Data#3

Annual Report

2020

Data#3's New Head Office

Level 1, 555 Coronation Drive
Toowong QLD

Contents

A message from the Chief Executive Officer

To our shareholders,

FY20 Progress and Challenges

In review of what has been a particularly extraordinary twelve months, I am delighted to report yet another very solid performance in a year of significant milestones.

The year started on a strong footing, with first half profits up 40%. We maintained momentum in the second half amidst the significant upheaval of the pandemic and government restrictions in March.

Our highest priority has been to safeguard the wellbeing of our people and customers, as well as ensure continuity of service. In response to the pandemic, we implemented a work-from-home model across the business, with approximately 97% of our staff working and supporting customers remotely from March 2020 onwards.

We completed FY20 with a strong result, increasing revenues by 14.9% to $1.6 billion and achieving record profits, with a 30.5% increase on last year's earnings per share.

A highlight for the business was the strengthening of our cloud position, further cementing our market leadership position nationally. Public cloud is the fastest growing area of our business, and lies predominantly with our strong Microsoft vendor partnership. Our cloud position generated an incredible 60% growth in revenue, and ended the year at $581 million. This position is strategically important to us, as it is recurring revenue and provides an opportunity to grow our associated services.

Our strong vendor relationships with key partners continue to mature. This is evidenced through numerous prestigious partner awards and certifications, including the attainment of the Microsoft Azure Expert Managed Services Provider certification, Cisco's Global Enterprise Networking Partner of the Year, and the Dell Technologies Transformational Partner of the Year Award for the Asia Pacific and Japan region.

I'm also pleased to report that we have progressed our strategic objectives: improving services margins within the business, ensuring the digital enablement of our customers, and delivering a unified customer experience.

Enabling our Customers

Our company vision is to harness the power of people and technology for a better future, and that aspiration has never been more relevant than it is today.

As seen through the global impacts of the pandemic, the importance of technology cannot be underestimated in transitioning to the 'new normal.' Across all facets of life and work, the need for powerful technology solutions has never been more pronounced.

People

Our team of over 1,200 talented individuals across Australia and Fiji are the cornerstone of our success. Our strong culture is evidenced by the HRD Employer of Choice Gold Medal Award, which we again received in FY20. A cross-industry award for organisations above 500 employees, we have maintained consistency with five consecutive years of award recognition.

The strength of our culture and our status as an employer of choice contribute to our exceptional retention and staff satisfaction rates. The average Data#3 staff member tenure is over five years of service within the business, while 20% of our people have been with us for over ten years. Across the business, we have many individuals who have been with us for over 20 years, bringing valuable experience and ongoing consistency for our customers.

Community

Community and social responsibility remain a key component of the Data#3 culture, with community considered a key stakeholder along with our people, partners, shareholders and customers.

In the second year of our primary charity partnership with Lifeline, we also engaged with several additional charity organisations, raising over $100,00 in donations throughout the year. Collectively, Data#3 staff participated in more than 500 hours of volunteer activities in FY20. We are committed to making a meaningful difference in the community through fundraising and volunteering opportunities.

Looking Ahead

Our strategy will focus on adapting our solutions to the changing demands of the market, and we will continue to partner with specialist organisations to provide successful outcomes for our customers. We will look to continuously improve customer experience with the increasing use of data analytics and telemetry.

The future, while uncertain in many aspects, holds continued promise and potential for the Data#3 business. Digital transformation and technology-driven solutions will continue to be of high value to our customers at all stages of their journeys.

Our long-term financial goal remains to deliver sustainable earnings growth. Our expectation is that technology will play a major role in Australia's economic recovery from the pandemic, and we remain well positioned to capitalise on those opportunities.

I'm pleased that we delivered excellent shareholder returns throughout FY20; I'd like to thank you for your continued loyalty and support and look forward to updating you on our progress during FY21.

Laurence Baynham
Chief Executive Officer and Managing Director

Data#3 Customer Story

Wesley Mission Queensland introduces modern network to power digitisation and enhance the customer experience in the care sector

About Wesley Mission Queensland
As a provider of diverse care services (aged care, home care, disability and NDIS services, youth and family support, child care, emergency support and mental health services), Wesley Mission Queensland recognised the opportunity to use technology to meet the needs of its customers.

Objective
With customers at the heart of their business, Wesley Mission Queensland wanted to create a flexible, mobile and fit-for-purpose environment for staff and clients in the ever competitive and fast-changing care sector.

