to working with the OPP on their future transformation projects.



"The Data#3 response had a specific plan about implementation, and the process they would go through was clearly documented. The level of detail made Data#3 stand out above the rest."

Bruce Stafford, Manager of Information Technology Services, Office of Public Prosecutions

Data#3 in FY19

12 facilities across Australia and Fiji

Branch Offices

Configuration and Integration Centres

1,200+
people

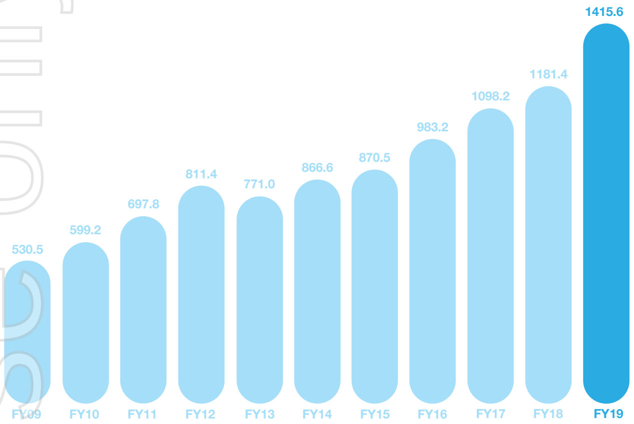
4,933
transacting customers

15.4M
products sold

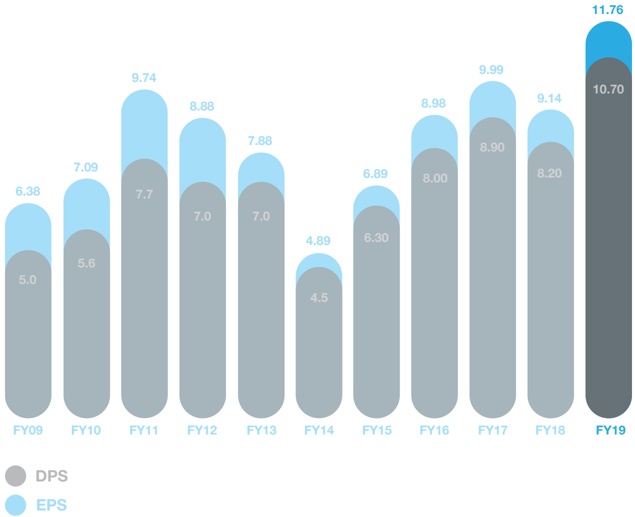
170,000
service desk calls by customers

Financial Summary

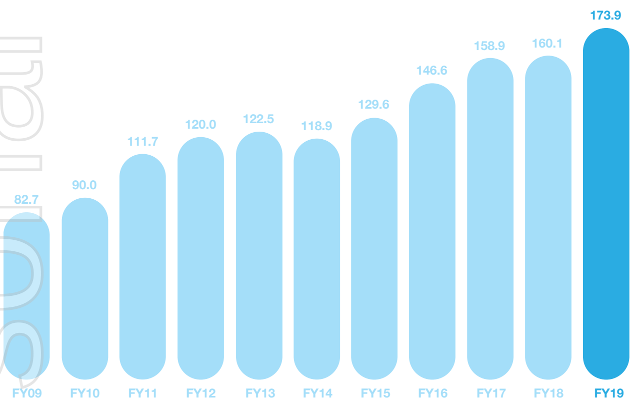
Total Revenue ($M)



Earnings per share and dividends per share (cents)



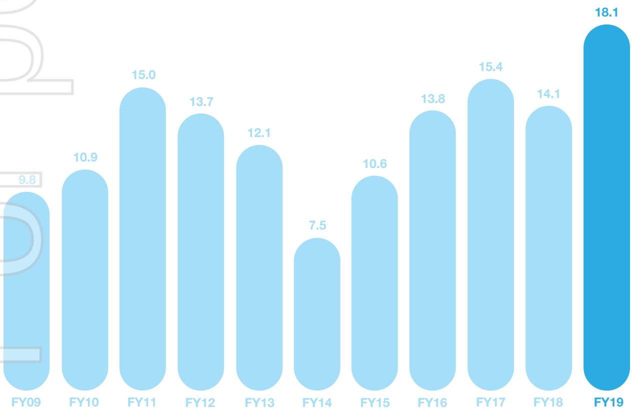
Total Gross Profit ($M)



$1.2B ↑
product revenue

$246.9M ↑
services revenue

Net profit after tax to members of Data#3 Limited ($M)



$362.2M ↑
cloud revenue

The following table sets out our performance in FY19 compared with previous years

	FY14 $'000	FY15 $'000	FY16 $'000	FY17 $'000	FY18 $'000	FY19 $'000	% change
Product revenue	697,319	709,196	791,334	889,204	962,336	1,167,446	+21.3%
Services revenue	134,776	160,247	189,981	208,088	217,965	246,906	+13.3%
Total revenue	833,595	870,470	983,223	1,098,221	1,181,411	1,415,569	+19.8%
Public cloud revenue, included above	-	47,000	98,953	169,480	267,780	362,212	+35.3%
Product gross profit	62,042	66,155	70,544	72,539	76,965	90,232	+17.2%
Services gross profit	56,827	63,329	76,030	86,340	83,147	83,675	+0.6%
Total gross profit	118,869	129,484	146,574	158,879	160,112	173,907	+8.6%
Product gross margin %	8.9%	9.3%	8.9%	8.2%	8.0%	7.7%	
Services gross margin %	42.2%	39.5%	40.0%	41.5%	38.1%	33.9%	
Total gross margin %	14.3%	14.9%	14.9%	14.5%	13.6%	12.3%	
Earnings before interest (net), tax, depreciation and amortisation	12,219	17,021	22,407	24,730	22,437	28,285	+26.1%
Earnings before interest (net) and tax	9,703	14,377	18,869	21,665	19,498	25,758	+32.1%
Net profit before tax	10,852	15,193	19,482	22,402	20,399	26,564	+30.2%
Net profit after tax to members of Data#3	7,524	10,604	13,830	15,375	14,078	18,112	+28.7%
Net profit margin %	0.90%	1.22%	1.41%	1.40%	1.19%	1.27%	
Return on equity %	22.4%	29.2%	34.7%	37.0%	31.6%	38.5%	
Basic earnings per share	4.89 cents	6.89 cents	8.98 cents	9.99 cents	9.14 cents	11.76 cents	+28.7%
Dividends declared per share	4.5 cents	6.3 cents	8.0 cents	8.9 cents	8.2 cents	10.7 cents	+30.5%
Payout ratio	92.1%	91.5%	89.1%	89.1%	89.7%	91.0%	
Share price at 30 June	$0.68	$0.79	$1.05	$1.725	$1.60	$2.12	+32.5%
Total shareholder return, based on dividends paid during year	-32.0%	23.7%	41.4%	72.7%	-3.1%	38.9%	

Operating and Financial Review

The Information and Communications Technologies (ICT) industry is fast moving and complex, with many different influences on our customers' solutions. To achieve our objective in FY19 and address the many variables in our market, we continued to enhance the connection with our people, customers and business partners and to simplify our business processes where possible.

The three-year strategic planning process for FY19 – FY21 identified the following market assumptions and trends in the adoption and use of business technology:

- Digital transformation (being the use of new digital technology) is a high priority in business strategy.
- The overall IT market growth is fuelled by digital transformation.
- Industry consolidation is creating opportunity.
- Cyber security is our customers' number one priority.
- Data and analytics are leading drivers of competitive differentiation.
- Cloud provides the platform for automation, artificial intelligence, analytics, blockchain and many more innovative technologies.
- Skilled resources are becoming more scarce.

In the interest of gaining clarity and focus, we identified three strategic priorities for FY19:

- Services – improving margins
- Digital Enablement – helping our customers succeed in their digital transformation
- Customer Experience – unifying every customer touchpoint across our company to improve the overall customer experience.

Our overall financial goal for FY19 was to deliver earnings growth and improve returns to shareholders.

Whole of group performance

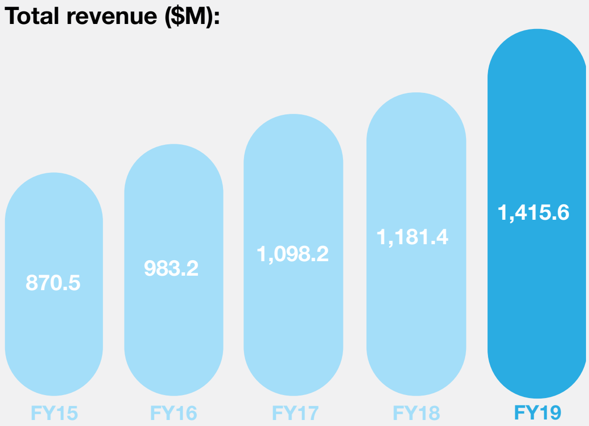
Market conditions in both the public and private sectors generally remained relatively stable in FY19, with digital transformation projects continuing to drive growth in our core infrastructure, software and services businesses.

We are delighted with the performance of the consolidated Data#3 business, which delivered a record result.

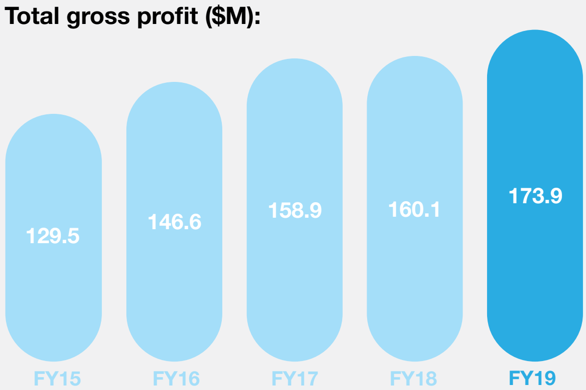
Total revenue increased by 19.8% from $1,181.4 million to $1,415.6 million, with a strong increase in product revenue and a solid increase in services revenues. We are particularly pleased with the continued, significant growth in cloud-based business, with public cloud revenues increasing 35.3% from $267.8 million to $362.2 million.

Total gross profit increased by 8.6% from $160.1 million to $173.9 million, and total gross margin decreased from 13.6% to 12.3% reflecting changes in the sales mix.

Total revenue ($M):



Total gross profit ($M):

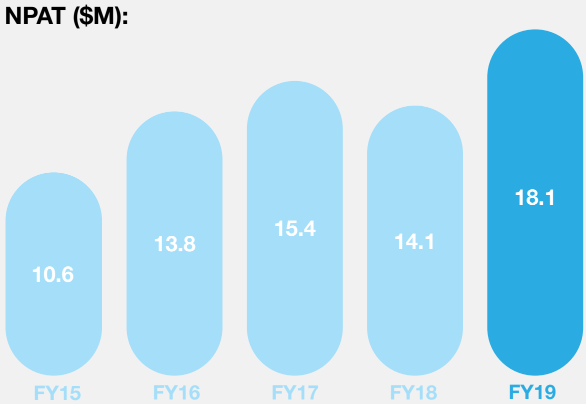


The group's total net profit before tax increased by 30.2% from $20.4 million to $26.6 million.

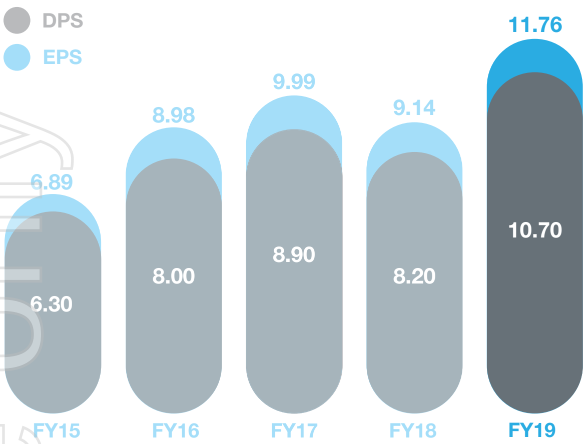
Net profit after tax (excluding minority interests in Discovery Technology) increased by 28.7% from $14.1 million to $18.1 million. This represented basic earnings per share of 11.76 cents, an increase of 28.7% from 9.14 cents in the previous year.

The board declared fully franked dividends of 10.7 cents per share for the full year, an increase of 30.5%, and representing a payout ratio of 91.0%.

NPAT ($M):



Basic EPS and DPS (cents):



Return on equity increased from 31.6% to 38.5%.

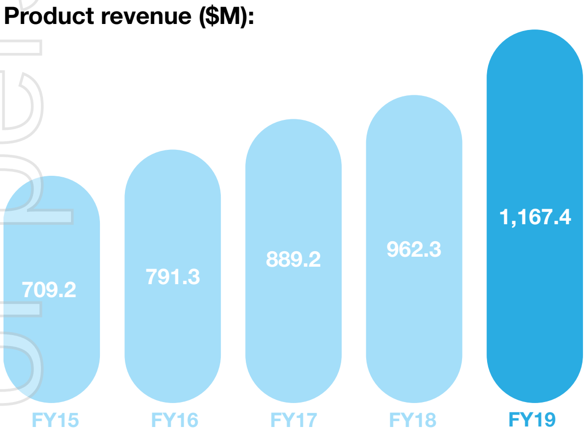
Product segment performance

Total product revenue increased by 21.3% from $962.3 million to $1,167.4 million, reflecting strong growth in Infrastructure Solutions sales (up 24.3% to $378.8 million) and strong growth in Software Solutions (up 20.3% to $787.8 million), with the $0.8 million balance comprising Discovery Technology's product revenue (down from $2.5 million in FY18). Infrastructure and Software revenues include the sale of public and private cloud solutions.

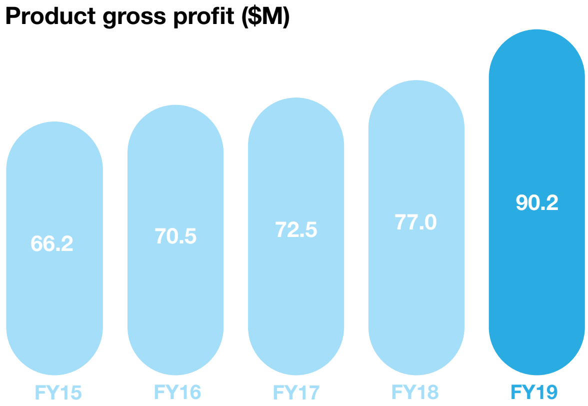
Total product gross profit increased by 17.2% from $77.0 million to $90.2 million, and product gross margin decreased slightly from 8.0% to 7.7%.

This is another very pleasing result, demonstrating the fundamental strength and resilience of our product businesses.

Product revenue ($M):



Product gross profit ($M)



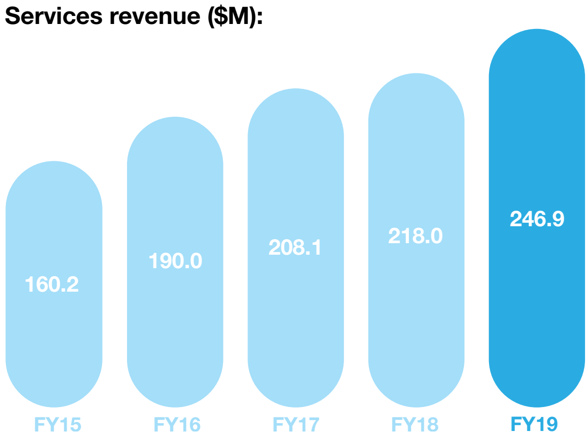
Services segment performance

Total services revenue increased by 13.3% from $218.0 million to $246.9 million. This included strong growth in Support Services (Managed and Maintenance Services) revenues (up 24.5% to $108.4 million); solid growth in Project Services revenues (up 14.2% to $54.8 million); and modest growth in Recruitment revenues (up 6.0% to $53.4 million) and Business Aspect Consulting revenues (up 5.2% to $26.5 million). Discovery Technology's services revenue decreased from $5.1 million to $3.8 million. The Support Services result reflected very strong growth in Maintenance Services, offsetting a reduction in Managed Service revenues.

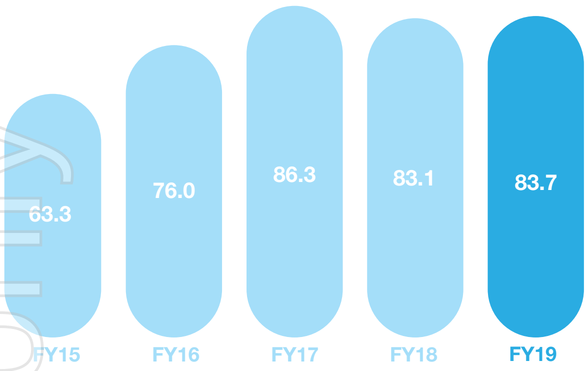
Total services gross margin decreased from 38.1% to 33.9%, reflecting the change in sales mix, and the overall services gross profit increased by 0.6% from $83.1 million to $83.7 million.

In FY18 we started the project to decommission the Data#3 Cloud platform, and this was completed in the first half of FY19. This temporarily reduced the Managed Services revenue and profit contribution in both FY18 and FY19 as we gradually transitioned to a new, public cloud-based offering. Moving forward our Managed Services business is well positioned for improved profitability, and we are making steady progress with our strategy of offering customers public or private cloud solutions from our market-leading, global vendor partners, which include the full range of Data#3 services.

Services revenue ($M):



Services gross profit ($M):



Other revenue

Other revenue increased slightly from $1.1 million to $1.2 million and largely comprised interest income.

Operating expenses

Internal staff costs increased by 6.5% from $117.6 million to $125.2 million and other operating expenses increased by 0.6% from $23.3 million to $23.4 million. The cost ratio (staff and operating expenses as percentage of gross profit) decreased from 87.4% to 85.4%, demonstrating an improvement in operating leverage.

Total staff numbers increased slightly from 1,210 at the commencement of the financial year to 1,215 at the close, with continual re-balancing of resources to meet business demands throughout the year. Average salaries increased in line with the broader industry trend, and staff incentives increased as a result of the significant profit improvement in most areas of the business.

Cash flow

The net cash flow from operating activities was an inflow of $11.7 million. As usual the operating cash flow and year-end cash balance were temporarily inflated due to the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections pre-30 June, generating temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur.

As a result, the year-end cash balance of $121.2 million was inflated by this temporary surplus, albeit lower than the unusually high surplus at 30 June 2018.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and at 28.7 days is industry best practice.

Performance against strategic priorities

We have made steady progress against the previously stated strategic objectives, as summarised below.

1. Services – improving margins

The Data#3 Cloud divestment (summarised in the 'Services segment performance' section above) significantly affected the Support Services margin and the overall blended Services margin. Support Services is a combination of Managed Services and Maintenance Services. FY19 saw a substantial reduction in higher-margin Managed Services revenues as the business unit transitions to meet the new digital strategy; however, the reduction was offset by significant growth in the lower-margin Maintenance Services revenues.

Discovery Technology also had a negative impact on Services margin due to delays in winning new business in its specific market segment.

Consulting, Project Services and Recruitment all achieved growth in revenue and profit contribution.

In summary, while we delivered many excellent services engagements for our customers, we expect to make greater progress with this ongoing strategic priority in FY20.