Approach
The Wesley Mission Queensland team had already identified Aruba, a Hewlett Packard Enterprise company, as a likely fit for its networking requirements, and visiting the Atmosphere conference as Data#3's guest confirmed that it was the right technical solution to suit both current and future needs.

Benefits
- Wesley Mission Queensland created a blueprint for a new standard in care facilities that it can readily implement in multiple sites and continue to develop in line with the changing needs of the organisation's customers.
- Resident, staff and guest Wi-Fi can be managed easily with user privileges defined by group or individual needs.
- Users can securely move around the facility without experiencing blackspots.
- Wesley Mission Queensland's commitment to high quality technology has allowed the organisation to tailor care and support to specifically meet the needs of residents in aged care.
- Efficiencies have been made with staff able to access and manage medical and care records at the bedside, without constantly returning to the office.
- Aged care residents can use services such as Skype, Netflix and YouTube, allowing connections to friends and family and promoting choice in terms of entertainment
- These improvements help to secure new contracts in a competitive industry.

"Data#3 really worked to understand our business and to understand what outcomes we were trying to deliver, what mobility we needed, for now and the future."

Selina Beauchamp
Chief Information Officer
Wesley Mission Queensland

Data#3 in FY20

Revenue

$1.6b

Years in business

40+

Products sold

16m

People

1,200+

Service desk calls by customers

90,137

Transacting customers

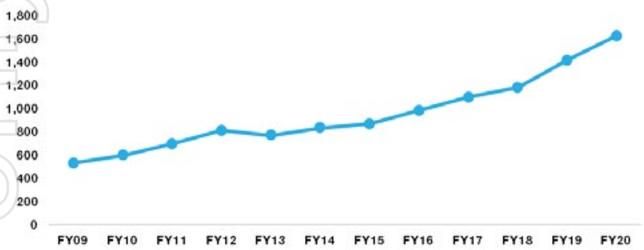
5,121

Facilities across Australia and Fiji

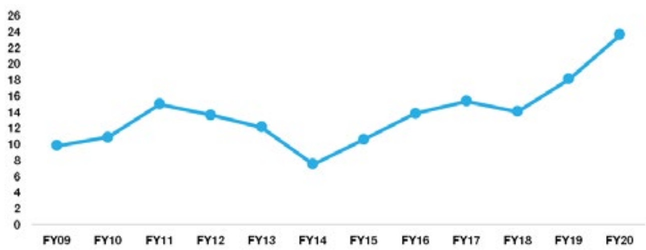
12

Financial Summary

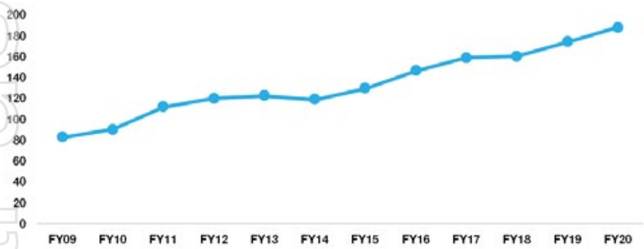
Total revenue ($M):



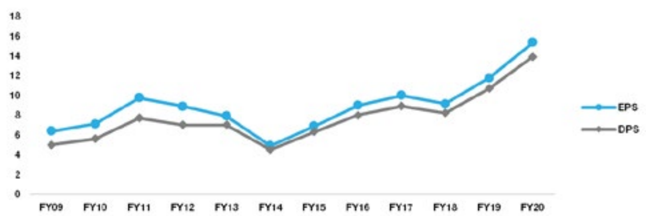
Net profit after tax to members of Data#3 Limited ($M)



Total gross profit ($M):



Earnings per share and dividends per share (cents)



The following table sets out our performance in FY20 compared with previous years:

	FY15 $'000	FY16 $'000	FY17 $'000	FY18 $'000	FY19 $'000	FY20 $'000	% change
Total revenue	870,470	983,223	1,098,221	1,181,411	1,415,569	1,625,941	+14.9%
Public cloud revenue (included above)	47,000	98,953	169,480	267,780	362,212	580,955	+60.4%
Total gross profit	129,484	146,574	158,879	160,112	173,907	187,979	+8.1%
Total gross margin %	14.9%	14.9%	14.5%	13.6%	12.3%	11.6%	
Earnings before interest (net) & tax	14,377	18,869	21,665	19,498	25,758	34,079	+32.3%
Profit before income tax	15,193	19,482	22,402	20,399	26,564	34,066	+28.2%
Profit after tax attributable to members of Data#3	10,604	13,830	15,375	14,078	18,112	23,636	+30.5%
Net profit margin %	1.22%	1.41%	1.40%	1.19%	1.27%	1.46%	
Return on equity %	29.2%	34.7%	37.0%	31.6%	38.5%	45.2%	
Basic earnings per share	6.89 cents	8.98 cents	9.99 cents	9.14 cents	11.76 cents	15.35 cents	+30.5%
Dividends declared per share	6.3 cents	8.0 cents	8.9 cents	8.2 cents	10.7cents	13.9 cents	+29.9%
Payout ratio	91.5%	89.1%	89.1%	89.7%	91.0%	90.6%	
Share price at 30 June	$0.79	$1.05	$1.725	$1.60	$2.12	$4.54	+114.2%
Total shareholder return, based on dividends paid during year	23.7%	41.4%	72.7%	-3.1%	38.9%	119.9%	