2. Digital Enablement – helping our customers succeed in their digital transformation

Every customer has a business strategy that includes digital technologies. All digital technologies require a foundation of cloud, networks, end-user computing and security. We help our customers build their digital foundation and therefore enable scalable, robust, digital transformation.

3. Customer Experience – unifying every customer touchpoint across our company to improve the overall customer experience.

This company-wide strategic priority is focused on consistently achieving successful customer outcomes and incremental revenue streams.

Our objective is to understand and measure every customer touchpoint, and to continue to invest in technology to help us improve the overall customer experience with Data#3. The lifecycle of services for our technology solutions, including consulting, design, implementation and support services, provides the opportunity to retain existing customers and attract new customers.

Aside from the above strategic priorities, there are other indicators we utilise to determine the health of the business. Our people satisfaction survey, customer surveys and independent external awards are three such indicators. During the year high performance was sustained across each of these areas.

People Satisfaction

We ended FY19 with 1,215 people in the group, which includes a combination of permanent, contracted and casual staff. Each year we survey our people's satisfaction and the summary for FY19 was as follows:

- strong participation in the survey
- overall satisfaction score of 4.47 out of 5, up from 4.38 in the previous year, and a record result
- 96% of our people recommend Data#3 as an employer.

Customer Satisfaction

Our annual customer satisfaction survey produced a solid overall satisfaction rating, slightly higher than the FY18 result. The regular "customer pulse" surveys continued to provide instant customer feedback on projects, service desk calls and services in general. These surveys have proved to be very useful sources of information for insight into areas of improvement and investment to ensure we are delivering enhanced customer experiences.

External Awards

Each year we receive national and international recognition from our global partners. FY19 was no exception and we were pleased to have been acknowledged with the following awards:

- Adobe Asia Pacific Partner of the Year
- Australian Reseller News (ARN) Enterprise Partner of the Year
- Australian Reseller News (ARN) Emerging Technologies Cloud Partner of the Year
- Cisco Customer Experience Partner of the Year for ANZ Region
- Cisco Software Partner of the Year for ANZ Region
- Cisco Partner of the Year for ANZ Region
- Cisco Top Commercial Service Sales Partner for Asia Pacific Japan Region
- Cisco Global Partner Summit – Software Partner of the Year
- Dell Technologies ANZ Solution Provider of the Year
- Dell EMC President's Circle Award
- HP Partner of the Year Award for Displays and Supplies for Asia Pacific Japan Region
- Mimecast Certified Partner of the Year
- Polycom Rising Star Award for ANZ Region
- Schneider Electric Services Partner of the Year
- Schneider Electric Elite Partner of the Year
- SolarWinds Partner of the Year Award for ANZ Region

This is the twelfth year in a row we were voted ARN's Enterprise Partner of the Year by our peers.

In addition to awards for our solutions or technical expertise, we are delighted to have received the following employer of choice and staff development awards:

- HRD Employer of Choice Award – Gold Medal. This is the fourth year in a row we have received an HRD award for organisations with more than 500 employees.
- LearningElite Award

These awards are not limited to the Information Technology sector; they cover all industries and include many multinational entries.

Review of financial position

Our balance sheet remains conservative with no material debt.

Trade receivables and payables are generally highest at year-end due to the traditional sales peak in May/June. Trade and other current receivables at 30 June 2019 were $293.6 million and trade and other current payables $354.7 million, reflecting the timing differences in the collections from customers and payments to suppliers around 30 June (referred to in the 'Cash flow' section).

The year-end cash balance decreased from $128.3 million to $121.2 million. The 30 June 2018 balance reflected a higher than usual temporary cash surplus, inflated by early customer receipts. The 30 June 2019 balance includes a more typical temporary surplus.

The key trade receivables indicator of average days' sales outstanding decreased and remained well ahead of target at 28.7 days. This excellent result demonstrates the effectiveness of our ongoing focus on collections and credit management.

Total inventory holdings increased from $3.3 million to $6.9 million and comprise product held in our warehousing and configuration centres pending delivery to customers for projects that were in progress at year end.

Operating results by state

Performance across the states varied, reflecting local market conditions and the relative scale of our business in each location.

Queensland

The Queensland business achieved growth from both public and commercial sectors, with total revenue increasing by 10%.

New South Wales

The NSW business achieved revenue growth of 18% with several large projects across Software, Infrastructure and Services. External market conditions remain favourable.

Australian Capital Territory

Our Canberra-based business achieved very strong revenue growth of 25% as we extended our solutions across our portfolio. We also expanded our Canberra office to cater for the business growth in core Data#3 businesses and Business Aspect.

Victoria

Our Victorian businesses delivered an excellent performance across Software, Infrastructure and Services. Overall revenue increased by 40%.

Tasmania

Our fourth year of operations in Tasmania saw strong performance across the business, matching the record revenue result of FY18.

South Australia

The SA business grew revenue by 8% and significantly improved profitability with strong growth in Services.

Western Australia

The WA business had a strong year, particularly in the healthcare sector, with revenue increasing by 37%.

Fiji and the Pacific Islands

Our second year with a local branch in Fiji continued to deliver a positive return on investment.

Operating results by area of specialisation

The core Data#3 business is structured around three functional areas – Software Solutions, Infrastructure Solutions and Services – operating across eight regions. Business Aspect operates independently but within the Data#3 group structure. Discovery Technology operates independently and externally to the Data#3 group.

Software Solutions

Software Solutions helps customers maximise business value from their software investments through effective procurement, deployment, management and use. Working with customers that span federal, state and local governments, education, health and the general commercial sector, the business offers a complete software solution. This includes the supply and management of licensing programs, the deployment and management of the software, and encouraging user adoption that maximises the productivity benefits of the software.

Software Solutions delivered record revenue and profit contributions in FY19. The shift to cloud offerings with subscription services for Microsoft Azure and Office 365 continued with solid annuity-based growth, and we continued to gain market share with new business wins.

Data#3 is a member of Microsoft's Global Azure and Infrastructure Partner Advisory Council and continued to provide input into Microsoft's global licensing and operations programs. Our Software Licensing team continued to be the most successful team in Australia, growing market share and winning major awards with our key software licensing partners. In addition to Microsoft, these leading global partners include VMware and Adobe, and security software vendors like Symantec, Palo Alto, Tenable and Splunk.

Software Asset Management Services and Licensing Consulting Services remain very popular with customers and provide an important link between the customers' software licensing agreements and Data#3's Project and Support Services, which help with the deployment, adoption and management of the software.

Infrastructure Solutions

Infrastructure Solutions helps customers maximise returns from their infrastructure investments across server, storage, networks and devices.

The Infrastructure Solutions business delivered strong growth in both revenue and profit in FY19. This growth came from each of Data#3's focus areas of server, storage, networks and devices and was boosted by our customers' increasing investment in their own private cloud solutions. This trend included growth in hyper-converged infrastructure, which combines processing power, storage and networking in larger capacity systems. Networking demand remained strong as customers upgraded networks to connect to the public cloud and adopted software-defined networking that provides additional functionality and value over core networking hardware. End-user computing demand also remained strong as customers upgraded devices to connect to their own networks and public cloud.

Data#3 retained its position on the HP Global Partner Advisory Board and remained a member of the Cisco Advisory Board for Asia Pacific.

Services

The Services business unit has a wide portfolio of services and capabilities including Project Services for the design and implementation of technology solutions; Support Services (comprising Managed Services and Maintenance Services) for annuity-based contracts; and People Solutions for the provision of contractors and permanent staff.

Project Services benefited from steady project activity, including sizeable infrastructure and software integration projects wins.

Support Services delivered a weaker financial performance with solid growth in Maintenance Services offset by a decline in Managed Services; however, it improved on its customer satisfaction, systems and processes. We have continued to move away from opportunities that do not present acceptable levels of risk (or return) and to add a catalogue of services that better supports and manages the solutions we deliver in line with our vendor technologies. With the combination of divestment from the Data#3 Cloud and reshaping our market offerings, Managed Services revenue and profit declined in FY19.

People Solutions had another solid year, delivering a record contribution. This was a great outcome in a highly competitive recruitment and contracting market. Once again, this success was helped by cross selling and cooperation from the Project Services and Managed Services business units.

Business Aspect Consulting

The majority of our consulting capability is vested in Business Aspect, a management consulting business that was acquired in FY15. Business Aspect has extensive skills, experience and expertise in digital transformation, cloud strategy, architecture, security, risk, control, planning, design and governance. In delivering services, Business Aspect addresses all layers of the business, including people, organisational change, process change, information management, information and communications technology applications and technology infrastructure. One of the business's key strengths is the experience and skills of its senior consultants.

Business Aspect Consulting delivered a solid profit contribution in the first half followed by a weaker second half due to project delays. Overall utilisation levels and profitability have improved steadily, delivering an improved profit contribution compared to FY18 and positioning the business for further growth in profit contribution in FY20.

Discovery Technology

Data#3 has a 77.4% shareholding in Discovery Technology, which is predominantly a Wi-Fi network and Wi-Fi analytics business. Discovery Technology has developed an application called Connected Customer eXperience (CCX) that provides a unique range of location and analytical services utilising Wi-Fi infrastructure.

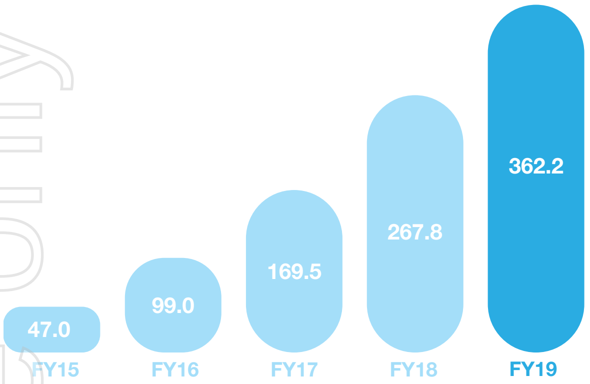
Discovery Technology continued to operate independently of Data#3 throughout FY19. During the year the business continued to experience challenges related to the early termination of a five-year customer contract in FY18, which is still subject to legal recovery action by Discovery Technology.

During FY19 we enhanced the integration between Discovery Technology and Data#3, which improved the second half performance, however the full year revenue was $3.0 million lower than FY18, delivering a disappointing pre-tax loss of $1.0 million, compared to a $0.3 million loss in FY18. As a consequence of this performance, we have written down the goodwill related to this acquisition by $1.2 million in FY19.

Data#3 still sees strategic advantage in Discovery Technology, and the closer working relationship with Discovery Technology will help capitalise on the growth in the fast-moving data and analytics market. We expect to see a return to positive profit contribution for Discovery Technology in FY20.

Cloud-based business

The major component of cloud services is the growing market segment of public cloud. In FY19 we grew public cloud-based revenues by 35.3% from $267.8 million to $362.2 million.



Data#3 is Microsoft's largest reseller in the region, and our cloud services strategy contains major elements of Microsoft's product offerings such as Azure, Office 365 and Dynamics 365. Microsoft is taking the lead in public cloud globally and locally, and we are in a prime position to capitalise on market growth. At the base level, cloud services annuity revenue with Microsoft subscription licenses is a substitute for our traditional license business. Our intent and focus is to help our customers migrate applications to the most appropriate cloud solution. This may include private or hybrid cloud where customers can use a mixture of cloud services and software, and manage both with a common set of tools. Vendors such as Cisco, Microsoft, HP and Dell EMC are major players in this market segment. Data#3 is a dominant reseller for each of these global vendors. An ideal engagement would see us provide services at every stage of our solution life cycle: consulting, design and implementation, and managed or support services for both public and private clouds.

Our strategy and plan for FY20

The strategic planning process for FY20 – FY22 identified the following market assumptions and trends in the adoption and use of business technology:

- Digital transformation is a high priority in business strategy.
- The overall IT market growth is fuelled by digital transformation.
- A convergence of Information Technology (IT) and Operational Technology (OT) is creating opportunity.
- Cyber security poses increasingly larger threats and continues to grow.
- Artificial intelligence (AI) and robotics are in early adoption phase.
- Data analytics are increasingly mainstream.
- Superior customer experience remains a key differentiator.
- Attracting and retaining skilled resources is increasingly competitive.
- Vendor channel models are changing with a greater emphasis on adoption and customer experience.

Our plan

The foundations for our plan are our core purpose, our vision, our core values and our high-level strategy.

Our core purpose is to enable our customers' success.

Acknowledging the transition that is continuing within our customers and in technology, our vision is to harness the power of people and technology for a better future.

Our core values guide how we behave and we continually reinforce these values:

HONESTY

EXCELLENCE

AGILITY

RESPECT

TEAMWORK

Our strategy is to enable our customers' digital transformation by creatively evolving our solutions capability.

Executing our plan in FY20

At the highest level, our plan is to deliver technology to support our customers' business objectives.

We work with our customers to enable their business objectives, utilising our technology solution categories:

- Cloud
- Mobility
- Security
- Data and Analytics
- IT Lifecycle Management

These solutions are delivered using our Customer Solutions Lifecycle (PDO[2]) methodology, comprising Position, Plan, Design, Deploy, Operate and Optimise phases.

Each customers' business objectives may have multiple solutions, and each solution may apply to multiple business objectives. Our solution categories contain over two hundred specific solution offerings.

Our strategic priorities for FY20 are an extension of FY19's priorities:

- Services – improving margins
- Digital Enablement – helping our customers succeed in their digital transformation
- Customer Experience – unifying every customer touchpoint across our company to improve the overall customer experience
- Vendor Relationships – investing with the right vendors, and working their channel plans to our mutual benefit

Outlook

We are confident about delivery of the company's longer-term strategy. We have a robust business, no material debt, solid long-term customer relationships, committed supplier partnerships, and a highly experienced and productive team.

We see ongoing growth in the Australian IT market, and believe we remain well positioned to capitalise on those opportunities. We will continue to build on our strengths and enhance shareholder value. Our overall financial goal remains to deliver sustainable earnings growth.

Board of Directors

Richard Anderson OAM

Non-executive Chairman

Richard joined the board of Data#3 Limited in 1997 and was appointed Chairman in September 2000. He is a member of the boards of Namoi Cotton Limited and Lindsay Australia Limited and is also President of Guide Dogs Queensland. Formerly a partner of PricewaterhouseCoopers, Richard was the firm's Managing Partner in Queensland and a member of the firm's National Committee. He previously has been a member of the board of Villa World Group, the Capital Markets Board of Queensland Treasury Corporation, and President of CPA Australia in Queensland.

Mark Gray

Non-executive Director

Mark joined the board of Data#3 Limited in 2017. Mark's career encompasses an array of senior executive and board appointments. He has served in executive roles in government and private sector organisations, including as Under Treasurer of the Queensland Treasury Department, Chief Executive Officer of the Queensland Competition Authority and the Queensland Independent Commission of Audit, Office Head at Macquarie Group and Executive Director with BDO. He is currently Chairman of the Queensland Section and a director of the Federation Board of the Royal Flying Doctor Service of Australia, and Independent Director and Chairman of Sugar Terminals Limited and Tailored Superannuation Solutions. Mark is also on the boards of Queensland Urban Utilities, Queensland Cricket and GenomiQa.

Leanne Muller

Non-executive Director

Leanne joined the board of Data#3 Limited in 2016. During her thirty-year business career Leanne held various senior corporate financial management roles, including as Chief Financial Officer (or equivalent) for RACQ, Uniting Care Queensland and Energex. Prior to those appointments Leanne worked in professional advisory services for antecedent firms of PwC and KPMG. Leanne is a non-executive director of Sugar Terminals Limited, QInsure Limited and Guide Dogs Queensland. She is also a non-executive director of Peak Services Holdings Pty Ltd, Peak Services Pty Ltd and Local Buy Pty Ltd, trading as Peak Services.

Terry Powell

Non-executive Director

Terry was Executive Chairman of Data#3 from its foundation in 1984 and then Managing Director from 1989 to June 1996. Prior to 1984, Terry was Managing Director of Powell Clark & Associates, formed in 1977. As part of Data#3 Limited's listing on the Australian Stock Exchange, he resigned as Chairman in October 1997 to allow for the appointment of a non-executive chairman. Terry re-joined the Data#3 Limited board in February 2002. Prior to retirement from Data#3 in 2001, Terry was General Manager of Group Operations with responsibility for Data#3's systems and processes, operations and logistics, business improvement and human resources. Terry's career in IT began at IBM's Data Processing Division in 1966. He continued with IBM until 1976, enjoying considerable success in systems engineering and sales roles.

Laurence Baynham

Managing Director and Chief Executive Officer

Appointed Chief Executive Officer in 2014 and Managing Director in 2016, Laurence is responsible for the day-to-day operational and planning activities of Data#3. Prior to these roles, Laurence held the position of Group General Manager for ten years and was responsible for profit and customer satisfaction across the company's lines of business and geographies. Laurence joined Data#3 in 1994, bringing with him a broad range of international IT industry experience. Laurence holds a Bachelor of Business (Honours) from East London University, is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy and a Fellow of the Australian Institute of Company Directors. Laurence sits on a number of global advisory boards for key strategic partners representing Data#3 and the wider Australian IT channel community and in 2016 was inducted into the Australian IT Industry Hall of Fame.

Senior Leadership Team

Michael Bowser

Executive General Manager – Services

Michael joined Data#3 in 1987 and has worked in many key positions within the company including technical services, services management, sales, pre-sales management and state management roles for Queensland and NSW. He has been responsible for the creation and development of Data#3's original outsourcing, networking and consulting services including numerous sales and process programs within the business. His previous responsibilities as General Manager – Data#3 Shared Services included logistics, marketing, IT, HR and sales process management. Michael was appointed to his Executive General Manager role in 2015 and is responsible for Data#3's Professional Services, Managed Services and People Solutions businesses.

Brad Colledge

Executive General Manager – Software Solutions and Infrastructure Solutions

Brad holds a degree in Business Management from Queensland University of Technology. He has 30 years' experience in the business technology industry and joined Data#3 in 1995. Initially working with Laurence Baynham to establish the Licensing Solutions business in Data#3, Brad's responsibility subsequently expanded to the broader Software Solutions business and the Infrastructure Solutions business. He was appointed to his Executive General Manager role in 2015.

Brem Hill

Chief Financial Officer and Company Secretary

Brem holds a Bachelor of Business degree (with distinction) from the University of Southern Queensland and is a fellow of both CPA Australia and the Governance Institute of Australia. Brem joined Data#3 in 1991 and is responsible for the finance and accounting, legal and risk advisory services, and investor relations functions.

Corporate Social Responsibility

Our commitment to the Data#3 social responsibility program continued in 2019, as did our pride in the fact that we remain dedicated to contributing to the national economy, having a positive influence on the communities in which we work and reducing our impact on the environment. This program enables our people to personally make a difference and to feel satisfied that they work for a company that cares.

We support local communities with environmentally responsible practices, sponsorships and volunteering, and we regularly make corporate donations to national and regional charities. We also work with our customers to support their corporate citizenship goals by helping them to reduce their energy use with green technology solutions and assisting them to dispose of their IT equipment responsibly.

Our commitment to Australia

We strive to be good corporate citizens of Australia, where we transact 99% of our business. We meet all our tax obligations in accordance with the laws of each state and the commonwealth. We do not engage in aggressive tax planning strategies and we do not use any “tax havens”. At all times we seek to have transparent and cooperative relationships with relevant tax authorities in Australia and other countries in which we may operate. Our effective income tax rate for the 2019 financial year was 32.4%.