Operating and Financial Review

The information technology industry is fast moving and complex, with many different influences on our customers' solutions. To achieve our objectives in FY20 and address the many variables in our market, we continued to enhance the connection with our people, customers and business partners and drive greater efficiency and effectiveness across our operations.

The three-year 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.

In the interest of gaining clarity and focus, we identified four strategic priorities for FY20:

- 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.

Our overall financial goal for FY20 was to deliver sustainable earnings growth.

Whole of group performance

Market conditions in both the public and private sectors generally remained stable in the first half of FY20, with digital transformation projects continuing to drive growth in our core infrastructure, software and services businesses. The second half of FY20 saw significants shifts in our customers' projects and investment priorities in response to the pandemic. These changes boosted demand for infrastructure and software and had mixed impacts on our services businesses.

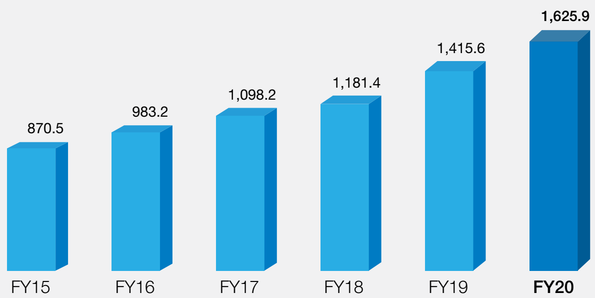
We are delighted with the full year performance of the consolidated Data#3 business, which delivered another record result despite the particularly challenging second half. The result clearly demonstrates the inherent strength and relevance of our solution offerings in an evolving market.

It is also reassuring that approximately 60% of our revenue is recurring, derived from contracts with government and large corporate customers, fulfilling their essential IT requirements.

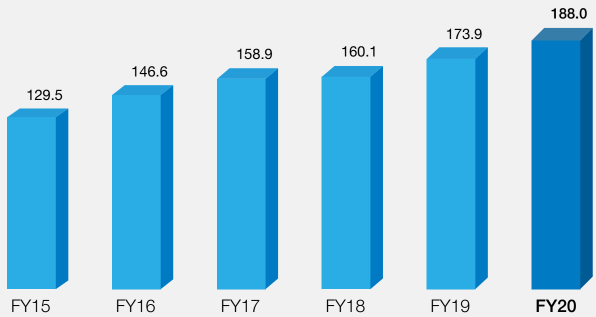
Total revenue increased by 14.9% from $1,415.6 million to $1,625.9 million, fuelled by the continued strong growth in public cloud revenues which increased by 60.4% from $362.2 million to $581.0 million.

Total gross profit (excluding other revenue) increased by 8.1% from $173.9 million to $188.0 million, and total gross margin decreased from 12.3% to 11.6%. The gross margin reduction reflected changes in sales mix, with very strong growth in Software licensing and public cloud revenues and decreases in Consulting and Support Services revenues.

Total revenue ($M):



Total gross profit ($M):



Internal staff costs increased by 6.9% from $125.2 million to $133.8 million. Total staff numbers remained relatively stable, starting the year at 1,215 and ending at 1,206, with minor 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 strong profit improvement in most areas of the business.

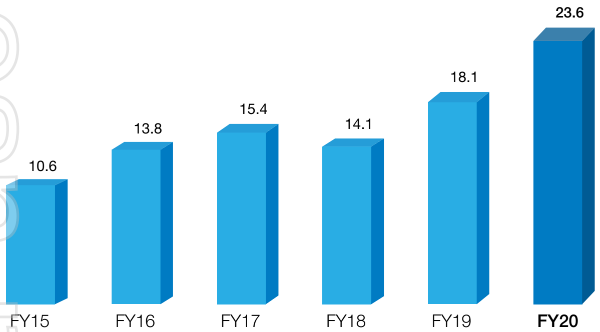
Other operating expenses decreased by 5.1% from $23.4 million to $22.2 million with savings from the decommissioning of the Data#3 Cloud platform and a reduction in travel costs as a result of the pandemic.

The internal cost ratio (staff and operating expenses as percentage of gross profit) decreased from 85.4% to 83.0%, demonstrating further improvement in operating leverage.

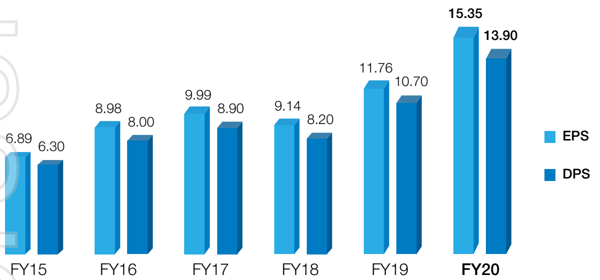
The group's total profit before tax increased by 28.2% from $26.6 million to $34.1 million, and total profit after tax (excluding minority interests in Discovery Technology) increased by 30.5% from $18.1 million to $23.6 million. This represented basic earnings per share of 15.35 cents, an increase of 30.5% from 11.76 cents in the previous year.

The board declared fully franked dividends of 13.9 cents per share for the full year, an increase of 29.9%, and representing a payout ratio of 90.6%.

Profit after income tax ($M)



Basic EPS and DPS (cents)



Return on equity increased from 38.5% to 45.2%.

The impacts of the COVID-19 pandemic

Our highest priority has been to safeguard the wellbeing of our staff and customers, as well as ensuring continuity of service for our customers. We invoked company-wide business continuity plans in response to the COVID-19 pandemic, aimed at protecting our people and providing our customers with the best possible customer service. As part of our business continuity plan, we put in place a pandemic response plan and implemented remote working models across our business, with approximately 97% of our staff working remotely from March 2020 onwards.

As the leading Australian IT solution provider, we were in the prime position to help our public sector and large corporate customers through their massive and immediate changes. Our core business includes connectivity, collaboration, modern workplace, end user computing, cloud and enterprise security, and these solutions have been, and continue to be, a high priority for our customers. We accelerated the delivery of remote working solutions, and pre-packaged other relevant cloud and security solutions, to respond rapidly to our customers' changing requirements as they adapt to new ways of working.

The risk of any material supply chain impact on our hardware vendors partners was managed effectively during a busy fourth quarter.

We are carefully monitoring ongoing developments and ensuring full compliance with guidelines issued by state and federal governments and health authorities. We are anticipating phased 'return to office' plans will be implemented gradually in each location over the coming months; however, there is no urgency to do so as our business has operated effectively with staff working remotely.

While there is obviously still considerable uncertainty regarding the ongoing impacts of COVID-19 on the economic environment and the timing of any broad-based recovery, we have the skills and experience to transform the way organisations work, and we are confident that IT infrastructure, software and services will form an essential part of the Australian economic recovery.

Performance against strategic priorities

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

1. Services – improving margins

While Data#3 services revenues decreased by 5.1% (from $215.8 million to $204.9 million), and Business Aspect consulting revenues decreased by 38.6% (from $26.4 million to $16.2 million), their gross margins both improved and their net profit margins decreased slightly.

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

Support Services is a combination of Managed Services and Maintenance Services, and FY20 saw a reduction in lower-margin Maintenance Services revenues, which was partly offset by modest growth in the higher-margin Managed Services revenues. The Managed Services business continues to build scale with its public cloud-based services, following the decommissioning of the Data#3 Cloud platform in the previous year.

Business Aspect revenues declined following the decision to narrow the business unit's focus in FY20, and to avoid higher risk, fixed-price application projects.

In summary, our services businesses remain integral to the overall success of the group. We delivered many excellent services engagements for our customers as they deployed infrastructure and software from the world's leading vendors. The mixed financial results for services in FY20 provide opportunities for improvement in FY21.

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.

In FY20 we helped our customers achieve their digital enablement objectives with many excellent cloud and collaboration projects completed in both private and public sectors. In the last four months of FY20 the pandemic reprioritised and accelerated many of these projects and initiatives, and we assisted all our customers to transition to remote working models at short notice.

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.