For financial year 2019 we paid the following amounts of tax:

	$000
Australian corporate income tax	6,993
Other taxes and duties **	43,467
	50,460

**comprising GST, payroll tax, fringe benefits tax, VAT and stamp duty.

Data#3 has elected to adopt the Tax Transparency Code (TTC) because we believe disclosure of additional information in relation to tax will benefit our shareholders and the public. The TTC is a set of principles and minimum standards developed by the Australian Board of Taxation to guide disclosure of tax information by businesses. Adoption of the TTC is voluntary.

Additional disclosures of income tax information are set out in Note 5 of the financial statements, and our Tax Report in connection with the TTC is available on our website.

Our commitment to the community

Throughout FY19 Data#3 continued to engage with local and national communities through the SOUL program. This year we announced Lifeline as our new primary charity partner. We continued to support The Starlight Foundation as well as The Smith Family, The Leukaemia Foundation, Save the Children, World Vision, and a number of other organisations. We are delighted to have raised more than $70,000 for charities during the year. We have also increased our focus on our staff’s commitment to the broader community by encouraging all employees to take one day of paid leave each year to participate in voluntary programs, and to support causes close their hearts.

The more significant achievements during the year included the following:

Fiver for a Farmer

- In response to the record drought conditions experienced by Australian farmers, all states chose to host activities raising funds and awareness for Drought Angels, Rural Aid and Buy a Bale.
- Morning teas, silent raffles and online donations raised over $4,000 for these causes.

Christmas Giving Program

- Each location participated in local volunteering activities ranging from selling merchandise to wrapping toys.
- Data#3 employees were given the opportunity to make a donation in lieu of receiving a Christmas gift.
- Raffles, donations and other fundraising events raised more than $14,000 for the Starlight Foundation.

Movember

- Staff in all locations supported men’s heath by shaving their hair or growing moustaches.
- Activities, fundraising and morning teas raised more than $21,000 for the Movember Foundation.

Our commitment to the environment

While delivering exceptional value to our customers, people, technology partners, and shareholders is paramount, we also recognise and work to fulfil our responsibility toward environmental sustainability. We have well-established programs that demonstrate this understanding and encourage our personnel and stakeholders to make a personal commitment to minimise the impact of our operations on the environment.

Data#3’s Environmental Sustainability Policy integrates a philosophy of lifecycle sustainability into all our business activities, and it establishes and promotes responsible environmental practices throughout our operations.

As a result of this, Data#3 continues its commitment to

- comply with applicable Australian Government, state and local body environmental legislation, regulations, policies, initiatives and other requirements that relate to Data#3;
- promote lifecycle sustainability, minimise our environmental impact and reduce the consumption of natural resources across all activities of the business;
- develop and provide products and services that encourage and facilitate sound environmental life cycle strategies and practices;
- establish and maintain partnerships with vendors and suppliers who have clearly demonstrated and fulfil their commitment to environmental sustainability;
- nurture an environmentally responsible culture throughout Data#3; and
- continually improve through the ongoing enhancement of our management systems in accordance with our environmental and quality management processes.

Our commitment to our people

Our commitment to our people is to inspire and support their passion for excellence and desire to do their best every day; to help them meet the challenge of work-life balance; to empower them to contribute to positive change and to reward and celebrate their success as members of their Data#3 team and as individuals. Along with our core values, this strategy underpins our approach to recruitment and employee benefits and is highlighted in our Learning and Development and Work-Health-Life Balance programs.

Learning and Development

Our commitment to learning and development is driven by our aim to foster a learning culture which supports the professional growth and development of our remarkable people.

Our key objectives are to

1. provide a learning curriculum aligned with organisational objectives, core values, role specifics, and career development pathways;
2. create a variety of learning avenues to enable effective transfer of learning;
3. foster a culture which creates opportunities for timely and effective continual learning and opportunities to apply learning outcomes and share expertise and capability; and
4. ensure our people are equipped with the knowledge, skills and capabilities to thrive in a rapidly changing world.

To achieve this, our learning framework has multiple tiers to address the following areas:

- leadership and management
- sales capability
- technical capability
- professional competencies and future skills
- individual career and personal development
- mandatory training and compliance requirements.

We offer a range of different learning and professional development opportunities and resources including the following:

- individual career and performance coaching
- an internal mentoring program
- a leadership and management program
- eLearning and video content delivered through an integrated Learning Management System
- subscriptions to third party content providers
- development of internal learning content and collateral
- instructor-led training programs
- tertiary and further study support.

Work-Health-Life Balance

We are committed to helping our people achieve a healthy balance between their work and home lives. We believe a good work-life balance requires harmony between all aspects of our lives, so benefits gained from one area can support and strengthen others. We encourage this in a number of different ways:

- offering various corporate health benefits (e.g. discounts on gym and healthcare memberships, free health and skin checks, flu vaccinations etc.)
- delivering mental health related workshops, webinars and information
- offering flexible working options (e.g. work from home, part time, time in lieu and job share)
- providing access to employer-funded, confidential employee assistance programs
- providing opportunities for staff to engage in charity work (including paid days off to volunteer)
- encouraging team building activities
- providing career coaching and development sessions
- supporting professional development endeavours (such as funding additional study to obtain qualifications and certifications).

Data#3 provides these opportunities within a comprehensive health and wellbeing program aimed at increasing employee wellness and work-life balance. This program is delivered by the Organisational Development and Human Resources team and is strongly supported by Data#3's management and all branches across the nation.

People Satisfaction

One of the key benchmarks we measure each year is the response to the statement "Data#3 is an excellent company to work for, and I would recommend working at Data#3 to others in the industry". This year staff indicated higher satisfaction with the result increasing from 95% to 96%. Additionally, staff's overall satisfaction rating of our organisation reached another record high.

We are also delighted that Data#3 received an Employer of Choice Award for the fourth year in a row by the Human Resources Director (HRD) Magazine. The award recognises companies that were rated by their employees across several different aspects of satisfaction. This year Data#3 won the gold medal in the large category (500+ employees) and placed highly in several sub-categories including Health & Wellbeing, Access to Technology and Work-life Balance.

Work Health and Safety

Ensuring the health, safety and wellbeing of our employees, contractors, and others who may be impacted by our business activities are critical aspects of our business operations and our overall business success. Our sustained commitment to our people, our customers and those who may be impacted through our business activities is best reflected in our work health and safety performance, with our incident, injury and illness statistics significantly lower than industry and national averages.

Our business operations see Data#3 workers and contractors working in our offices, on customer premises, in their home environments and travelling within Australia and overseas for work. We acknowledge our office-based workers may be exposed to risks to their health and wellbeing and take active steps to understand and manage these. We have programs for ergonomic risks and potential musculoskeletal disorders due to reduced movement and activity. Our personnel have access to stand-up workstations and ergonomic equipment combined with our broader health and wellbeing initiatives.

For personnel working outside of our offices, these range from city-based offices to remote locations in Australia and abroad, and present potentially higher-risk environments. Health and safety when working in customer environments and travelling for work are priority areas for the organisation. Systems and processes are determined prior to, and during, work to secure health and safety from the outset by systematically identifying and managing health and safety hazards and risks with active follow through in the delivery of solutions and services. Our contractor and procurement arrangements also ensure outsourcing for goods and services meets Data#3's high standards for work health and safety.

While we continue to perform at an exceptional level, we remain cognizant that health and safety is dynamic and an evolving journey. We seek to continually improve our systems and processes to ensure we meet our legislative obligations and our commitment to our workers and customers, striving to provide work environments where health, safety and wellbeing are promoted and risks are eliminated or managed effectively.

Pictured: Members of the Data#3 Sydney office volunteering at Lifeline Book Fair, 2019.

Corporate Governance Statement

The board of Data#3 is committed to meeting shareholders' expectations of sound corporate governance. Corporate governance practices are reviewed regularly to ensure they support Data#3's ongoing focus on delivering sustainable performance and shareholder value.

In developing Data#3's corporate governance framework, the board has considered the ASX Corporate Governance Principles and Recommendations. Data#3 considers that its corporate governance practices complied with all the recommendations throughout the 2019 financial year, and this statement outlines how Data#3's main corporate governance practices and policies align with those recommendations

Further information regarding Data#3's corporate governance policies and practices can be found on the website: www.data3.com.au

Principle 1: Lay solid foundations for management and oversight

The board is accountable to shareholders for the oversight of management of the business and is responsible for Data#3's overall strategy, governance and performance. The board's responsibilities are set out in the board's charter, which is available on Data#3's website.

The board's charter also sets out the powers and responsibilities delegated to the managing director (MD) and the chief executive officer (CEO) as necessary to recommend and implement the strategies approved by the board and to manage the day-to-day operation and administration of the business affairs of Data#3.

Mr Baynham was appointed as CEO in 2014, and in 2016 he was also appointed as MD. Prior to these appointments Mr Baynham was Group General Manager for ten years and contributed as a key member of Data#3's management team for more than 20 years. Consequently, CEO/MD Mr Baynham is the board's principal link to the senior leadership team. The CEO/MD may further delegate within specific policies and delegation limits to members of the senior leadership team, but remains accountable for all authority delegated to its members. The board ensures the senior leadership team is appropriately qualified, experienced and resourced to discharge its responsibilities.

In the 2019 financial year the board reassessed the board's skills and continued the search for new directors to progress the board succession plan.

Directors, other than the MD, are subject to re-election in accordance with Data#3's constitution. Details of the re-election or election of each director are set out in the explanatory notes to the notice of AGM.

The company undertakes appropriate external checks before any new director or senior executive is appointed, and a written agreement is in place between Data#3 and each director and senior executive setting out the terms of his or her appointment.

The performance of Data#3's senior executives is assessed in accordance with the process adopted by the board against pre-set financial and non-financial goals. The performance of the CEO/MD is formally assessed half-yearly by the chairman, and that assessment is reviewed by the other non-executive directors. The CEO/MD is responsible for evaluating the performance of the other members of the senior leadership team. Formal evaluations of the CEO/MD and other senior executives were undertaken during the year in accordance with this process.

The board and its committees have also established a structured self-assessment process to regularly review and evaluate the performance of the board as a whole, its committees, and the board's interaction with management. This is an internal performance evaluation that uses a detailed assessment questionnaire. The results are reviewed by the chairman and presented to the board. A performance evaluation was completed during the year.

The efficient operation of the board is assisted by Mr Bonner and Mr Hill as company secretaries. Each company secretary is accountable to the board, through the chairman, for all matters to do with the proper functioning of the board.

Diversity

Data#3 understands that business performance and productivity are enhanced by a diverse workforce and is committed to promoting a culture where diversity is embraced. The company has a formal diversity policy to facilitate a more diverse and representative workforce and management structure, and which sets measurable objectives to be reported against each year.

The diversity policy seeks to provide a workplace where

- everyone is valued and respected for their distinctive skills, experiences and perspectives;
- structures, policies and procedures are in place to assist employees to balance their work, family and other responsibilities effectively;
- recruitment processes embrace diversity;
- employees have access to opportunities based on merit;
- the culture is free from discrimination, harassment and bullying; and
- employment decisions are transparent, equitable and procedurally fair.

A copy of the diversity policy is available on Data#3's website.

The measurable objectives adopted for the 2019 financial year, and an update on the company's progress towards achieving those objectives, are summarised below:

Objective: To maintain or increase the proportion of female employees working for Data#3.

- The proportion remained steady at 27%, which is well above the IT industry average.

Objective: To maintain or increase the proportion of women in the management team.

- The proportion decreased from 21% to 19%.

Objective: To maintain or increase the proportion of women on the board.

- The proportion remained steady at 20%.

The gender representation as at 30 June is set out in the following table:

	2019		2018	
	Female	Male	Female	Male
All employees	27%	73%	27%	73%
Management team	19%	81%	21%	79%
Senior leadership team	0%	100%	0%	100%
Board of directors	20%	80%	20%	80%

Principle 2: Structure the board to add value

The board has determined that its optimum composition will

- conform with the constitution of Data#3;
- have a majority of independent, non-executive directors;
- have an appropriate mix of skills, diversity and geographical representation; and
- reflect Data#3's strategic objectives.

Directors are initially appointed by the board, subject to election by the shareholders at the next AGM. Data#3's constitution specifies that all directors (with the exception of the MD) must retire from office no later than the third AGM following their last election. Where eligible, a director may stand for re-election.

The board is currently composed of five directors. The membership of the board is set out in the directors' report on page 27. Details of each individual director's background is set out in the directors' report on page 27, and the directors' profiles on page 16.

Remuneration and nomination committee

The remuneration and nomination committee is composed of three independent non-executive directors, being Mr Anderson (Chairman), Ms Muller and Mr Gray. The responsibilities of the remuneration and nomination committee are set out in its formal charter, which is available on Data#3's website, and the committee's responsibilities in relation to remuneration are set out below under the heading "Principal 8: Remunerate fairly and responsibly". The main responsibilities of the committee in relation to nomination are

- assessing the necessary and desirable competencies of board members;
- reviewing board and senior executive succession plans;
- evaluating the board's performance; and
- appointing new directors and the CEO.

The remuneration and nomination committee met once during the year. Members' attendance at the meeting is set out on page 28 in the directors' report.

Board skills and experience

The board seeks to ensure its membership includes an appropriate mix of skills, experience and personal attributes that allow the directors individually, and the board collectively, to discharge their responsibilities effectively and efficiently, to understand the business of Data#3 and the environment within which it operates, and to assess the performance of management in meeting predefined objectives and goals.

It is not expected that all directors will have skills and experience in all areas; however, it is understood that the board as a whole must have the skills and experience identified as being necessary, and the board considers that this is the case. A board skills matrix has been developed to identify and assess the collective board skills in relevant competency areas. The matrix provides important input to assist the board in identifying potential future directors to complement the board's current skill set and to address areas of future focus and development for existing directors.

Independence

The board has adopted specific principles in relation to the assessment of directors' independence, which it has applied in making this judgment for each director during the year. The chairman of the board, Mr Anderson, is considered an independent, non-executive director. Mr Gray, Ms Muller and Mr Powell are also considered independent non-executive directors. Whilst Mr Anderson has been on the board since 1997 and Mr Powell has been on the board since 2002, the board has determined that their appointment remains in the best interests of Data#3 because of the substantial knowledge and expertise they bring to the board. Ms Muller was appointed to the board in 2016 and Mr Gray was appointed in 2017.

The roles of MD and CEO are performed by Mr Baynham, who reports to the board via the chairman.

To facilitate independence, directors have the right, in connection with their duties and responsibilities, to obtain independent professional advice at Data#3's expense. Prior written approval of the chairman is required, but this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all other directors. This right was neither exercised nor sought to be exercised during the year. Directors' arrangements with Data#3 in the past have not been material and have therefore not adversely impacted the directors' independent status. Disclosure of related party transactions is set out in the financial statements.

When a potential or actual conflict of interest or a material personal interest arises in relation to any matter that concerns the affairs of Data#3, it is the board's policy that the director concerned must give the other directors immediate notice of such interest and that the director concerned takes no part in discussions or exercises any influence over other members of the board if a potential conflict of interest exists.

The board meets as often as the directors determine necessary to fulfil its responsibilities and duties, generally on a monthly basis. The number of meetings of the board and its committees held during the 2019 financial year and the number of meetings attended by each director is disclosed in the directors' report.

The board convenes at various Data#3 office locations throughout the year and meets formally on a regular basis with members of the senior leadership team and other executives. The meetings are chaired by the chairman or, in his absence, his nominee. The chairman is responsible for ensuring the governance objectives of the board are pursued and the conduct of the meetings is efficient and appropriate. The chief financial officer (CFO) and company secretary are usually invited to attend all meetings, and other executives attend the meetings periodically by invitation. Board and committee agendas are structured to reflect their defined responsibilities, to give the board a detailed overview of the performance and significant issues confronting each business unit and Data#3, and to identify major risk elements for review to ensure assets are properly valued and protective strategies are in place.

Non-executive directors are expected to make the commitment necessary to prepare for and attend board and committee meetings and associated activities. Other commitments of non-executive directors are considered by the board prior to the director's appointment to the board and are reviewed each year as part of the board performance assessment.

All new directors participate in a comprehensive induction program to gain an understanding of Data#3's financial performance, strategies, operations and risk management processes and the respective rights, duties, responsibilities and roles of the board and other senior executives. Appropriate professional development opportunities for directors are also provided to allow directors to develop and maintain the skills and knowledge required for them to perform their roles effectively. Ongoing director education is also facilitated through regular management presentations on key business activities and by relevant site visits.

The board has established an audit and risk committee and a remuneration and nomination committee to advise and support the board in carrying out its duties. Both committees are composed solely of independent directors. Each committee operates under a charter which includes a description of its duties and responsibilities. The charters are available on the company's website. Further information on the audit and risk committee is set out below under the headings "Principle 4: Safeguard integrity in corporate reporting" and "Principle 7: Recognise and manage risk".

Principle 3: Act ethically and responsibly

Data#3's board is committed to setting the highest ethical culture and standards for the company. Data#3 has a code of conduct and other relevant policies that set out acceptable practices to guide Data#3's people to act with integrity and objectivity, to observe the highest standards of behaviour and business ethics, and to strive at all times to enhance the good reputation and performance of Data#3.

Code of conduct

Data#3 has developed an extensive code of conduct which reinforces Data#3's vision and values statements, this corporate governance statement and Data#3's terms and conditions of employment that apply to all employees. In relation to conduct, the guidelines require company personnel to behave in a way that enhances the company's reputation, at all times exhibiting honesty and integrity. The guidelines also require company personnel who are aware of unethical conduct within Data#3 to report that conduct, which can be done anonymously. The code of conduct is available on Data#3's website.

Corporate social responsibility

During the year Data#3 continued to develop its formal corporate social responsibility program. For further information see pages 18 to 20.

Share trading policy

Data#3 has a share trading policy which restricts the time period in which directors and employees may purchase and sell company securities. The policy prohibits insider trading and also reinforces the directors' and company's statutory obligations to notify the ASX regarding any dealing in Data#3's securities which results in a change in the relevant interests of the director in Data#3's securities. The policy is available on Data#3's website.

Principle 4: Safeguard integrity in corporate reporting

The board is responsible for the integrity of Data#3's corporate reporting and for ensuring that the financial statements are completed in accordance with applicable accounting standards and provide a truthful and factual view of Data#3's performance and financial position.

Audit and risk committee

The board has established an audit and risk committee which is composed of three independent non-executive directors, being Ms Muller (Chair), Mr Anderson and Mr Gray. Each member is financially literate and has the technical and business expertise necessary to serve on the committee – their profiles are set out on page 16. The responsibilities of the audit and risk committee are set out in its formal charter, which is available on Data#3's website.

The audit and risk committee met five times during the year with the CEO/MD and CFO participating by invitation. Members' attendance at these meetings is set out on page 28 in the directors' report. The audit and risk committee has, within the scope of its responsibilities, unlimited access to members of the senior leadership team and access to the external auditor. Directors receive detailed financial and operational reports from senior management regularly and managers are available to discuss the reports with the board if necessary.

The CEO/MD and CFO provide a formal declaration to the board at the end of each reporting period confirming that, in their opinion, the financial records of the company have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the company, and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively in all material respects.