In FY20 the team largely achieved our customer experience strategic objectives. A new Customer Success Framework was developed, and implementation is underway across the group. Further development of the Customer Hub saw improved customer retention and increased customer spend throughout the solution lifecycle. The award from Cisco for the Customer Success (Lifecycle & Adoption) Partner of the Year for the ANZ Region in 2020 provided another indicator that we are heading in the right direction with this strategic initiative.

4. Vendor Relationships – investing with the right vendors and working their channel plans to our mutual benefit

We continue to strengthen our partnerships with key vendors, the most significant relationships being with Microsoft, Cisco, HP and Dell. These are the vendors that drive global and local markets, and they account for a large percentage of the addressable market in large corporate and public sector organisations.

In FY20 Data#3 achieved significant market share growth with each of these four vendors and has established itself as the leading vendor partner in the region. Our growth includes considerable investment in the vendors' technologies with specialist certifications for our services businesses. One example is the Microsoft Azure Expert Managed Services Provider (MSP) certification, which Data#3 is one of only four organisations in Australia and 72 organisations globally to attain.

Increasingly the vendor channel programs are focussing on the adoption and usage of their technologies. This translates into greater opportunities for organisations with services teams that are skilled in the associated technologies.

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 FY20 with 1,206 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 FY20 was as follows:

- strong participation in the survey
- overall satisfaction score of 4.49 out of 5, exceeding the previous year's record result of 4.47
- 95% of our people recommend Data#3 as an employer.

Customer Satisfaction

Our annual customer satisfaction survey produced a record high overall rating of 4.27 out of 5, up from 4.15 in FY19. 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. FY20 was no exception and we were pleased to have been acknowledged with the following awards:

- Australian Reseller News (ARN) Internet of Things Partner of the Year
- Cisco Customer Success (Lifecycle & Adoption) Partner of the Year for ANZ Region
- Cisco Enterprise Networking Partner of the Year for ANZ Region
- Cisco Marketing Partner of the Year for Asia Pacific, Japan and China Region
- Cisco Global Award - Enterprise Networking Partner of the Year
- Dell Technologies Server Partner of the Year for ANZ Region
- Dell Technologies Transformational Partner of the Year for Asia Pacific and Japan Region
- Lenovo Reseller of the Year Platinum Partner
- Veeam ProPartner of the Year

In addition to awards for our solutions or technical expertise, we are delighted to have received the gold medal in the HRD Employer of Choice Award. This is the fifth year in a row we have received an HRD employer of choice award for organisations with more than 500 employees, and it is our second consecutive gold medal. This award is not limited to the Information Technology sector; it covers all industries and includes many multinational entries.

Review of cash flow and financial position

The net cash flow from operating activities was an inflow of $160.2 million. As usual the operating cash flow and year-end cash balance were inflated due to the timing of receipts and payments around 30 June. The 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.

The 30 June cash balance increased from $121.2 million to $255.1 million, reflecting a higher than usual temporary cash surplus which was inflated by sizeable, early customer receipts prior to year-end.

Trade receivables and payables are also relatively high at year-end due to the May/June sales peak. Trade and other current receivables at 30 June 2020 were $256.2 million and trade and other current payables $464.9 million, reflecting the timing differences in the collections from customers and payments to suppliers around 30 June.

The key trade receivables indicator of average days' sales outstanding increased slightly to 29.7 days (up from 28.7 days) but remained ahead of target and is industry best practice. We believe this is an excellent result, particularly considering the COVID-19 related challenges experienced by some of our customers, and demonstrates the effectiveness of our ongoing focus on collections and credit management.

We have also increased the allowance for impairment for receivables in recognition of the increased credit risk in industry sectors adversely impacted by the pandemic.

Total inventory holdings increased from $6.9 million to $21.2 million and comprise product held in our warehousing and configuration centres pending delivery to customers for projects that were in progress at year end.

In summary, our balance sheet remains conservative with no material debt.

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 solid growth from both public and commercial sectors in Infrastructure and Software, with total revenue increasing by 9%.

New South Wales

The NSW business achieved single digit revenue growth, which was less than we expected, and was due to a reduction in Services revenues as a result of less large project activity compared to the previous year. We see an opportunity to deliver stronger growth in FY21.

ACT

Our Canberra-based business achieved very strong revenue growth of 20%, with broad-based success across our portfolio of offerings, especially in Software.

Victoria

The Victorian businesses delivered a solid performance across the group's portfolio. Overall revenue increased by 16%; however, profitability was impacted by a weaker Consulting contribution.

Tasmania

The Tasmanian business achieved revenue growth of 10% with strong performance across the business.