The company's external auditor attends each AGM and is always available to answer questions from shareholders relevant to the audit.

Principle 5: Make timely and balanced disclosure

Continuous disclosure policy

The board has established a continuous disclosure policy which contains written policies and procedures that promote timely and balanced disclosure of all material matters concerning Data#3. The continuous disclosure policy is available on Data#3's website. The company secretary has been nominated as the person responsible for communications to the ASX. This role includes ensuring the board is assessing ongoing compliance with continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosures to the ASX, analysts, brokers, shareholders and the public.

Under the policy any price-sensitive material for public announcement, such as annual and interim profit announcements, release of financial reports, presentations to investors and analysts and other investor briefings, are required to be lodged with the ASX as soon as practical and before external disclosure elsewhere and then posted on Data#3's website. Data#3 ensures that such announcements are timely, factual, do not omit material information and are expressed in a clear and objective manner. Shareholders are encouraged to subscribe on Data#3's website to receive email alerts for all company announcements.

The board has also developed procedures for safeguarding confidential corporate information to avoid premature disclosure and for responding to market rumours, leaks and inadvertent disclosures.

Principle 6: Respect the rights of security holders

Data#3 is committed to providing shareholders with extensive, transparent, accessible and timely communications on company activities, strategy and performance. Data#3 has a continuous disclosure policy that promotes effective communication with shareholders, a copy of which is available on the website. All shareholders receive electronic copies of the company's annual and half-yearly reports, unless they have elected to receive hard copies. The key platform for shareholder communication is the investor section of the company's website, which offers shareholders the ability to subscribe for email alerts on all company announcements. The website is also a repository of all information of interest to shareholders, including all recent company announcements, media briefings, details of company meetings, webcasts, press releases and annual and half-yearly financial reports. The website includes a mechanism for shareholders to provide feedback and comments, or alternatively shareholders can raise questions by contacting Data#3 by telephone, facsimile, email or post. Contact details are provided on Data#3's website and in the 'Corporate Directory' section at the end of the annual report.

Data#3 usually convenes its AGM during November. Data#3's external auditor attends each AGM and is available to answer questions about the conduct of the audit and the preparation and contents of the auditor's report. Notices of meetings are accompanied by explanatory notes on the items of business, and together they seek to clearly explain the nature of the business of the meeting. Full copies of notices of meetings are placed on Data#3's website. Shareholders are encouraged to attend the meeting or, if unable to attend, to vote on motions proposed by appointing a proxy. Data#3 webcasts the formal addresses made at its AGM and any other general meetings which are held for the benefit of those shareholders unable to attend.

Data#3's share registry, Link Market Services, also offers electronic communication with the company's shareholders, and Data#3's website has a dedicated Shareholder Services page to facilitate the electronic communication between the share registry and shareholders. Shareholders can elect to receive Data#3's documents including notices of meetings, annual reports, distribution advices and other correspondence by electronic means. Shareholders can also lodge their proxies electronically.

Principle 7: Recognise and manage risk

Risk management policy

The board has established a risk management policy and procedures (in accordance with AS/NZ ISO 31000) that promote the identification, assessment, monitoring and managing of risk, and the identification of any material changes to Data#3's risk profile. A copy of this policy is available on Data#3's website. There are many risks that Data#3 faces in its business operations and the industry within which it operates. A range of factors, some of which are beyond the reasonable control of Data#3, can influence performance.

Audit and risk committee

The board has assigned the primary responsibility for operational risk management to the audit and risk committee. Refer to "Principle 4: Safeguard integrity in corporate reporting" for information on the members and meetings of the audit and risk committee.

The audit and risk committee reviewed the company's risk management framework in the 2019 financial year and is satisfied that management has ensured sound risk management practices are embedded into the operations of the business, and that management has continued to review and improve those practices. The audit and risk committee and the board receive regular reports from management regarding the effectiveness of Data#3's management framework and any material business risks that have been identified.

The board receives regular assurance from the CEO/MD and the CFO that the declaration provided in accordance with section 295A of the *Corporations Act 2001* (see Principle 4 above) is founded on a sound system of risk management and internal control which implements policies adopted by the board and that the system is operating effectively.

The company does not have any material exposure to economic, environmental or social sustainability risks. The risks faced by Data#3 include operational, compliance, strategic, reputational, product and service quality, human resources and market-related risks. Specifically, the risk management system takes account of the following material business risks:

- changes in customers' ICT procurement models
- attraction and retention of key personnel
- quality and skill of the senior leadership team
- market demand for ICT products and services
- key vendor channel strategy and customer engagement models

- identification of ICT industry opportunities and new technology trends
- effective positioning of Data#3's solutions in the market
- internal information technology systems and processes
- delivery of customer solutions within agreed expectations
- competitor activity
- ethical conduct and reputation
- health and safety and environment
- legal and compliance.

The company does not have a separate internal audit function. The board, the audit and risk committee, the senior executives and the wider management team monitor and evaluate internal risks through a variety of existing systems, programs and policies:

- identification and assessment of strategic risks through an annual review
- regular review and reporting of operational risks relating to individual business units
- budgeting and reporting systems to monitor monthly performance against budgets and targets
- written reports from senior executives provided at monthly board meetings
- delegations of authority, including approval limits for operational and capital expenditure
- a comprehensive annual insurance review program
- work, health and safety and environment reviews
- half yearly financial reviews conducted by the company's auditors
- internal and external quality assurance audits (Data#3 Limited is a Quality Certified Company to AS/NZS ISO 9001:2015, holding SAI Global certificate number QMS43024).

Principle 8: Remunerate fairly and responsibly

Remuneration and nomination committee

The board has established a separate remuneration and nomination committee to assist in implementing remuneration policies and practices that are designed to motivate senior executives to pursue the long-term growth and success of Data#3 and to demonstrate a clear relationship between senior executives' performance and remuneration and corporate performance. Information in relation to members and meetings of the remuneration and nomination committee are set out under "Principle 2: Structure the board to add value" above, and the responsibilities of the remuneration and nomination committee are set out in its formal charter which is available on the website. In relation to remuneration, the committee is responsible for

- Data#3's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements; and
- remuneration for directors.

Data#3's remuneration policies and practices in relation to senior executives, including the amount of remuneration, are as disclosed in Data#3's remuneration report on pages 28 to 35. Data#3 has clearly differentiated the structure of non-executive directors' remuneration from that of the CEO/MD and senior executives.

Data#3's remuneration policy for non-executive directors and the amount of remuneration paid to non-executive directors is discussed in detail in the remuneration report. Non-executive directors are not granted options nor do they receive bonus payments. There are no termination payments to non-executive directors on their retirement from office other than payments accruing from superannuation contributions comprising part of their remuneration.

Directors' Report

Your directors present their report on the consolidated entity consisting of Data#3 Limited (the company) and the entities it controlled at the end of, or during, the year ended 30 June 2019. Throughout the report, the consolidated entity is referred to as the group. "We", "our", or "us" refer in this report to the directors speaking on behalf of the group.

1. Principal activities

We provide information technology solutions which draw on our broad range of products and services and, where relevant, with our alliances with other leading industry providers. Our technology solutions are broadly categorised into the following areas:

- Mobility – solutions to enable customers to seamlessly connect to business networks and information – anywhere, any time and on any device
- Cloud – highly secure data centre solutions to improve business efficiency, reduce costs and scale customers' technology requirements in hybrid IT environments
- Security – solutions designed to help our customers navigate the complexities of cyber security and a changing threat landscape
- Data and analytics – solutions designed to enhance visibility and control over customers' data to enable them to make faster, more accurate business decisions
- IT lifecycle management – solutions to optimise our customers' IT environment and assist them to realise the full value of their technology assets

Our service capabilities include

- consulting,
- project services,
- support services and
- recruitment.

There were no significant changes in the nature of our group's activities during the year.

2. Dividends

	Cents	$'000
Final dividend declared for FY19	7.10	10,932
Dividends paid in the year:		
Interim for FY19	3.60	5,543
Final for FY18	6.60	10,162
	10.20	15,705

3. Operating and financial review

Information on the operations and financial position of the group and its business strategies and prospects is set out in the Operating and Financial Review, as follows:

4. Business strategy

Our vision is to harness the power of people and technology for a better future.

For more information on our business strategy please refer to page 15 of the Operating and Financial Review.

5. Earnings per share

	2019 Cents	2018 $'000
Basic earnings per share	11.76	9.14
Diluted earnings per share	11.75	9.14

6. Significant changes in the state of affairs

There was no significant change in the state of the group's affairs during the year.

7. Significant events after the balance date

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

(a) the group's operations in future financial years; or
(b) the results of those operations in future financial years; or
(c) the group's state of affairs in future financial years.

8. Likely developments and expected results

Information on likely developments and expected results is included in the Operating and Financial Review on page 15.

9. Directors

The names and details of Data#3 Limited's directors are set out below. All directors were in office for the entire financial year and remain in office at the date of this report.

Names, qualifications, experience and special responsibilities

R A Anderson, OAM, BCom, FCA, FCPA

(Chairman, Non-executive Director)

Independent non-executive director since 1997 and Chairman since 2000. Mr Anderson was formerly a partner with PricewaterhouseCoopers, the firm's Managing Partner in Queensland, and a member of the firm's National Committee. He was previously a member of the Capital Markets Board of Queensland Treasury Corporation and President of CPA Australia in Queensland.

During the past three years Mr Anderson has also served as a non-executive director of two other public companies: Namoi Cotton Limited (director since 2001) and Lindsay Australia Limited (director since 2002). Mr Anderson is also president of Guide Dogs Queensland.

Special responsibilities:
Chairman of the board
Member of the audit and risk committee
Chairman of the remuneration and nomination committee

L C Baynham, BBus (Honours), FAICD

(Managing Director)

Managing Director since November 2016. Serving as Chief Executive Officer since 2014, Mr Baynham has served Data#3 in various roles since 1994, including as Group General Manager for ten years. Prior to joining Data#3, Mr Baynham gained a broad range of international IT industry experience. Mr Baynham is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy and sits on a number of global advisory boards for key strategic partners representing Data#3 and the wider Australian IT channel community.

A M Gray, BEcon (Hons), FAICD, FFSIA

(Non-executive Director from 29 August 2017)

Independent non-executive director since August 2017. Mr Gray's career encompasses an array of senior executive and board appointments in government and private sector organisations, including as Under Treasurer of the Queensland Treasury Department, Chief Executive Officer of the Queensland Competition Authority and the Queensland Independent Commission of Audit, Office Head at Macquarie Group and Executive Director with BDO. He is currently the Chairman of the Queensland Section and a Director of the Federation Board of the Royal Flying Doctor Service of Australia, non-executive director and Chairman of Sugar Terminals Limited and Tailored Superannuation Solutions, and non-executive director of Queensland Urban Utilities, Queensland Cricket and GenomiQa.

During the past three years, Mr Gray has served as a non-executive director of one other public company: Sugar Terminals Limited (director since 2017).

Special responsibilities:
Member of the audit and risk committee from 20 September 2018
Member of the remuneration and nomination committee from 20 September 2018

L M Muller, BCom, CA, GradDip App Fin and Inv, GAICD

(Non-executive Director)

Independent non-executive director since February 2016. Ms Muller has extensive experience in finance with a 30-year career in senior corporate financial management roles and professional advisory services roles. Ms Muller has previously held Chief Financial Officer (or equivalent) roles with RACQ, Uniting Care Queensland and Energex. Prior to those appointments Ms Muller worked for PricewaterhouseCoopers and with the Australian Securities Commission. Ms Muller is currently on the boards of Sugar Terminals Limited, QInsure Limited, Guide Dogs Queensland, Peak Services Holdings Pty Ltd, Peak Services Pty Ltd and Local Buy Pty Ltd, trading as Peak Services.

During the past three years, Ms Muller has served as a non-executive director of one other public company: Sugar Terminals Limited (director since 2017).

Special responsibilities:
Chair of the audit and risk committee
Member of the remuneration and nomination committee from 20 September 2018

W T Powell, BEcon

(Non-executive Director)

Independent non-executive director since 2002. Mr Powell was Executive Chairman of the company from its foundation in 1984 and then Managing Director from 1989 to 1996. Prior to 1984 he had extensive experience in the IT industry and was Managing Director of Powell Clark and Associates, formed in 1977. Mr Powell re-joined the board of Data#3 Limited in 2002.

Special responsibilities:
Member of the audit and risk committee until 20 September 2018
Member of the remuneration and nomination committee until 20 September 2018

Meetings of directors

The number of meetings of our board of directors (including meetings of the board committees) held during the year, and the numbers of meetings attended by each director are shown below:

Name	Full meetings of directors		Meetings of audit and risk committee		Meetings of remuneration and nomination committee	
	Meetings attended	Meetings Held*	Meetings attended	Meetings Held*	Meetings attended	Meetings Held*
R A Anderson	14	14	5	5	1	1
L C Baynham	13	14	**	**	**	**
A M Gray	12	14	4	4	0	0
L M Muller	14	14	5	5	0	0
W T Powell	14	14	1	1	1	1

* *Number of meetings held during the time the director held office or was a member of the committee during the year.*
** *Not a member of the committee during the year.*

10. Company secretary

Mr B I Hill, BBus, FCPA, FGIA, was appointed to the position of Company Secretary in 1997. He has served as our Financial Controller or Chief Financial Officer since 1992 and is a fellow of both CPA Australia and the Governance Institute of Australia.

Mr T W Bonner, LLB, BComm, AGIA, was appointed to the position of Joint Company Secretary in 2007. He has served as our General Counsel since 2005 and is a member of the Queensland Law Society and the Governance Institute of Australia.

11. Remuneration report

The remuneration report sets out, in accordance with section 300A of the *Corporations Act 2001* (Corporations Act), the following:

- the company's governance relating to remuneration;
- the policy for determining the nature and amount or value of remuneration of key management personnel (KMP);
- the various components or framework of that remuneration;
- the prescribed details relating to the amount or value paid to KMP, as well as a description of any performance conditions; and
- the relationship between the policy and the performance of the company.

Persons covered by this report

KMP are the non-executive directors, executive directors, and employees who have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity. On that basis, the individuals classified as KMP are set out below.

Name	Title
Directors:	
Richard Anderson	Chairman, Non-executive Director
Terry Powell	Non-executive Director
Mark Grey	Non-executive Director
Leanne Muller	Non-executive Director
Laurence Baynham	Managing Director/CEO
Other executives:	
Michael Bowser	Executive General Manager
Brad Colledge	Executive General Manager
Brem Hill	Chief Financial Officer

Changes to KMP remuneration during FY19

The KMP remuneration structure that applied in FY19 is primarily the same as that in FY18 except for the introduction of a share-based long-term incentive plan. The board strives to make regular improvements to remuneration governance, policies and practices to ensure they remain appropriate to the company as it grows and changes and to address feedback received from employees, shareholders, and independent consultants in relation to its KMP remuneration. A consultant was engaged to develop the share-based long-term incentive plan. The plan ensures a large component of executive remuneration is based on equity in the company and is at risk.

Overview of Data#3's remuneration governance framework and strategy

The Data#3 board has delegated certain remuneration and nomination responsibilities to a committee to review and report back to the Data#3 board. The ultimate responsibility for remuneration and nomination policy matters rests with the Data#3 board.

Remuneration and Nomination Committee
The Remuneration and Nomination Committee is a separate committee of the board and in relation to remuneration is responsible for

- Data#3's remuneration, recruitment, retention and termination policies and procedures for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements; and
- the remuneration for directors.

The committee's objective in relation to remuneration policy is to

- set remuneration at levels that are intended to attract and retain executives capable of managing our operations, achieving our strategic objectives, and increasing shareholder wealth;

- motivate senior executives to pursue the long-term growth and success of Data#3;
- demonstrate a clear relationship between senior executives' performance and remuneration;
- consider prevailing market conditions;
- be reflective of the company's short-term and long-term performance objectives; and
- be transparent and acceptable to shareholders.

The committee is authorised to investigate any matter brought to its attention with full access to all records and personnel of the company and has the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties. The committee seeks input regarding the governance of KMP remuneration from the following sources:

- shareholders
- Remuneration and Nomination Committee members
- external remuneration consultants
- tax advisors and lawyers
- managers within the company

As at the end of the reporting period the committee comprised only independent non-executive members of the board.

Executive remuneration

The executive remuneration structure is set by taking the following factors into account:

- the group's remuneration policies
- the level and structure of remuneration paid to executives of other publicly listed Australian companies of similar size
- the position and responsibilities of each executive
- appropriate targets and key performance indicators (KPIs) to reward executives for group and individual performance
- remuneration is reviewed annually and the total remuneration package (TRP) comprises:
  - base package, including superannuation, allowances, benefits and any applicable fringe benefits tax (FBT), and any salary sacrifice arrangements
  - short-term incentives (STI) which provide rewards for performance against annual targets
  - long-term incentives (LTI) which provide equity-based rewards for performance against targets indicative of shareholder benefit over a three-year period
- market practices and the circumstances of the company
- both internal relativities and external market factors
- exceptions are managed separately for occasions where particular expertise must be retained or acquired
- termination benefits are generally limited to the amount allowed for under the Corporations Act and will be specified in employment contracts.

Non-executive remuneration

Remuneration to non-executive directors is set by taking the following factors into account:

- the responsibilities and workload of each director
- the level of fees paid to non-executive directors of other publicly listed Australian companies of similar size and industry
- operational and regulatory complexity
- non-executive remuneration is reviewed annually and comprises
  - board and committee fees
  - statutory superannuation.

Board fees reflect the demands which are made on, and the responsibilities of, the directors. Board committee fees are structured to recognise the differing responsibilities and workload associated with chairing the board and each of the committees. The board determines remuneration of non-executive directors, using independent expert advice if required, within the maximum amount approved by the shareholders from time to time. This maximum currently stands at $600,000 per annum in total for salary and fees, to be divided among the non-executive directors in such a proportion and manner as they agree. Non-executive directors do not receive bonus payments or share options and are not provided with retirement benefits other than statutory superannuation. The board is composed of four non-executive directors in addition to the managing director/CEO. The board undertakes a periodic review of its performance and the performance of the board committees.

Short-term incentive (STI) policy

Incentives under the group's current STI plan are at-risk components of remuneration for executives provided in the form of cash. Under the plan executives can earn an annual cash bonus payment if predefined targets are met. The STI is linked to the achievement of financial and non-financial objectives that are relevant to meeting the company's business objectives. A major part of the STI is determined by the actual performance against planned company and divisional profit targets relevant to each individual. A smaller portion of the STI is set with reference to the executive's non-financial performance objectives which are agreed annually.

Long-term incentive (LTI) policy

Incentives under the group's current LTI plan are at-risk components of remuneration for executives provided in the form of equity in the company to ensure executives

- hold a stake in the company,
- align their interests with those of shareholders, and
- share risk with shareholders.

The LTI is based on performance rights that vest based on assessment against company objectives. The measurement period is three years, and the measure to be used is as deemed best by the board to drive value creation for shareholders.

Fixed executive remuneration

Fixed executive remuneration comprises a combination of cash and prescribed non-cash benefits at the executive's discretion, plus statutory superannuation. There are no guaranteed fixed remuneration increases included in any executives' contracts.

Variable executive remuneration – the short-term incentive (STI) plan

Feature	Description
Purpose	The STI aims to provide an incentive for executives to deliver and outperform annual business objectives that will lead to sustainable, superior returns for shareholders. The STI is composed of financial and non-financial elements; for the Managing Director/CEO and Executive General Manager roles the split is 70% financial and 30% non-financial. For the Chief Financial Officer role the split is 75% financial and 25% non-financial. Using a profit target for the financial component ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan.
Award opportunities	<u>Role</u> / <u>Base offer</u> / <u>Maximum offer</u> Managing Director/CEO / 49% of total fixed remuneration / 67% of total fixed remuneration Executive General Managers / 60% of total fixed remuneration / 81% of total fixed remuneration Chief Financial Officer / 39% of total fixed remuneration / 53% of total fixed remuneration
Performance metrics	For the financial component of the STI, the STI is earned based on the following: • targets set equate to budgeted net profit before tax plus bonus value • bonuses are earned in linear proportion to the profit target achieved – for example, achievement of 90% of the financial target will equate to earning 90% of the financial STI bonus and so on up to a maximum of 150% achievement of the financial target. For FY19 the profit target was $24,351,000 earnings before tax, amortisation arising on consolidation, and the result from Discovery Technology for full entitlement to the STI. For the non-financial component of the STI, the STI is earned based the individual's achievement against personal performance objectives.
Award determination and payment	Financial component – calculated and paid subsequent to the end of each quarter. Non-financial component – calculated and paid subsequent to the end of each half year. Payments are made in cash net of PAYG withholding.
Cessation of employment	If the executive's employment is terminated for cause, all entitlements in relation to the measurement period are forfeited. If an executive's employment is terminated for some other reason and the minimum term of three months of employment has not been satisfied, all entitlements in relation to the measurement period are forfeited unless determined otherwise by the board.
Board discretion	The board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes, including reducing (down to zero, if appropriate) any STI awards.

The board also put in place a transitional short-term equity bonus arrangement in lieu of LTI for FY18 and FY19 for up to $50,000 per executive in each year, because there were no LTI offers during FY16 and FY17. Amounts are payable as a gross bonus, and the net after-tax proceeds are applied to the on-market purchase of Data#3 shares upon the company exceeding its EPS target each year by a designated amount. The target for this bonus was met in FY19 but not met in FY18. For FY19 the participants earned no entitlement at 9.15 EPS and full entitlement at 10.50 EPS.

Variable executive remuneration – the long-term incentive (LTI) plan

Feature	Description
Purpose	The aim of the LTI remuneration element is to provide compensation based solely on earnings per share (EPS) performance by Data#3 Limited over a long-term period, as the board believes EPS is the best measure to drive long-term value creation for shareholders given the specific circumstances of the company.
Form of equity and exercise price	From 1 July 2018 the LTI plan is in the form of a performance rights plan. The rights are subject to vesting and each right entitles the holder to one ordinary share in Data#3 Limited for no consideration. There is no entitlement to dividends during the measurement period. Prior to FY19 LTI plans were in the form of cash payments that must be used to purchase shares in Data#3 Limited.
Award allocation	<u>FY19 offers</u> MD/CEO: $160,000; Executive General Managers and CFO: $150,000 each. The award value was divided by the relevant volume weighted average share price for the five trading days following the release of the FY18 audited financial statements to determine the number of performance rights granted. <u>FY18 offers</u> MD/CEO: $380,000; Executive General Managers and CFO: $350,000 each
Measurement period	Three years unless otherwise determined by the board. FY19 offers – Three years from 1 July 2018 to 30 June 2021 FY18 offers – Three years from 1 July 2017 to 30 June 2020
Vesting conditions	Vesting of the grants in both plans is based on a sliding scale of cumulative EPS performance. The full amount of these grants will only be earned upon achievement of stretch target performance outcomes. The target for the LTI is not disclosed as this is considered sensitive information. Performance rights that do not vest will lapse.
Conversion of vested performance rights	<u>FY19 offers</u> Vested rights are exercisable within 60 days following release of the FY21 financial report, except where the board exercises its discretion to settle in the form of cash. <u>FY18 offers</u> The LTI is payable within 60 days following release of the FY20 financial report as a gross bonus, and the net after-tax proceeds are applied to the on-market purchase of Data#3 shares.
Cessation of employment	Under the plan performance rights do not vest until the end of the relevant three-year period. Cessation of employment during this period will cause the performance rights to lapse, unless the board determines otherwise, such as in the case of retirement due to injury, disability, death or redundancy.
Board discretion	The board retains discretion to adjust the EPS performance condition to ensure participants are not penalised nor provided a windfall benefit arising from matters outside of management's control. The board also has discretion over the vesting and settlement of performance rights in the event of a change in control of the company.

Planned executive remuneration

Short-term incentives

In FY19 the proportion of the planned short-term executive remuneration (i.e. excluding changes in leave accruals and long-term incentives) for executive key management personnel that was performance related was 39% (FY18: 40%). In FY19 actual short-term bonuses as a proportion of planned short-term executive remuneration was 44% due to overachievement of profit-related performance metrics (FY18: 28%).

In FY19 the planned profit-related component represented 76% of the short-term bonuses (FY18: 77%). The balance of the short-term bonus is determined by performance against agreed non-financial objectives relevant to each individual. Profit targets for some areas of the business were not met in FY18, resulting in reduced bonus payments calculated on a pro rata basis.

Long-term incentives

LTI remuneration is based solely on the earnings per share (EPS) performance of Data#3 Limited.

Remuneration expenses for KMP

Compensation paid, payable, or provided by the company or on behalf of the company to key management personnel as calculated in accordance with applicable accounting standards is set out below.

		Fixed remuneration			*Variable remuneration*			
		Cash salary and fees (e)	Long service leave (a) (f)	Post-employment benefits (b)	Short-term bonus (c) (e)	LTI (d) (f)	Total	Performance related
		$	$	$	$	$	$	%
Non-executive directors								
Anderson, R.A. Chairman	2019	130,000	-	12,350	-	-	142,350	-
	2018	130,000	-	12,350	-	-	142,350	-
Gray, A.M. (From 29/08/2017)	2019	75,000	-	7,125	-	-	82,125	-
	2018	64,615	-	6,138	-	-	70,753	-
Muller, L.M. (From 26/2/2016)	2019	85,000	-	8,075	-	-	93,075	-
	2018	85,000	-	8,075	-	-	93,075	-
Powell, W.T.	2019	75,000	-	7,125	-	-	82,125	-
	2018	75,000	-	7,125	-	-	82,125	-
Subtotals – non-executive directors	2019	365,000	-	34,675	-	-	399,675	-
	2018	354,615	-	33,688	-	-	388,303	-
Executive director								
Baynham, L.C. Chief Executive Officer/MD (1)	2019	515,431	8,591	20,531	354,141	176,260	1,074,954	49.3
	2018	515,431	52,523	20,049	230,094	62,003	880,100	33.2
Other key management personnel								
Bowser, M.J. Executive General Manager	2019	310,000	15,257	20,531	277,070	163,055	785,913	56.0
	2018	289,963	12,409	20,049	166,797	57,108	546,326	41.0
Colledge, B.D. Executive General Manager	2019	362,602	10,034	20,531	320,056	163,055	876,278	55.1
	2018	352,040	12,018	20,049	198,374	57,108	639,589	39.9
Hill, B.I. Chief Financial Officer	2019	315,958	8,600	20,531	200,601	163,055	708,745	51.3
	2018	306,755	7,253	20,049	108,436	57,108	499,601	33.1
Subtotals – other key management personnel	2019	988,560	33,891	61,593	797,727	489,165	2,370,936	54.3
	2018	948,758	31,680	60,147	473,607	171,324	1,685,516	38.3
Totals – key management personnel	2019	1,868,991	42,482	116,799	1,151,868	665,425	3,845,565	47.3
	2018	1,818,804	84,203	113,884	703,701	233,327	2,953,919	31.7

(a) This is the change in accrued long service leave and is measured in accordance with AASB 119 Employee Benefits.
(b) Post-employment benefits comprise statutory superannuation.
(c) Short-term bonus is composed of STI and the transitional equity bonus in lieu of LTI.
(d) LTI comprises both cash and share-based incentives.
(e) This is a short-term benefit.
(f) This is a long-term benefit.

Contractual arrangements with executive KMP

Terms of employment for the managing director/CEO and other key management personnel are formalised under rolling contracts. The contracts state that base salary and performance-related bonuses will be agreed annually, which occurs at the commencement of each financial year. The company may terminate the contracts without notice for gross misconduct; otherwise, either party may terminate the contract early with the agreed notice period, subject to termination payments as detailed below. Other major provisions of the contracts relating to remuneration of the managing director/CEO and the other key management personnel are as follows:

L.C. Baynham (Managing Director/CEO)

- The LTI granted in FY19 was 98,160 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY18 was $380,000, subject to vesting at the end of three years.
- The transitional LTI (short-term equity bonus) offered for each of FY18 and FY19 was $50,000.
- Termination notice of up to 12 months is required.
- Payment of a termination benefit on termination due to redundancy by the company of six months of the packaged salary including performance-related bonuses is required.

All other executive KMPs

- The LTI granted in FY19 was 92,025 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY18 was $350,000, subject to vesting at the end of three years.
- The transitional LTI (short-term equity bonus) offered for each of FY18 and FY19 was $50,000.
- Termination notice of three months is required.

Mr B.I. Hill is also entitled to payment of a termination benefit on termination due to redundancy by the company of six months of the packaged salary including performance-related bonuses. This termination benefit is provided for the CEO and CFO roles as these positions are considered more likely to be subject to early termination in the event of a significant business combination.

Share-based compensation

Performance rights were granted to key management personnel as compensation during FY19 for no consideration as follows:

Key management person	Performance rights granted	Fair value of rights	FY19 employee benefits expense	FY19 expense as a percentage of KMP's total remuneration
	Number	$	$	%
Baynham, L.C.	98,160	129,571	43,190	4.0
Bowser, M.J.	92,025	121,473	40,491	5.2
Colledge, B.D.	92,025	121,473	40,491	4.6
Hill, B.I.	92,025	121,473	40,491	5.7
	374,235	493,990	164,663	4.8

At 30 June 2019 and the date of this report all of the performance rights were outstanding and none were exercisable.

No rights or options were granted during FY18.

No rights or options vested or lapsed during the year (FY18: nil), and no rights or options were exercised during the year (FY18: nil).

Interests in shares

Ordinary shares held directly, indirectly or beneficially by each key management person, including their personally related entities, are shown below.

	Balance 1 July 2017	Other changes*	Balance 30 June 2018	Other changes*	Balance 30 June 2019
Directors:					
Anderson, R.A.	600,000	20,000	620,000	30,000	650,000
Baynham, L.C.	483,840	7,255	491,095	-	491,095
Muller, L.M.	-	20,000	20,000	30,000	50,000
Powell, W.T.	3,290,000	(100,000)	3,190,000	(172,366)	3,017,634
Other executives:					
Bowser, M.J.	125,130	7,255	132,385	-	132,385
Colledge, B.D.	211,416	7,255	218,671	-	218,671
Hill, B.I.	525,130	(92,745)	432,385	-	432,385
	5,235,516	(130,980)	5,104,536	(112,366)	4,992,170

* Other changes refer to the individual's on-market trading.

None of the shares in the preceding table are held nominally by the directors or any of the other key management personnel.

Performance outcomes

Company performance
Measures of the group's performance during FY19 and the previous four years, as required by the Corporations Act, is set out below.

	Revenue	Profit after tax to members of Data#3 Limited	Basic earnings per share	Share price at 30 June	Dividends paid per share	Change in shareholder value each year*
	$'000	$'000	Cents	$	Cents	Cents
FY19	1,415,569	18,112	11.76	2.120	10.20	62.20
FY18	1,181,411	14,078	9.14	1.600	7.15	(5.35)
FY17	1,098,221	15,375	9.99	1.725	8.85	76.35
FY16	983,223	13,830	8.98	1.050	6.70	32.70
FY15	870,470	10,604	6.89	0.790	5.10	16.10

* calculated as the share price increase plus dividends paid per share during the financial year

Relationship between remuneration and company performance
The overall level of executive reward takes into account the group's performance over a number of years, with greater emphasis given to improving performance over the prior year. Since 2013 the group's net profit has grown at an average compounded rate of 6.9% per year, the average executive remuneration has increased by an average compounded rate of 7.7% per year and total shareholder return increased by an average compounded rate of 22.9%. FY13 was used as the base to calculate the compound average growth rates because the net profit for FY14 fell materially below the long-term trend. The board is satisfied with the level of executive remuneration that is at risk and based on group performance and believes the group's executives are remunerated fairly and in line with the long-term performance of the group. The introduction of the equity-based LTI during the year will ensure significant focus is maintained on the group's long-term performance, as each year's LTI offering will be subject to three-year vesting.

Cash bonuses
For each cash bonus included in the table of remuneration expenses, the percentage of the planned bonus that was actually earned in the financial year, and the percentage that was forfeited because the person did not meet the relevant profit or other performance-related criteria, are set out below.

Name	Earned %	Forfeited %
Baynham, L.C.	113%	0%
Bowser, M.J.	112%	0%
Colledge, B.D.	112%	0%
Hill, B.I.	112%	0%

Remuneration in FY19 reflected over-achievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY18: underachievement). The transitional equity bonus (in lieu of LTI) was fully met in FY19 (FY18: not met).

Long-term incentives
For long-term incentives the percentage of the planned incentive (being one-third of the incentive granted, as it vests at the end of three years) that was actually earned in the financial year, and the percentage that was forfeited because the group did not meet the relevant EPS target, are set out below.

Name	Earned %	Forfeited %
Baynham, L.C.	>100%	0%
Bowser, M.J.	>100%	0%
Colledge, B.D.	>100%	0%
Hill, B.I.	>100%	0%

The long-term targets for both the FY18 and FY19 LTI offers were fully met in FY19 (FY18: not fully met). The strong EPS performance for FY19 meant the cumulative EPS target for the FY18 offers was met as at 30 June 2019.

2018 Annual General Meeting
We received a 97.7% vote in support of the adoption of our Remuneration Report for the 2018 financial year.

Other transactions with key management personnel

There were no transactions during FY19 with key management personnel or their personally related entities other than compensation and transactions in relation to shares and performance rights as discussed in this report.

External remuneration consultant advice

The company paid an independent remuneration consultant (Ortus Consulting) $25,000 to develop a share-based long-term incentive plan. To ensure the advice was free from undue influence from the KMP that benefit from the long-term incentives, the company followed these policies and procedures:

- KMP remuneration recommendations may only be received from consultants who have been approved by the board. Before such approval is given and before each engagement, the board ensures the consultant is independent of KMP.
- KMP remuneration recommendations are only received by non-executive directors.
- The board controls engagements relating to remuneration recommendations and, while allowing interactions between management and the consultant, requires that the consultant report directly to the board.

The board is satisfied that the remuneration recommendations received were free from undue influence from KMP to whom the recommendations related because the board adhered to the policies set out above.

12. Shares under option

We have no unissued ordinary shares under option at the date of this report. No share options were granted or exercised during the financial year and up to the date of this report. Refer to section 11 above for information in relation to performance rights.

13. Indemnification and insurance of directors and officers

During the financial year, we paid a premium of $85,000 covering 18 months to insure the directors and members of the executive management team against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. Our executive officers are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings involving them as such officers if judgement is given in their favour or if they are acquitted or granted relief.

14. Environmental regulation and performance

Our group is not subject to any particular and significant environmental regulations.

15. Rounding

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the directors' report and financial report. We have rounded off amounts in the directors' report and financial report to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that instrument.

16. Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company, or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

17. Auditor independence and non-audit services

Pitcher Partners continued as our auditor in FY19. We employ Pitcher Partners on assignments additional to its statutory duties where the firm's expertise and experience with our company are important. Fees we paid or owed to the auditor for these non-audit services during the year are included in the following table of total fees paid or payable to the auditor:

	2019 $	2018 $
Audit and other assurance services		
Audit and review of financial statements	160,000	160,000
Non-audit services		
Tax compliance services	18,120	16,360
Other business advice	-	6,270
	18,120	22,630
Total remuneration	178,120	182,630

The board of directors has considered the position, and in accordance with the advice received from the audit and risk committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit and risk committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on the page following this Directors' report.

This report is made in accordance with a resolution of the directors.

R A Anderson
Director

Brisbane
21 August 2019

PITCHER PARTNERS

Level 38, 345 Queen Street
Brisbane, QLD 4000

Postal address
GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF DATA#3 LIMITED

In relation to the independent audit for the year ended 30 June 2019, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the Corporations Act 2001; and
(ii) No contraventions of APES 110 Code of Ethics for Professional Accountants.

This declaration is in respect of Data#3 Limited and the entities it controlled during the year.

Pitcher Partners

PITCHER PARTNERS

J. Evans

J J Evans
Partner
Pitcher Partners

Brisbane
21 August 2019

Financial Report 2019

Consolidated financial statements

Notes to the consolidated financial statements

Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Revenue			
Product	3	1,167,446	962,336
Services	3	246,906	217,965
Other	3	1,217	1,110
		1,415,569	1,181,411
Expenses			
Changes in inventories of finished goods		3,543	(1,152)
Purchase of goods		(1,080,757)	(884,219)
Employee and contractor costs directly on-charged (cost of sales on services)		(72,955)	(70,584)
Other cost of sales on services		(90,276)	(64,234)
Internal employee and contractor costs		(125,166)	(117,564)
Telecommunications		(2,228)	(1,876)
Rent	4	(6,702)	(7,631)
Travel		(2,109)	(1,812)
Professional fees		(1,109)	(1,588)
Depreciation and amortisation	4	(2,527)	(2,939)
Goodwill impairment	12	(1,200)	-
Finance costs	4	(164)	(101)
Other		(7,355)	(7,312)
		(1,389,005)	(1,161,012)
Profit before income tax expense		26,564	20,399
Income tax expense	5	(8,619)	(6,365)
Profit for the year		17,945	14,034
Other comprehensive income, net of tax		-	-
Total comprehensive income		17,945	14,034
Profit and comprehensive income is attributable to:			
Owners of Data#3 Limited		18,112	14,078
Non-controlling interests		(167)	(44)
		17,945	14,034
Earnings per share for profit attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share	17	11.76	9.14
Diluted earnings per share	17	11.75	9.14

The accompanying notes form part of these financial statements.