South Australia

The SA business grew revenue by 11%, with strong growth in Services and Infrastructure.

Western Australia

The WA business had a very strong year, particularly in Services and Software, with revenue increasing by 43%.

Fiji and the Pacific Islands

Our third year with a local branch in Fiji continued to deliver a positive return on investment, with revenue growth of 11%.

Operating results by functional area

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 achieved substantial revenue growth, increasing by 25.0% to $984.7 million. 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. Software licensing revenues were also boosted with Microsoft E3 to E5 upgrades for enhanced collaboration and security in response to the pandemic.

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 solid growth with revenue increasing by 8.7% to $413.0 million. 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 and Dell Advisory Boards 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, increasing revenues by 8.8% to $59.4 million.

Support Services revenues decreased by 19.6% to $86.6 million, with modest growth in Managed Services offset by a decline in Maintenance Services. 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.

Following an extensive two-year transformation process across people, processes and systems, a rigorous audit assessment of controls and documentation and a host of additional prerequisite criteria, we attained the highest level of Microsoft Azure Managed Services Provider certification in July 2020. This certification places Data#3 amongst the elite ranks of Microsoft Azure Managed Services Providers globally.

People Solutions had another solid year, increasing revenues by 10.2% to $58.9 million. 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

Business Aspect has extensive consulting skills, experience and expertise in digital transformation, cloud strategy, architecture, security, risk, control, planning, design and governance. In delivering its services, Business Aspect addresses all layers of the business, including people, organisational change, process change and information management.

Business Aspect had a challenging year. Consulting revenues decreased by 38.6% to $16.2 million, reflecting the decision to narrow the business unit's focus in FY20, including the avoidance of large, fixed-price application projects. This resulted in a negative profit contribution in the first half, followed by steady profit improvement in the second half despite COVID-19 related disruptions and deferrals. The full year result was a small profit contribution from the second half recovery.

The strategic significance of Business Aspect remains, and we continue to see increased interaction and joint engagements between Business Aspect and Data#3 teams. We believe the business is well positioned for further growth in profit contribution in FY21.

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.

During FY20 we enhanced the integration between Discovery Technology and Data#3, which improved the performance, with revenues increasing by 12.0% to $5.1 million. Discovery Technology also settled the legal action related to the early termination of a five-year customer contract in FY18. The full year pre-tax profit was $0.6 million, a substantial turnaround from the pre-tax loss of $1.0 million in FY19.

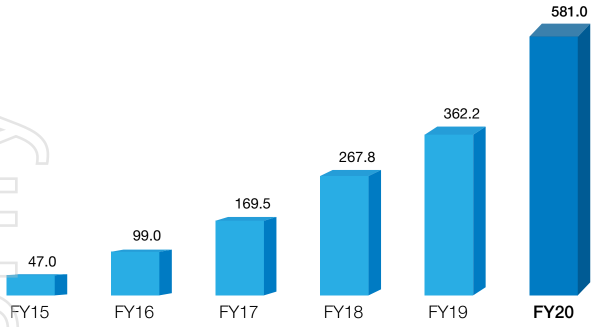
Data#3 sees strategic advantage in Discovery Technology, and the closer working relationship with Discovery Technology will help capitalise on the growth in the fast-moving data and analytics market.

Cloud-based business

The major component of cloud services is the growing market segment of public cloud. In FY20 we grew public cloud-based revenues by 60.4% from $362.2 million to $581.0 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 role 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 Technologies 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.

Public cloud revenue ($M):



Our strategy and plan for FY21

The strategic planning process for FY21 started early in calendar year 2020 and was soon impacted by COVID-19. Many economic and technology predictions were in a state of flux. In early April the International Monetary Fund predicted a global depression and a 6.9% decline in Australia's GDP in the second half of calendar year 2020. Faced with uncertainty about the global and local economic impacts of the pandemic, our strategy and plan for FY21 needed to be adaptable and contain contingencies.

Digital transformation during COVID-19 and post COVID-19 still remains high on our customers' business and technology agenda. Organisations will seek to transform into new markets and reinvent themselves. In addition, the work-from-home revolution will continue in FY21 as organisations look to achieve cost savings whilst improving productivity.

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, **E**xcellence, **A**gility, **R**espect and **T**eamwork.

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

Executing our plan in FY21

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, Modern Workplace, Security, Data & Analytics and Connectivity.