Consolidated balance sheet

as at 30 June 2019

	Notes	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents	6	121,198	128,348
Trade and other receivables	7	293,645	210,962
Contract assets	8	2,508	-
Inventories	9	6,913	3,303
Other	10	7,036	4,835
Total current assets		431,300	347,448
Non-current assets			
Trade and other receivables	7	5,403	2,323
Property and equipment	11	2,861	3,993
Deferred tax assets	5	3,139	2,810
Intangible assets	12	16,291	17,189
Total non-current assets		27,694	26,315
Total assets		458,994	373,763
Current liabilities			
Trade and other payables	13	354,724	295,343
Contract liabilities	14	42,376	-
Borrowings	20	29	178
Current tax liabilities		2,868	913
Provisions	15	5,147	4,475
Other	16	80	24,295
Total current liabilities		405,224	325,204
Non-current liabilities			
Trade and other payables	13	2,685	543
Borrowings	20	3	32
Provisions	15	3,625	2,805
Other	16	12	139
Total non-current liabilities		6,325	3,519
Total liabilities		411,549	328,723
Net assets		47,445	45,040
Equity			
Contributed equity	19	8,278	8,278
Share-based payments reserve	28	165	-
Retained earnings		38,621	36,214
Equity attributable to owners of Data#3 Limited		47,064	44,492
Non-controlling interests		381	548
Total equity		47,445	45,040

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2019

		Attributable to owners of Data#3 Limited						
		Issued shares	Contributed equity	Other reserves	Retained earnings	Total	Non-controlling interests	Total shareholders' equity
	Notes	**Number**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2017		153,974,950	8,278	-	33,312	41,590	1,165	42,755
Profit (loss) for the year		-	-	-	14,078	14,078	(44)	14,034
Other comprehensive income, net of tax		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	14,078	14,078	434	14,034
Transactions with owners in their capacity as owners:								
Payment of dividends	18	-	-	-	(11,009)	(11,009)	-	(11,009)
Additional acquisition of controlling interests		-	-	-	(167)	(167)	(479)	(646)
Non-controlling interest – cancellation of share options		-	-	-	-	-	(97)	(97)
Non-controlling interest – accretion of share options		-	-	-	-	-	3	3
Balance at 30 June 2018		153,974,950	8,278	-	36,214	44,492	548	45,040
Profit (loss) for the year		-	-	-	18,112	18,112	(167)	17,945
Other comprehensive income, net of tax		-	-	-	-	-	-	-
Total comprehensive income		-	-	-	18,112	18,112	(167)	17,945
Transactions with owners in their capacity as owners:								
Payment of dividends	18	-	-	-	(15,705)	(15,705)	-	(15,705)
Employee share schemes – value of employee services	28	-	-	165	-	165	-	-
Balance at 30 June 2019		153,974,950	8,278	165	38,621	47,064	381	47,445

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2019

	Notes	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,493,416	1,258,707
Payments to suppliers and employees (inclusive of GST)		(1,440,786)	(1,205,736)
GST paid		(34,759)	(38,622)
Interest received		962	1,044
Interest and other borrowing costs paid		(164)	(101)
Income tax paid (net of refunds)		(6,993)	(7,139)
Net cash inflow from operating activities	6	11,676	8,153
Cash flows from investing activities			
Payments for property and equipment	11	(1,125)	(1,521)
Payments for software assets	12	(1,825)	(1,873)
Payments for acquisition of minority interests in subsidiary	24	-	(646)
Proceeds from sale of property and equipment	11	7	-
Net cash inflow from investing activities		(2,943)	(4,040)
Cash flows from financing activities			
Payment of dividends	18	(15,705)	(11,009)
Finance lease payments	21	(178)	(451)
Net cash (outflow) from financing activities		(15,883)	(11,460)
Net increase/(decrease) in cash and cash equivalents held		(7,150)	(7,347)
Cash and cash equivalents, beginning of financial year		128,348	135,695
Cash and cash equivalents, end of financial year	6	121,198	128,348

The accompanying notes form part of these financial statements.

About this report

The principal accounting policies we have adopted in the preparation of our financial report are set out in the following notes to the financial statements. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the group consisting of Data#3 Limited ("the company") and its subsidiaries. References in this financial report to "we", "us" or "our" refer to management speaking on behalf of the consolidated group ("the group").

We have prepared these general purpose financial statements in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. These financial statements are presented in Australian dollars and have been prepared under the historical cost convention. Data#3 Limited is a for-profit entity for the purpose of preparing the financial statements.

Compliance with IFRS
Our financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Changes in accounting standards and regulatory requirements
We adopted all of the new and revised accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to our operations and effective for an accounting period that begins on or after 1 July 2018. Please refer to Note 1 for further information.

Rounding of amounts
The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the directors' report and financial report. We have rounded off amounts in the directors' report and financial report to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that instrument.

Corporate information

The financial report was authorised for issue in accordance with a resolution of the directors on 21 August 2019. Data#3 Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business follows:

Data#3
67 High Street
TOOWONG QLD 4066

Note 1. Changes in accounting standards

We adopted the following new or revised accounting standards from 1 July 2018:

- AASB 9 *Financial Instruments*
- AASB 15 *Revenue from Contracts with Customers*
- AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

AASB 9 *Financial Instruments*

AASB 9 replaced AASB 139 *Financial Instruments: Recognition and Measurement*. The key change that affects the group on initial application of AASB 9 and associated amending Standards relates to the new requirement to recognise impairment of financial assets carried at amortised cost based on an expected loss approach. The new impairment model uses a forward looking (expected loss) model whereby credit losses will be recognised when expected rather than when losses are incurred. The adoption of AASB 9 had no material impact on the group's financial statements.

AASB 15 *Revenue from Contracts with Customers*

This new standard introduced a five-step approach to revenue is recognition. We adopted AASB 15 on 1 July 2018 by adjusting retained earnings at 1 July 2018 by the cumulative effect of initially applying the standard; the effect was not material. The group's accounting policies for its various types of revenue are set out in detail in Note 3 below. AASB 15 uses the terms "contract asset" and "contract liability" to describe what we have previously classified as "other receivables" and "unearned income", respectively. Aside from providing more extensive disclosure of the group's contract assets and liabilities, the application of AASB 15 has not had a significant impact on the financial position or financial performance of the group. The impact on assets and liabilities as at 1 July 2018 is set out below.

	As previously reported	AASB 15 adjustments	As restated
	$'000	$'000	$'000
Other receivables	3,480	(3,480)	-
Contract assets – current	-	3,480	3,480
Unearned income	24,185	(24,185)	-
Contract liabilities – current	-	24,185	24,185

Note 1. Changes in accounting standards (continued)

AASB 2016-5 *Amendments to Australian Accounting Standards – Classification and Measurement of Share-based Payment Transactions*

This standard amends AASB 2 *Share-based Payment* and clarifies how to account for certain types of share-based payment transactions. The amendments clarify the following:

- In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.
- Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employees tax liability which is then remitted to the tax authority (i.e. a net settlement feature), the arrangement should be classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.
- A modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled should be accounted for by (1) derecognising the original liability; (2) recognising the equity-settled share-based payment at the modification date fair value of the equity instrument granted to the extent services have been rendered up to the modification date; and (3) recognising any difference between the carrying amount of the liability at the modification date and the amount recognised in equity immediately in profit or loss.

Adoption of this amendment had no impact on our financial statements for FY19.

Note 2. Segment information

Our business is conducted primarily in Australia. Our management team makes financial decisions and allocates resources based on the information it receives from our internal management system. We attribute sales to an operating segment based on the type of product or service provided to the customer. Revenue from customers domiciled in Australia comprised 99% of external sales for FY19 (FY18: 99%).

We report operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the managing director. We do not allocate income tax, assets or liabilities to each segment because management does not include this information in its measurement of the performance of the operating segments. Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length basis and are eliminated on consolidation.

We have identified two reportable segments, as follows:

- Product – providing hardware and software for our customers' desktop, network and data centre infrastructure; and
- Services – providing consulting, project services, support services and recruitment services, in relation to the design, implementation, operation and support of IT solutions.

The following table shows summarised financial information by segment for the financial years ended 30 June 2019 and 2018. Comparative information has been reclassified where necessary to ensure conformity with the current method of revenue and cost allocation.

	Product		Services		Total	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Revenue						
Total revenue	1,167,463	962,357	266,216	232,587	1,433,679	1,194,944
Inter-segment revenue	(17)	(21)	(19,310)	(14,622)	(19,327)	(14,643)
External revenue	1,167,446	962,336	246,906	217,965	1,414,352	1,180,301
Costs of sale						
Cost of goods sold	(1,077,214)	(885,371)	-	-	(1,077,214)	(885,371)
Employee and contractor costs directly on-charged	-	-	(72,955)	(70,584)	(72,955)	(70,584)
Other costs of sales on services	-	-	(90,276)	(64,234)	(90,276)	(64,234)
Gross profit	90,232	76,965	83,675	83,147	173,907	160,112
Unallocated corporate items						
Interest and other revenue					1,217	1,110
Other employee and contractor costs					(125,166)	(117,564)
Rent					(6,702)	(7,631)
Depreciation and amortisation					(2,527)	(2,939)
Goodwill impairment					(1,200)	-
Other					(12,965)	(12,689)
					(147,343)	(139,713)
Profit before income tax					26,564	20,399
Reconciliation of revenue:						
External revenue					1,414,352	1,180,301
Unallocated corporate revenue:						
Interest and other revenue					1,217	1,110
Revenue					1,415,569	1,181,411

Note 3. Revenue

We derive revenue from contracts with customers and other revenue as follows:

Business Unit	2019 $ million	2018 $ million
Product revenue from contracts with customers		
Infrastructure	378.8	304.7
Software licensing	787.8	655.1
Discovery Technology	0.8	2.5
	1,167.4	962.3
Services revenue from contracts with customers		
Professional services	54.8	50.3
Support services	108.4	87.0
Recruitment and contracting	53.4	50.4
Consulting	26.5	25.2
Discovery Technology	3.8	5.1
	246.9	218.0
Total revenue from business units	1,414.4	1,180.3
Other revenue		
Interest	1.0	1.0
Other recoveries	0.2	0.1
	1.2	1.1
Total Revenue	1,415.6	1,181.4

We recognise revenue for major business activities as follows:

Revenue from contracts with customers

Sale of goods
We recognise revenue from the sale of goods when the goods are received at a customer's specified location pursuant to a sales order, the risks of obsolescence and loss have passed to the customer, and the customer has either accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or we have objective evidence that all criteria for acceptance have been satisfied.

Rendering of services
We recognise revenue from services over time based on our achievement of milestones, if specified in the contract, or labour hours worked as a percentage of total estimated hours, for each contract where we have an enforceable right to payment for performance completed. Where it is probable that a loss will arise from a fixed price service contract, we immediately recognise the excess of total costs over revenue as an expense.

Bundled sales
We offer certain arrangements whereby customers can purchase computer systems together with a multi-year servicing arrangement. For these sales the amount recognised as revenue upon sale of the computer systems is the fair value of the system in relation to the fair value of the sale taken as a whole. The remaining revenue, which relates to the service arrangement, is recognised over the service period. We determine the fair values of each element based on the current market price of each of the elements when sold separately. Any discount on the arrangement is allocated between the elements of the contract based on the fair value of the elements.

Other revenue

Interest revenue is recognised as it accrues using the effective interest method.

Note 4. Expenses

	2019 $'000	2018 $'000
Depreciation and amortisation of property and equipment (Note 11)		
Depreciation and amortisation of property and equipment included in depreciation and amortisation expense	2,025	2,337
Depreciation of equipment recorded in cost of sales	-	252
	2,025	2,589
Amortisation of intangibles (Note 12)		
Amortisation of intangibles included in depreciation and amortisation expense	202	302
Amortisation of intangibles recorded in cost of sales	937	667
Amortisation of customer relationships included in depreciation and amortisation expense	300	300
	1,439	1,269
	3,464	3,858
Employee benefits expense	114,284	107,892
Termination benefits expense	1,747	935
Defined contribution superannuation expense (a)	12,924	12,166
Other charges against assets		
Impairment of goodwill (Note 12)	1,200	-
Impairment of trade receivables (Note 7(b))	234	13
Rental expenses on operating leases		
Minimum lease payments	4,762	6,085
Straight lining lease rentals	(291)	(341)
Rental expenses – other	2,231	1,887
	6,702	7,631
Finance costs		
Interest and finance charges paid/payable	128	67
Unwinding of discount on provisions and other payables	36	34
	164	101

(a) Post-employment benefits

We make contributions to defined contribution superannuation funds. We charge these contributions to expense as they are incurred.

Note 5. Income tax

	2019 $'000	2018 $'000
The major components of income tax expense follow:		
Current income tax expense	9,011	6,762
Deferred income tax relating to the origination and reversal of temporary differences	(439)	(505)
Adjustments for current tax of prior years	47	108
Income tax expense	8,619	6,365
A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:		
Accounting profit before income tax	26,563	20,399
Income tax calculated at the Australian tax rate: 30% (FY18: 30%)	7,969	6,120
Tax effect of amounts which are not deductible in calculating taxable income:		
R&D tax offset	-	(211)
Non-deductible items	603	348
	8,572	6,257
Under/(over) provision in prior year	47	108
Income tax expense	8,619	6,365
	%	%
Effective tax rate (income tax expense as a percentage of profit before tax)	32.4	31.2

We paid income taxes (net of refunds in relation to the prior year) of $6,993,000 during financial year 2019 (FY18: $7,139,000).

Deferred income tax assets and liabilities are attributable to the following temporary differences:	$'000	$'000
Accrued liabilities	2,060	2,617
Provisions	2,736	2,209
Lease incentive liabilities	29	76
Depreciation	1,235	1,203
Other	453	474
Total deferred tax assets	6,513	6,579
Intangible assets	(282)	(751)
Lease incentive assets	(18)	(30)
Accrued income/contract assets	(2,498)	(2,470)
Other	(576)	(518)
Total deferred tax liabilities	(3,374)	(3,769)
Net deferred tax assets	3,139	2,810

Movements in deferred tax assets are as follows:

	Accrued liabilities	Provisions	Lease incentive liabilities	Depreciation	Other	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2017	2,385	2,170	110	996	685	6,346
(Charged)/credited						
- to profit or loss	232	39	(34)	204	(211)	230
- to current tax liability	-	-	-	3	-	3
Balance at 30 June 2018	2,617	2,209	76	1,203	474	6,579
Charged/(credited)						
- to profit or loss	(544)	527	(47)	32	(1)	(33)
- to current tax liability	(13)	-	-	-	(20)	(33)
Balance at 30 June 2019	2,060	2,736	29	1,235	453	6,513

Movements in deferred tax liabilities are as follows:

	Intangible assets	Lease incentive assets	Accrued income/ contract assets	Other	Total
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 July 2017	(989)	(14)	(2,402)	(3)	(3,408)
Charged/(credited)					
- to profit or loss	238	(16)	(68)	3	157
- to current tax liability	-	-	-	(518)	(518)
Balance at 30 June 2018	(751)	(30)	(2,470)	(518)	(3,769)
Charged/(credited)					
- to profit or loss	469	12	(4)	(52)	425
- to current tax liability	-	-	(24)	(6)	(30)
Balance at 30 June 2019	(282)	(18)	(2,498)	(576)	(3,374)

Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses or R&D tax offsets.

We recognise deferred tax assets and liabilities for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences arising from the initial recognition of an asset or a liability, except that no deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction (other than a business combination) that did not affect either accounting or taxable profit or loss at the time of the transaction.

Note 5. Income tax (continued)

We only recognise deferred tax assets for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to use those temporary differences and losses. We do not recognise deferred tax assets and liabilities for temporary differences between the carrying amount and tax base of investments in subsidiaries where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

We recognise current and deferred tax in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively. We only offset deferred tax assets and deferred tax liabilities if they relate to the same taxable entity and the same taxation authority, and a legally enforceable right exists to set off current tax assets against current tax liabilities.

Tax consolidation legislation
Data#3 Limited and its wholly-owned Australian subsidiaries are part of a tax-consolidated group under Australian taxation law. Data#3 Limited and the controlled entities in the tax-consolidated group continue to account for their own current and deferred tax amounts. These amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right. Data#3 Limited, as the head entity, immediately assumes current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits from controlled entities in the tax consolidated group, in addition to its own current and deferred tax amounts.

The entities in the tax-consolidated group have also entered into tax sharing and funding agreements. Under the terms of these agreements, the wholly-owned subsidiaries reimburse Data#3 Limited for any current tax payable assumed and are compensated by Data#3 Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Data#3 Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned subsidiaries' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax installments. The funding amounts are recognised as current intercompany receivables or payables.

In the opinion of the directors, the tax sharing agreement is also a valid agreement under the tax consolidation legislation and limits the joint and several liability of the wholly-owned subsidiaries in the case of a default by Data#3 Limited.

No tax losses are available for offset against future taxable profits (FY18: nil).

Note 6. Cash and cash equivalents

	2019 $'000	2018 $'000
Cash at bank and on hand	13,184	49,334
Deposits at call	108,014	79,014
	121,198	128,348

For purposes of the consolidated statement of cash flow, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. We show any bank overdrafts within borrowings in current liabilities on the balance sheet.

Reconciliation of net profit to net cash flow from operations

	Notes	2019 $'000	2018 $'000
Profit for the year		17,945	14,034
Depreciation and amortisation	4	3,464	3,858
Goodwill impairment	12	1,200	-
Fixed assets transferred to inventory		-	1,126
Unwinding of discount on provisions		36	34
Bad and doubtful debts	4	234	13
Excess and obsolete inventory		3	80
Non-cash employee benefits expense – share-based payments	27	165	-
Accretion of options to minority interest in subsidiary, net of options cancellations		-	(94)
Other		20	59
Change in operating assets and liabilities			
Increase in receivables and contract assets		(88,494)	(44,275)
Decrease/(increase) in inventories		(3,543)	1,097
Decrease/(increase) in other operating assets		(1,993)	269
Decrease/(increase) in net deferred tax assets		(329)	128
Increase in payables		61,523	32,024
Increase in contract liabilities/unearned income		18,191	692
Increase/(decrease) in other operating liabilities		656	(177)
Increase/(decrease) in current tax liabilities		1,955	(1,196)
Increase in provision for employee benefits		643	481
Net cash inflow from operating activities		11,676	8,153

Note 7. Trade and other receivables

	2019 $'000	2018 $'000
Current		
Trade receivables (a)	272,380	191,142
Allowance for impairment (b)	(233)	(11)
	272,147	191,131
Other receivables (c)	21,498	19,831
	293,645	210,962
Non-current		
Trade receivables on deferred payment terms (d)	5,403	2,323

We carry loans and receivables at amortised cost using the effective interest method. We calculate amortised cost by taking into account any discount or premium on acquisition over the period of maturity. We establish an allowance for impairment of loans and receivables using the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, we group trade receivables based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical credit losses experienced over the previous ten years. We adjust historical loss rates to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

In the previous year our policy in relation to the impairment of loans and receivables was as follows:

Impairment losses are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

We establish an allowance for impairment of trade receivables when there is objective evidence that we will not be able to collect all amounts due according to the original terms of the receivables. We consider significant financial difficulties of the debtor, default payments or debts more than 120 days overdue where there are not extenuating circumstances to be objective evidence of impairment. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

We recognise impairment losses in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, we write it off against the allowance account. Subsequent recoveries of amounts previously written off are credited to other revenue in profit or loss.

(a) Trade receivables

Trade receivables, which are non-interest bearing and generally due for settlement within 30 days, are recognised initially at fair value and subsequently measured at amortised cost, less an allowance for impairment.

(b) Allowance for impairment

We recognised an impairment loss of $234,000 in the current year (FY18: $13,000). Impairment amounts are included in profit or loss within other expenses. Movements in the provision for impairment loss were as follows:

	$'000
Carrying amount at 1 July 2017	85
Impairment loss recognised during the year	13
Receivables written off during the year	(13)
Unused provision reversed during the year	(74)
Carrying amount at 30 June 2018	11
Impairment loss recognised during the year	234
Receivables written off during the year	(1)
Unused provision reversed during the year	(11)
Carrying amount at 30 June 2019	233

Our ageing of trade receivables, receivables past due not impaired, and the expected loss percentage applied to each ageing category at 30 June 2019, is as follows:

	2019				2018	
	Expected loss	**Trade receivables**	**Credit loss allowance**	**Past due but not impaired**	**Considered impaired**	**Past due but not impaired**
	%	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Current	-	251,137	-	-	-	-
31-60 days	-	12,148	-	12,148	-	9,784
61-90 days	-	3,997	-	3,997	-	1,683
91-120 days	2.5%	874	22	852	6	732
+120 days	5.0%	4,224	211	4,013	5	3,146
		272,380	233	21,010	11	15,345

For trade receivables that are past due, each customer's account has been placed on hold where deemed necessary until full payment is made.

(c) Other receivables

These amounts generally arise from accrued rebates or transactions outside our usual operating activities. Interest is normally not charged, collateral is not normally obtained, and the receivables are normally due within 30 days of recognition. None of these receivables are past due.

(d) Trade receivables on deferred payment terms

Non-current trade receivables are unsecured, non-interest bearing and payable within two years. None of these receivables are past due.

Note 8. Contract assets

	2019	2018
	$'000	**$'000**
Contract assets	2,508	-

Contract assets arise from revenue contracts when billing under the contract occurs subsequent to the delivery of the goods or services, and an enforceable right to collect the amount from the customer exists. Refer to Note 1 in relation to FY18. We establish an allowance for impairment of contract assets using the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

To measure the expected credit losses, contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates that apply to each ageing category are set out in Note 7(b). None of the contract assets were past due at 30 June 2019.

Note 9. Inventories

	2019	2018
	$'000	**$'000**
Goods held for sale – at cost	6,913	3,303

Inventories are stated at the lower of cost and net realisable value. We assign costs to individual items of inventory on a specific identification basis after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Inventories recognised as expense in cost of goods sold during FY19 amounted to $337,678,000 (FY18: $275,318,000).

Note 10. Other assets

	2019	2018
	$'000	**$'000**
Prepayments	6,781	4,710
Security deposits	255	125
	7,036	4,835

Note 11. Property and equipment

	2019 $'000	2018 $'000
Leasehold improvements – at cost	10,684	10,801
Accumulated amortisation	(8,850)	(8,676)
	1,834	2,125
Equipment – at cost	4,807	4,862
Accumulated depreciation	(3,780)	(2,994)
	1,027	1,868
	2,861	3,993

Property and equipment is stated at cost, less accumulated depreciation and amortisation. We depreciate our equipment using the straight-line method or diminishing value method to allocate cost, net of residual values, over the estimated useful lives of the assets, being three to 20 years. We calculate amortisation on leasehold improvements using the straight-line method over two to ten years. If an asset is impaired, we immediately write down its carrying amount to its recoverable amount.

	2019 $'000	2018 $'000
Leased assets		
Property and equipment include the following amounts where we are a lessee under a finance lease:		
Cost	533	533
Accumulated depreciation	(500)	(330)
Carrying amount	33	203

We classify leases of property and equipment where the group, as lessee, has substantially all the risks and rewards of ownership as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property or the present value of the minimum lease payments. We include the corresponding rental obligations, net of finance charges, in other short-term and long-term payables. Lease payments are allocated between the liability and interest expense. We depreciate each leased asset on a straight-line basis over the shorter of the asset's useful life or the lease term.

Assets subject to finance lease effectively secure the related lease liabilities (Note 20).

	Leasehold improvements $'000	Equipment $'000	Total $'000
Carrying amount at 1 July 2017	2,828	3,359	6,187
Additions	451	1,070	1,521
Transfers to inventory	-	(1,126)	(1,126)
Depreciation and amortisation (Note 4)	(1,153)	(1,436)	(2,589)
Carrying amount at 30 June 2018	2,126	1,867	3,993
Additions	797	328	1,125
Transfers to inventory	-	(220)	(220)
Depreciation and amortisation (Note 4)	(1,089)	(936)	(2,025)
Disposals	-	(12)	(12)
Carrying amount at 30 June 2019	1,834	1,027	2,861

Note 12. Intangible assets

	2019 $'000	2018 $'000
Goodwill – at cost	11,843	11,843
Accumulated impairment	(1,787)	(587)
	10,056	11,256
Software assets – at cost	3,766	4,897
Accumulated amortisation and impairment	(1,081)	(2,814)
	2,685	2,083
Internally generated software assets – at cost	7,732	8,030
Accumulated amortisation and impairment	(4,232)	(4,530)
	3,500	3,500
Customer relationships	1,500	1,500
Accumulated amortisation and impairment	(1,450)	(1,150)
	50	350
	16,291	17,189

	Goodwill	Software assets	Internally generated software	Customer relationships	Total
	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 2017	11,256	1,902	2,910	650	16,718
Additions	-	612	1,261	-	1,873
Disposals	-	(133)	-	-	(133)
Amortisation (Note 4)	-	(298)	(671)	(300)	(1,269)
Carrying amount at 30 June 2018	11,256	2,083	3,500	350	17,189
Additions	-	888	937	-	1,825
Disposals	-	(96)	-	-	(96)
Amortisation (Note 4)	-	(202)	(937)	(300)	(1,439)
Impairment (refer below)	(1,200)	-	-	-	(1,200)
Transfers from property and equipment	-	12	-	-	12
Carrying amount at 30 June 2019	10,056	2,685	3,500	50	16,291

Goodwill
We initially measure goodwill on acquisition at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequently goodwill is carried at cost less any accumulated impairment losses. We test goodwill for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and we write its value down when impaired (refer below).

Software
Software assets include those we have developed ourselves and those we have purchased. We capitalise costs incurred in purchasing or developing software where the software will provide a future financial benefit to the group. Costs of internally generated software that we capitalise from the date we have determined the software's technical feasibility include external direct costs of materials and service and direct payroll and payroll-related costs of employees' time spent on the project. Software assets are carried at cost less accumulated amortisation and impairment losses. We calculate amortisation using the straight-line method over the estimated useful lives of the respective assets, generally two to five years.

Customer relationships
Customer relationships have been externally acquired. We capitalise acquired customer relationship assets at fair value based on an assessment of future cash flows. Customer relationship assets are carried at cost less accumulated amortisation and impairment losses. We calculate amortisation using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. We test customer relationship assets for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and we write its value down when impaired (refer below).

Impairment testing

Goodwill is not subject to amortisation; we test it annually for impairment, or more frequently if events or changes in circumstances indicate it might be impaired. We test other assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We recognise an impairment loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or value in use. For the purposes of assessing impairment, we group together assets that cannot be tested individually into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit or CGU). For the purpose of goodwill impairment testing, we aggregate CGUs to which goodwill has been allocated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. We allocate goodwill acquired in a business combination to groups of CGUs that are expected to benefit from the synergies of the combination.

Note 12. Intangible assets (continued)

We have allocated goodwill to our cash-generating units (CGUs) according to operating segment, unless the segment did not exist at the time of the business acquisition which generated the goodwill. Goodwill summarised by reporting segment is shown below.

	Product $'000	Services $'000	Total $'000
Carrying amount at 1 July 2017	3,421	7,835	11,256
Carrying amount at 1 July 2018	3,421	7,835	11,256
Impairment recognised during FY19	(324)	(876)	(1,200)
Carrying amount at 30 June 2019	3,097	6,959	10,056

We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. We determined the recoverable amount of each operating segment based on a value-in-use calculation using cash flow projections on the basis of financial projections approved by senior management for FY20. For all operating segments except Discovery Technology, we applied an 11% before-tax discount rate to cash flow projections (FY18: 12%) and extrapolated cash flows beyond the FY20 financial year using an average growth rate of 3.5% (FY18: 3.5%). No impairment was identified on these operating segments at 30 June 2019.

For the separate Discovery Technology operating segments, we determined the recoverable amount based on a value-in-use calculation using cash flow projections on the basis of financial projections approved by senior management for FY20. We applied a 13% before-tax discount rate to cash flow projections (FY18: 15%) and extrapolated cash flows beyond the FY20 financial year using an average growth rate of 7.5% (FY18: 2.5%). The analysis indicated impairment of approximately $1,200,000 existed at 30 June 2019. This amount has been charged to expense for FY19.

Key assumptions used in value-in-use calculations

We determined budgeted gross profits based on past performance and our expectations for the future. The discount rate was estimated based on our weighted average cost of capital, adjusted for greater risk for the Discovery Technology operating segments, at the date of impairment test. If the discount rate were to increase to 14% and the average cash flows beyond FY20 grew by only 5%, the carrying value of the goodwill in relation to Discovery Technology would exceed its recoverable amount by an additional $450,000. If the discount rate were to increase to 15% and the average cash flows beyond FY20 grew by only 3%, the carrying value of that goodwill would be completely impaired.

Note 13. Trade and other payables

	2019 $'000	2018 $'000
Current		
Trade payables – unsecured	327,209	263,271
Other payables – unsecured (a)	27,515	32,072
	354,724	295,343
Non-current		
Trade payables on deferred payment terms	2,685	543

Current trade and other payables are unsecured and are usually paid within 30 to 60 days of recognition. Non-current trade payables are unsecured, non-interest bearing, subject to a default rate of 18%, and payable within two years.

(a) Other payables

Wages, salaries, annual leave and sick leave

Liabilities for wages, salaries, including non-monetary benefits, and annual leave expected to be settled wholly within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for annual leave expected to be settled at least 12 months after reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, and discounted using market yields at the reporting date on corporate bonds with terms to maturity that match the estimated future cash flows as closely as possible. Liabilities for sick leave, which are non-vesting, are recognised when the leave is taken and measured at the rates paid or payable.

Bonus plans

We recognise a liability for employee benefits in the form of bonus plans in other payables when we have a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. We measure liabilities for bonus plans at the amounts expected to be paid when they are settled; settlement occurs within 12 months.

Note 14. Contract liabilities

	2019 $'000	2018 $'000
Contract liabilities	42,376	-

Contract liabilities arise from revenue contracts when customers pay us amounts due under the contracts before the product or services identified in the contracts are delivered. Refer to Notes 1 and 16 in relation to FY18. We recognised revenue of $20,213,000 that was included in the contract liability balance at 1 July 2018 in relation to customer contracts for the provision of IT products and services.

Note 15. Provisions

	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Employee benefits	4,888	2,522	7,410	4,470	2,297	6,767
Lease remediation (Note 22)	259	1,103	1,362	5	508	513
	5,147	3,625	8,772	4,475	2,805	7,280

Movements in provisions other than employee benefits are as follows:

	Lease remediation $'000
Carrying amount at 1 July 2017	541
Increase to present value	34
Used during the year	(62)
Carrying amount at 30 June 2018	513
Arising during the year	818
Increase to present value	36
Used during the year	(5)
Carrying amount at 30 June 2019	1,362

We recognise provisions when we have a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. We measure provisions at the present value of management's best estimate of the expenditure required to settle the obligation at the balance sheet date, where the discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

If we are virtually certain that some or all of a provision will be reimbursed, such as under an insurance contract, we recognise the reimbursement as a separate asset. We present the expense relating to any provision in the profit or loss net of any reimbursement.

Long service leave
The liability for long service leave which is not expected to be settled within 12 months after the end of the period in which the employee renders the related service is recognised in the provision for employee benefits and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. We consider expected future wage and salary levels, experience of employee departures and periods of service when estimating the liability. We discount expected future payments using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

We present the obligations as current liabilities in the balance sheet if we do not have an unconditional right to defer settlement for at least 12 months after the reporting date, regardless of when the actual settlement is expected to occur.

Note 16. Other liabilities

	2019 $'000	2018 $'000
Current		
Unearned income	-	24,185
Lease incentives	80	110
	80	24,295
Non-current		
Lease incentives	12	139

Unearned income comprises amounts received in advance of the provision of goods or services in FY18. Refer to Note 14 in relation to FY19.

Note 17. Earnings per share

	2019	2018
Basic earnings per share (cents)	11.76	9.14
Diluted earnings per share (cents)	11.75	9.14
Earnings used in the calculation of basic and diluted earnings per share ($000)	18,112	14,078
Weighted average number of ordinary shares for basic earnings per share (number)	153,974,950	153,974,950
Weighted average number of ordinary shares for diluted earnings per share (number)	154,160,530	153,974,950

Basic earnings per share is computed as profit attributable to owners of the company, adjusted to exclude costs of servicing equity (other than ordinary shares), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Note 17. Earnings per share (continued)

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 18. Dividends

	2019 $'000	2018 $'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for FY18: 6.60c per share (FY17: 5.55c)	10,162	8,546
Interim fully franked dividend for FY19: 3.60c per share (FY18: 1.60c)	5,543	2,463
	15,705	11,009
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for FY19: 7.1c (FY18: 6.60c)	10,932	10,162
The tax rate at which dividends paid have been franked is 30% (FY18: 30%). Dividends declared will be franked at the rate of 30% (FY18: 30%).		
Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (FY18: 30%)	22,897	21,367

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The dividend declared by the directors since year end, but not recognised as a liability at year end, will result in a reduction in the franking account of $4,685,000 (FY18: $4,355,000).

Note 19. Contributed equity

(a) Movements in ordinary share capital

There were no movements in ordinary share capital during FY19 and FY18.

(b) Ordinary shares

All ordinary shares issued as at 30 June 2019 and 2018 are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company has an unlimited amount of authorised capital. Subject to legislative requirements, the directors control the issue of shares in the company.

(c) Share options

No share options are outstanding as at 30 June 2019.

(d) Capital management

When managing capital (equity), the board's objectives are to ensure the group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. The board adjusts the capital structure as necessary to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the board may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or reduce debt that may be incurred to acquire assets.

During FY19 the board paid dividends of $15,705,000 (FY18: $11,009,000). The board's intent is to maintain the historical dividend payout ratio; however, market conditions and funding requirements are taken into consideration prior to the declaration of each dividend.

We are not subject to any externally imposed capital requirements.

Note 20. Borrowings

	2019 $'000	2018 $'000
Current		
Finance lease liabilities – secured	29	178
Non-current		
Finance lease liabilities – secured	3	32
Total secured liabilities	32	210

Borrowings are initially recognised at fair value, net of transaction costs, and subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowing using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Assets pledged as security

All our assets are pledged as security for bank facilities (above and refer to Note 22).

Note 21. Net debt reconciliation

An analysis of net debt and the movements in net debt are set out below.

Net debt	2019 $'000	2018 $'000
Cash and cash equivalents	121,198	128,348
Finance leases	(32)	(210)
Net debt	121,166	128,138

Movement in net debt	Cash $'000	Finance leases $'000	Total $'000
Net debt at 1 July 2017	135,695	(661)	135,034
Cash flows	(7,347)	451	(6,896)
Net debt at 30 June 2018	128,348	(210)	128,138
Cash flows	(7,150)	178	(6,972)
Net debt as at 30 June 2019	121,198	(32)	121,166

Note 22. Commitments

	2019 $'000	2018 $'000
(a) Non-cancellable operating leases		
Future minimum lease payments under non-cancelable operating leases are as follows:		
Within one year	5,225	4,514
Later than one year but not later than five years	10,113	4,646
Later than five years	4,450	643
	19,788	9,803

We classify leases in which a significant portion of the risks and rewards of ownership are retained by the lessor as operating leases. Operating lease payments, net of any incentives received from the lessor, are charged to expense on a straight-line basis over the period of the lease. Where we are required to return the premises to their original condition at the end of the lease, we record a provision for lease remediation equal to the present value of the estimated liability (refer to Note 15).

Operating leases include leases of premises and office equipment. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. Operating leases are under normal commercial operating lease terms and conditions.

Note 22. Commitments (continued)

	2019 $'000	2018 $'000
(b) Finance leases		
Commitments related to finance leases as at 30 June are payable as follows:		
Within one year	30	186
Later than one year but not later than five years	3	33
	33	219
Less: future finance charges	(1)	(9)
Recognised as a liability	32	210
The present value of finance lease liabilities is as follows:		
Within one year	29	178
Later than one year but not later than five years	3	32
	32	210
A controlled entity leases equipment under finance leases which are due to expire in August 2020.		
(c) Trade payables		
Trade payables on deferred payment terms are payable as follows:		
Within one year	1,684	610
Later than one year but not later than five years	1,074	610
	2,758	1,220
Less: future finance charges	(146)	(102)
Recognised as a liability	2,612	1,118

Note 23. Financial risk management

Our business activities can expose us to a variety of financial risks: market risk (including foreign exchange risk, price risk, and cash flow and fair value interest rate risk), credit risk, and liquidity risk. Our overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance. To date we have not used derivative financial instruments. We use sensitivity analysis to measure interest rate and foreign exchange risks and aging analysis for credit risk. Risk management is carried out by our Chief Financial Officer (CFO) under policies approved by the board of directors. The CFO identifies, evaluates and mitigates financial risks in close cooperation with senior management.

All our financial assets except cash and cash equivalents are within the loans and receivables category, and our financial liabilities are all within the financial liabilities recorded at amortised cost category.

(a) Market risk

(i) Foreign exchange risk
Foreign exchange risk arises for us when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Australian dollar. From time to time we make sales to customers who require the currency of settlement to be a foreign currency. At 30 June 2019 and 2018 our exposure to foreign currency risk was immaterial.

(ii) Price risk
We are not exposed to equity securities or commodity price risk.

(iii) Cash flow and fair value interest rate risk
Our exposure to cash flow interest rate risk arises predominantly from cash and cash equivalents bearing variable interest rates. Our surplus cash position fluctuates regularly and ongoing liquidity needs mean most of our funds are maintained in at-call accounts. Our borrowings are not material and expose us to an immaterial amount of fair value interest rate risk. At balance date we maintained the following variable rate accounts:

	30 June 2019		30 June 2018	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on hand	1.2%	13,184	1.3%	49,334
Deposits at call	1.5%	108,014	1.5%	79,014
Cash and cash equivalents	1.5%	121,198	1.5%	128,348

At balance date, if the interest rates had changed, as illustrated in the table below, with all other variables remaining constant, after-tax profit and equity would have been affected as follows:

	After-tax profit Higher/(lower)		Equity Higher/(lower)	
	2019 $000	**2018 $000**	**2019 $000**	**2018 $000**
-0.25% (25 basis points) (FY18: +0.25%)	(212)	225	(212)	225
-0.50% (50 basis points) (FY18: +0.50%)	(424)	449	(424)	449

(b) Credit risk

Credit risk arises from the financial assets of our group, which comprise cash and cash equivalents, contract assets, and trade, finance lease and other receivables. Our exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. We do not hold any credit derivatives to offset the credit exposure. We have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history; collateral is not normally obtained. We set risk limits for each individual customer in accordance with parameters set by the board. These limits are regularly monitored.

Specific information as to our credit risk exposures is as follows:

- Cash and cash equivalents are maintained at one large financial institution.
- During FY19 year, sales to one government customer comprised 5% of revenue (FY18: 5%).
- At 30 June 2019, one debtor comprised 11% of total debtors (FY18: 18%), and the ten largest debtors comprised approximately 47% of total debtors (FY18: 39%), of which 100% were accounts receivable from government customers (FY18: 96%).
- Our customers generally do not have independent credit ratings. Our risk control procedures assess the credit quality of the customer taking into account its financial position, past experience and other factors. We set individual risk limits based on internal or external ratings in accordance with limits set by the board. Our credit management department regularly monitors compliance with credit limits. Management believes the credit quality of our customers is high based on the very low level of bad debt write-offs experienced historically. In FY19 bad debt write-offs as a percent of the trade receivables carrying amount was 0.0% (FY18: 0.0%).

c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. We aim to maintain flexibility in funding by keeping committed credit lines available. We manage liquidity risk by monitoring cash flows and ensuring that adequate cash and unused borrowing facilities are maintained.