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 FY21 include the following:

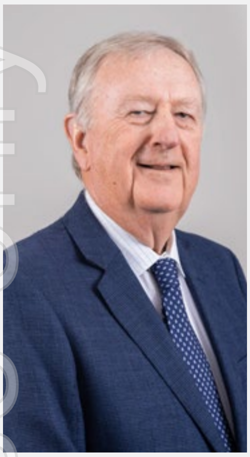
- Solutions – continuing to enhance our solutions to adapt to changing market demands. We will seek to partner with specialists for leading edge digital transformation projects and with specialist service providers to industry sectors – for example specialist cyber experts for the healthcare industry. We will also continue to expand our solutions across the Customer Lifecycle, from consulting, design, deployment and then support services.
- People and Community – developing an Employee Value Proposition that harnesses our ability to attract, develop and retain the best talent. In conjunction with our People Solutions business, we plan to identify a talent sourcing strategy with a focus on the development and implementation of a graduate recruitment program, traineeships, and industry placements. Our Corporate Social Responsibility programs will build on the success of the internal SOUL initiative which underpins our community fundraising and volunteering efforts. In addition, we plan to benchmark ourselves against other ASX listed companies regarding Environmental, Social and Governance initiatives. We are committed to a sustainable social responsibility framework that supports our business, customers, partners and wider stakeholders.
- Customer Experience – building on the success we have seen in FY20. We will focus on gaining competitive advantage utilising data and telemetry within our solutions for customers. We plan to work jointly with our major vendors on embedding our data analysis into customer contracts and Service Level Agreements.
- Operational Excellence – seeking to further improve our operational efficiency and gain greater leverage from our cost base. There are several automation projects underway within the group and we expect to gain return on investment. The largest project is the finalisation of the Microsoft Dynamics 365 implementation.

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.

Our expectation is that technology will play a major role in Australia's economic recovery from the pandemic, and we remain well positioned to capitalise on those opportunities. The timing of the recovery is less certain, and consequently we are unable to provide meaningful commentary on our FY21 outlook at this stage. Our long-term goal remains to deliver sustainable earnings growth.

Board of Directors



Richard Anderson

Non-executive Director

Richard joined the board of Data#3 Limited in 1997 and was appointed Chairman in 2000. He is a member of the board of 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 Namoi Cotton Limited, Villa World Group and the Capital Markets Board of Queensland Treasury Corporation, and President of CPA Australia in Queensland.

Mark Esler

Non-executive Director

Mark commenced his IT career at IBM Australia in 1976 and worked in a number of roles at IBM before joining the Data#3 group in 1984 as an executive director. Mark served as an executive director of Data#3 Limited from 1997 to 2002, and performed senior management roles in Sales and Marketing, Operations and Supply Chain before retiring from his role as Queensland General Manager in 2014. Mark has been actively involved in many IT-related forums, and was a member of both the Asia Pacific and World Wide Hewlett-Packard Global Partner Advisory Boards from 2011 until 2014. He has also been recognised as a 25-year Fellow of the Australian Institute of Company Directors. Mark re-joined the board of Data#3 Limited in August 2019.

Mark Gray

Non-executive Director

Mark joined the board of Data#3 Limited in 2017. He is Chairman of Sugar Terminals Limited and Tailored Superannuation Solutions, and a non-executive director of the Royal Flying Doctor Service of Australia (National Board and Queensland Section), Queensland Urban Utilities, genomiQa and Queensland Cricket. Previous senior executive roles include 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.

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, Guide Dogs Queensland, Peak Services Holdings Pty Ltd, Peak Services Pty Ltd and Local Buy Pty Ltd (trading as Peak Services), Mayflower Enterprises Pty Ltd and Hyne Timber Group companies. Leanne also served on the board of QInsure Limited until 31 December 2019.

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 Services 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 over 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 and investor relations functions.

Corporate Social Responsibility

Our commitment to the Data#3 corporate social responsibility program continued in FY20, 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 ethical conduct

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 maintain transparent and cooperative relationships with relevant tax authorities in Australia and other countries in which we may operate.

Data#3 has elected to adopt the Tax Transparency Code (TTC) because we take our tax compliance responsibilities seriously and believe disclosure of additional information in relation to tax will benefit our shareholders and the public. Adoption of the TTC is voluntary, and it provides a set of principles and minimum standards developed by the Australian Board of Taxation to guide disclosure of tax information by businesses. Our effective income tax rate for FY20 was 30.3% and our Tax Report in connection with the TTC is available on our website.

A key initiative during the year has been a focus on Data#3's approach to identifying, addressing and remediating (if necessary) Modern Slavery risks and practices in its operations and supply chain.