At reporting date we had used $3,579,000 (FY18: $2,654,000) of the multi-option financing facility for bank guarantees and our corporate credit card facility and had access to the following undrawn borrowing facilities at the reporting date:

	2019 $'000	**2018 $'000**
Multi-option bank facility	8,421	9,346

The multi-option facility is a comprehensive borrowing facility which includes a bank overdraft facility and is subject to certain financial undertakings. The facility is subject to annual review. Interest is variable and is charged at prevailing market rates. The weighted average interest rate for FY19 was 5.6% (FY18: 5.6%).

Maturity of financial liabilities

The table below categorises our financial liabilities into relevant maturity groups based on their contractual maturities, calculated as their undiscounted cash flows. All the financial liabilities are non-derivative.

Note 23. Financial risk management (continued)

	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 And 3 years	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2019						
Trade and other payables	349,872	1,269	3,049	-	354,190	351,483
Finance lease liabilities	21	9	3	-	33	32
	349,893	1,278	3,052	-	354,223	351,515
At 30 June 2018						
Trade and other payables	289,298	-	610	-	289,908	289,841
Finance lease liabilities	97	89	32	1	219	210
	289,395	89	642	1	290,127	290,051

(d) Fair values
The carrying amounts of financial assets (net of any provision for impairment) and current financial liabilities approximate fair value primarily because of their short maturities. The carrying amount of the non-current borrowing approximates fair value because the interest rate applicable to the borrowing approximates current market rates.

Note 24. Business combinations

Accounting policy
We use the acquisition method of accounting to account for all business combinations, regardless of whether we acquire equity instruments or other assets. Consideration for an acquisition comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the company. Consideration also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. We charge costs associated with the acquisition to expense as incurred. With limited exceptions, we initially measure identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination at their fair values at the acquisition date. On an acquisition-by-acquisition basis, we recognise any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

We record as goodwill the excess of the consideration of the acquisition and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired (refer to Note 12). If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, we recognise the difference directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, we discount the amounts payable in the future to their present value as at the date of the exchange. The discount rate used is our incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Note 25. Related parties

Wholly-owned group
The consolidated financial statements include the financial statements of Data#3 Limited (being the ultimate parent entity) and the subsidiaries listed in the following table.

Name of entity	Country of formation or incorporation	Equity holding (ordinary shares)	
		2019	2018
		%	%
Business Aspect Group Pty Ltd	Australia	100.0	100.0
Business Aspect (Australia) Pty Ltd	Australia	100.0	100.0
Business Aspect Pty Ltd	Australia	100.0	100.0
Business Aspect (ACT) Pty Ltd	Australia	100.0	100.0
CTG Consulting Pty Ltd	Australia	100.0	100.0
Discovery Technology Pty Ltd	Australia	77.4	77.4
People Aspect Pty Ltd	Australia	100.0	100.0

Principles of consolidation

Subsidiaries are all entities over which we have control; we control an entity when we are exposed to, or have the rights to, variable returns from our involvement with the entity and we have the ability to affect those returns through our power over the entity. Subsidiaries are consolidated from the date on which control is transferred to us and are deconsolidated from the date on which control is transferred from us. Investments in subsidiaries are accounted for at cost in the financial statements of Data#3 Limited. Intercompany transactions, balances and unrealised gains on transactions between companies we control are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries are changed where necessary to ensure consistency with the policies adopted by the company.

Parent entity

Summarised financial information for the parent entity is as follows:

	2019 $'000	2018 $'000
As at 30 June		
Current assets	425,763	339,779
Total assets	453,888	366,480
Current liabilities	399,432	318,658
Total liabilities	405,519	321,827
Shareholders' equity		
Contributed equity	8,278	8,278
Share-based payments reserve	165	-
Retained earnings	39,926	36,375
Total equity	48,369	44,653
For the year ended 30 June		
Net profit and total comprehensive income	19,255	15,009

Note 26. Contingent liabilities

At 30 June 2019 we had provided bank guarantees totalling $3,160,000 (FY18: $2,405,000) to lessors as security for premises we lease and $153,000 (FY18: $153,000) to customers for contract performance. The guarantees will remain in place for the duration of the relevant contracts. Bank guarantees are secured by charges over all our assets.

Note 27. Key management personnel

Key management personnel compensation is set out below.

	2018 $'000	2017 $'000
Short-term employee benefits	3,020,859	2,522,505
Long-term employee benefits	707,907	317,530
Post-employment benefits	116,799	113,884
	3,845,565	2,953,919

Short-term employee benefits
Remuneration in FY19 reflected over-achievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY18: underachievement). The transitional equity bonus (in lieu of LTI) was fully met in FY19 (FY18: not met).

Long-term employee benefits
The long-term targets for both the FY18 and FY19 LTI offers were fully met in FY19 (FY18: not fully met). The strong EPS performance for FY19 meant the cumulative EPS target for the FY18 offers was met as at 30 June 2019.

Transactions with key management personnel

There were no transactions during FY19 or FY18 with key management personnel or their personally related entities other than compensation and transactions in relation to shares and performance rights as discussed in this report.

Note 28. Share-based payments

The Data#3 Long Term Incentive Plan (LTIP) was approved by shareholders at the 2018 annual general meeting. The LTIP has been designed to align the interests of eligible employees with the interests of shareholders of the company by enabling directors and employees to have involvement with, and share in the future and growth of, the company and to assist the company to attract, reward and retain high quality staff. Under the LTIP participants are granted rights or options which only vest if certain performance conditions are met. The exercise price, vesting conditions and vesting period are set by the board in its discretion. Participation in the LTIP is at the board's discretion, and no individual has a contractual right to participate in the LTIP or to receive any guaranteed benefits. Rights or options are granted under the LTIP for no consideration and carry no dividend or voting rights.

Note 28. Share-based payments (continued)

Performance rights were granted to key management personnel as compensation during FY19 as follows:

Key management person	Number granted
Baynham, L.C.	98,160
Bowser, M.J.	92,025
Colledge, B.D.	92,025
Hill, B.I.	92,025
	374,235

At 30 June 2019 all of the performance rights were outstanding and none were exercisable. No rights or options were granted during FY18. No rights or options vested or lapsed during the year (FY18: nil), and no rights or options were exercised during the year (FY18: nil).

Fair value of performance rights granted
The assessed fair value at grant date of performance rights granted during FY19 was $1.32 per performance right. The fair value at grant date was calculated using the Black Scholes Model that takes into account the following inputs:

- exercise price: nil
- grant date: 31 December 2018
- expiry date: 30 June 2021
- share price at grant date: $1.50
- expected price volatility of the company's shares: 20.4%
- expected dividend yield: 5.13%
- risk-free interest rate: 2.5%

The expected price volatility is based on the historic volatility (based on the three years ended 30 June 2018), adjusted for any expected changes to future volatility due to publicly available information.

Employee benefits expense of $165,000 in relation to the performance rights was recognised in the FY19 profit and loss, with a corresponding increase in the share-based payments reserve in equity.

Accounting policy
We provide equity-settled share-based payments to employees through the Long Term Incentive Plan (LTIP) .

The fair value of the incentives and options granted is determined at grant date and is recognised as an employee benefit expense with a corresponding increase in equity on a straight-line basis over the period during which the employees become unconditionally entitled to the incentives or options. We determine the fair value using an appropriate option pricing model which takes into account factors such as exercise price, the term of the option, the share price at grant date and expected volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

At each balance sheet date, we revise the estimated number of rights/options that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate. Where the share-based payments give rise to the issue of new share capital, the proceeds we receive are credited to share capital (nominal value) and share premium when the share entitlements are exercised. Where the share-based payments give rise to the re-issue of shares from treasury shares, the proceeds of issue are credited to share premium.

The group does not operate any cash-settled share-based payment schemes or share-based payment transactions with cash alternatives.

Note 29. Remuneration of auditor

The following fees were paid or payable to the auditor for audit and non-audit services:

	2019 $	2018 $
Audit and other assurance services		
Audit and review of financial statements	160,000	160,000
Non-audit services		
Tax compliance services	18,120	16,360
Other business advice	-	6,270
	18,120	22,630
Total remuneration	178,120	182,630

We employ Pitcher Partners on assignments additional to its statutory duties where the firm's expertise and experience with our group are important.

Note 30. Accounting standards not yet effective

Relevant Australian Accounting Standards that have recently been issued or amended but are not yet effective and have not been adopted for the annual reporting period ended 30 June 2019, are as follows:

Standard/Interpretation	Application date of Standard [1]	Application date for the group [1]
AASB 16 *Leases*	1 January 2019	1 July 2019
Interpretation 23 *Uncertainty over Income Tax Treatments*	1 January 2019	1 July 2019
AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*	1 January 2020	1 July 2020
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020	1 July 2020
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020	1 July 2020

[1] Application date is for annual reporting periods beginning on or after the date shown in the above table.

The directors anticipate that the adoption of these standards and interpretations in future years may have the following impacts:

AASB 16 – This new standard replaces AASB 117 and some lease-related Interpretations. It requires all leases to be accounted for "on balance sheet" by lessees, other than for short-term and low value asset leases. The standard also provides new guidance on the definition of a lease and on sale and leaseback accounting and requires new and different disclosures about leases. The accounting requirements for lessors remains largely unchanged from AASB 117. Upon implementation on 1 July 2019, based on the leases in effect at 30 June 2019, this standard will have a material impact on the lease assets and financial liabilities recorded on the balance sheet, which we expect to increase by approximately $12.0 million and $12.5 million, respectively. Retained earnings will reduce by approximately $0.4 million because the carrying value of the assets reduce more quickly than the carrying amount of the lease liabilities. We expect the impact on net profit in FY2020 will be a $0.1 million reduction of expenses. We have applied practical expedients available under AASB 16 which eliminate leases expiring within one year of the implementation date and leases of low value.

Interpretation 23 – The Interpretation clarifies the application of the recognition and measurement criteria in IAS 12 Income Taxes when there is uncertainty over income tax treatments.
The Interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately
- the assumptions an entity makes about the examination of tax treatments by taxation authorities
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- how an entity considers changes in facts and circumstances.

We expect there will be no impact on our financial statements, as we historically have not had circumstances where there are uncertainties surrounding material income tax treatments and do not foresee such issues in the near future.

AASB 2018-6 – This standard amends AASB 3 to clarify the definition of a business, assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments

- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs;
- remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs;
- add guidance and illustrative examples to help entities assess whether a substantive process has been acquired;
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs; and
- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business.

When these amendments are first adopted for the year ending 30 June 2021, we expect there will be no material impact on the financial statements as we do not envisage any material business transactions covered by the scope of this standard in the foreseeable future.

AASB 2018-7 – This standard principally amends AASB 101 and AASB 108. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across the Australian Accounting Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material. When these amendments are first adopted for the year ending 30 June 2021, there will be no material impact on the financial statements.

AASB 2019-1 – The standard amends Australian Accounting Standards, Interpretations and other pronouncements to reflect the issuance of the revised Conceptual Framework for Financial Reporting (Conceptual Framework). When these amendments are first adopted for the year ending 30 June 2021, there will be no material impact on the financial statements.

Director's Declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 39 to 65 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
(ii) giving a true and fair view of the group's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

The notes to the consolidated financial statements confirm that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the managing director and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.

R A Anderson
Director

Brisbane
21 August 2019

PITCHER PARTNERS

Level 38, 345 Queen Street
Brisbane, QLD 4000

Postal address
GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF DATA#3 LIMITED

Opinion

We have audited the financial report of Data#3 Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated balance sheet as at 30 June 2019, the consolidated statement of profit or loss and comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Impairment of goodwill and internally generated software assets Refer to note 12	
The consolidated balance sheet as at 30 June 2019 includes goodwill of $10.1m and internally generated software of $3.5m. The goodwill relates to the consolidation of subsidiaries in previous years and the internally generated software assets relate to directly attributable costs associated with the development of software. The carrying amount of goodwill and internally generated software is supported by the value-in-use calculations prepared by management which are based on budgeted future cash flows and key estimates and judgements such as growth and discount rates. The recoverable amount (determined using a value-in-use calculation) of one of the Cash Generating Units "CGUs" was calculated to be lower than it's carrying amount, and therefore, a provision for impairment of $1.2m was recorded for the year ended 30 June 2019. This impairment has been allocated to goodwill in accordance with the requirements of AASB 136 *Impairment of Assets*. Goodwill and internally generated software are deemed to be key audit matters due to the use of key estimates and judgements in the value-in-use calculation.	Our procedures included amongst others: • Assessing management's determination of the Group's CGU, including the allocation of goodwill, based on our understanding of the nature of the Group's business and internal reporting in order to assess how results were monitored and reported; • Assessing the reasonableness of key estimates and judgements, considering supporting management prepared documentation or historical performance, where available; • Comparing the prior year forecast to assess the accuracy of the forecasting process; • Reviewing management's value-in-use calculations for accuracy; and • Performing a sensitivity of management's value-in-use calculation to assess the level of headroom available. • Assessing the adequacy of the disclosures in the financial report.
Revenue recognition Refer to note 3	
Given the nature of Data#3 operations, the performance at the end of the financial year has a significant impact on the Group's overall year-end result. This results in a significant quantum of transactions occurring near year-end. Due to the quantum of transactions occurring near year-end, we have focused on this area as a key audit matter.	Our procedures included, amongst others: • Selecting a sample of transactions prior to year-end and agreeing to supporting documentation to obtain evidence that the goods have been delivered and accepted at a customer's specified location (product sales), a specified project milestone had been achieved (service sales) or labour hours had been worked (service sales), in the same period to which the revenue is recognised. • Completing substantive audit procedures on receivables, contract assets and contract liabilities recognised at year end to obtain evidence on the existence / completeness of the assets / liabilities at year-end and the corresponding revenue being recognised in the correct period. • Assessing the adequacy of the disclosures in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion
thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in section 11 of the directors' report for the year ended 30 June 2019. In our opinion, the Remuneration Report of Data#3, for the year ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Pitcher Partners

PITCHER PARTNERS

J. Evans

J J Evans
Partner

Brisbane, Queensland
21 August 2019

Shareholder information

The shareholder information set out below was applicable as at 19 August 2019.

1. Distribution of equity securities

(a) Analysis of numbers of equity security holders by size of holding:

	Number of shares	% of issued capital	Number of holders
1 to 1,000	419,771	0.27	745
1,001 to 5,000	4,156,222	2.70	1,374
5,001 to 10,000	7,524,442	4.89	929
10,001 to 50,000	32,310,801	20.98	1,391
50,001 to 100,000	15,743,050	10.22	214
100,001 and over	93,820,664	60.93	145
	153,974,950	**100.00**	**4,798**

(b) There were 132 holders of less than a marketable parcel of ordinary shares.

2. Twenty largest quoted equity security holders

Name	Ordinary Shares	
	Number of shares	% of issued capital
HSBC Custody Nominees (Australia) Limited	24,522,628	15.93
Citicorp Nominees Pty Limited	13,799,447	8.96
J P Morgan Nominees Australia Limited	6,919,978	4.49
National Nominees Pty Limited	4,819,498	3.13
Avanteos Investments Limited	2,900,000	1.88
Oakport Pty Ltd	2,157,082	1.40
Thomson Associates Pty Ltd	2,000,000	1.30
J T Populin	1,690,140	1.10
Anacacia Pty Limited	1,557,774	1.01
BNP Paribas Nominees Pty Ltd	1,477,555	0.96
Elterry Pty Ltd	1,397,634	0.91
LSND Pty Ltd	1,060,833	0.69
Elterry Super Pty Ltd	1,000,000	0.65
Densley Pty Ltd	823,000	0.53
L J Fahey	821,495	0.53
U Pty Ltd	782,280	0.51
Banksia Administration Services Pty Ltd	637,000	0.41
W T Powell	620,000	0.40
HGT Investments Pty Ltd	600,000	0.39
R A & M I Anderson	600,000	0.39
Albany Braithwaite Holdings Limited	599,278	0.39
	70,785,622	**45.97**

3. Substantial shareholders

Substantial shareholders in the company are set out below:

Name	Number of shares	% of issued capital
Mitsubishi UFJ Financial Group, Inc.	10,458,120	6.79

4. Unquoted equity securities

Not applicable.

5. Voting rights

The voting rights attaching to the ordinary shares, set out in the company's constitution, are:

(a) every shareholder present at a general meeting has one vote on a show of hands; and
(b) on a poll, each shareholder has one vote for each fully paid share held.

Options have no voting rights.

Financial Calendar

2019

21 August	Full year results announcement
16 September	Record date for final dividend
30 September	Final dividend payment
13 November	Annual General Meeting

2020

19 February	Half year results announcement
16 March	Record date for interim dividend
30 March	Interim dividend payment
30 June	Year end

Corporate Directory

Corporate Head Office

Brisbane
67 High Street
TOOWONG QLD 4066

P.O. Box 551
INDOOROOPILLY QLD 4068

All Data#3 locations can be reached on the following numbers:

T: 1300 23 28 23
F: 1300 32 82 32
E: info@data3.com.au
W: www.data3.com.au

Registered Office

67 High Street
TOOWONG QLD 4066

Branch Offices

Sydney
Level 8
100 Arthur Street
NORTH SYDNEY NSW 2060

Melbourne
Level 4
55 Southbank Boulevard
SOUTHBANK VIC 3006

Canberra
Level 3
65 Canberra Avenue
GRIFFITH ACT 2603

Adelaide
Level 1
84 North Terrace
KENT TOWN SA 5067

Perth
Level 1
11 Mounts Bay Road
PERTH WA 6000

Hobart
16 Collins Street
HOBART TAS 7000

Suva, Fiji
Suva Business Centre
217 Victoria Parade
SUVA

Configuration and Integration Centres

Brisbane
59 Clinker Street
DARRA QLD 4076

Sydney
Unit 5
40 Brodie Street
RYDALMERE NSW 2116

Melbourne
Lot 10 Unit 5
Helen Kob Drive
BRAESIDE VIC 3195

Other Contacts

Auditors
Pitcher Partners
Level 38
Central Plaza One
345 Queen Street
BRISBANE QLD 4000

Bankers
Commonwealth Bank of Australia
Level 21
201 Sussex Street
SYDNEY NSW 2000

Share Registry
Link Market Services Limited
Level 21
10 Eagle Street
BRISBANE QLD 4000

Locked Bag A14
SYDNEY SOUTH NSW 1235
T: (02) 8280 7454
F: (02) 9287 0303
E: registrars@linkmarketservices.com.au
W: www.linkmarketservices.com.au

ABN
Data#3 Limited
31 010 545 267

ACN
Data#3 Limited
010 545 267

ASX Code
DTL

Data#3

1300 23 28 23
facebook.com/Data3Limited
twitter.com/Data3Limited
www.linkedin.com/company/data3/
youtube.com/user/data3limited