In addition to the development of a Modern Slavery policy, during the year we enhanced our Whistleblower Policy and our Anti-bribery, Anti-Corruption and Conflict of Interest Policy. We are developing a Provider Code of Ethics and Conduct to reflect legislative changes and to reinforce Data#3's culture of acting lawfully, honestly, ethically and responsibly.

Our commitment to the community

Throughout FY20 we continued to engage with local and national communities through the SOUL program. Lifeline was our primary charity partner throughout the year, and we also supported The Starlight Foundation, 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 $100,000 for these 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.

Some of our more significant achievements are summarised below.

Supporting Lifeline

- **Stress Down Day** – We provided a range of activities to help staff in all our locations prioritise their mental health, relax, de-stress and have a bit of fun. This included receiving massages and facials, wearing comfortable clothes to work, having pizza parties or BBQs cooked by management, all while fundraising for Lifeline.
- **City to Surf Fun Run** – We had a team of staff compete in the community fun run "City to Surf", and through their participation we raised over $7,000.
- **Lifeline Bookfests** – Teams from our Brisbane, Sydney and Canberra offices volunteered their time at the Lifeline Bookfests, held across the nation.

Supporting bushfire victims

- In response to the devastating bushfires experienced by many Australians, we held a range of activities to raise funds for those affected.
- Morning teas, silent raffles and online donations raised over $24,000.

Movember

- Staff in all locations supported men's heath by growing moustaches or shaving their hair in November.
- Activities, fundraising and morning teas raised more than $16,000 for the Movember Foundation.

Christmas Giving Program

- Each location participated in local volunteering activities, ranging from hamper packing to wrapping toys and Christmas presents.
- We set up Christmas collections areas in each office, where staff donated gifts, toys and books that were then contributed to the Smith Family's Toy and Book Christmas Appeal.
- Our staff were given the opportunity to support a donation to a charity instead of receiving a Christmas gift.
- Raffles, donations and other fundraising events raised more than $11,000 for Lifeline and the Starlight Foundation.

Our commitment to the environment

We also recognise and work to fulfil our responsibility toward environmental sustainability. We have well-established programs that support these initiatives, and we encourage our employees and other 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 promotes responsible environmental practices throughout our operations.

As a result of this, we continue our commitment to

- comply with applicable Australian Government, state and local body environmental legislation, regulations, policies, initiatives and other requirements;
- 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, with a focus on reducing travel by using collaboration solutions, reducing energy usage and paper usage in our offices, recycling paper and other general office waste, and using environmentally responsible recycling programs for the disposal of obsolete IT equipment; 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 provide a learning curriculum aligned with organisational objectives, core values, role specifics, and career development pathways;
- to create a variety of learning avenues to enable effective transfer of learning;
- to foster a culture which creates opportunities for timely and effective continual learning, with opportunities to apply learning outcomes and to share expertise and capability; and
- to 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
- internal mentoring programs
- 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 many ways:

- offering various corporate health benefits (e.g. discounts on gym and healthcare memberships, free health and skin checks, flu vaccinations, nutrition appointments 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).

We provide 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 we received another excellent result of 95%, compared to 96% in the previous year. Additionally, our staff's overall satisfaction rating reached a record high this year.

We are also delighted that Data#3 received an Employer of Choice Award for the fifth 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 this is the second consecutive gold medal. Data#3 was also placed highly in several sub-categories including Health & Wellbeing, Work-life Balance, Training and Professional Development and the Development of Strong and Effective Leaders.

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 cognisant 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, while striving to provide work environments where health, safety and wellbeing are promoted, and risks are eliminated or managed effectively.


High
Quality
Prices as
marked
RECORDS
HUMOUR &
NEW AGE
DVD'S
Data#3
Services
Data#3
Data#3

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 4th edition of the ASX Corporate Governance Principles and Recommendations (ASX Principles). Data#3 considers that its corporate governance practices complied with all the recommendations throughout the 2020 financial year, and this statement outlines how Data#3's main corporate governance practices and policies either align with those recommendations or how we intend to achieve alignment.

Further information regarding Data#3's corporate governance policies and practices can be found on the Investor Centre website at https://investor.data3.com/Investor-Centre/

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 Investor Centre website at https://investor.data3.com/Investor-Centre/

The board's charter also sets out the powers and responsibilities delegated to the Managing Director (MD) and 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. The MD/CEO is the board's principal link to the senior leadership team, and the MD/CEO has the authority to delegate to members of the senior leadership team within approved policies and limits, 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 2020 financial year the board reassessed the board's skills and continued the search for new directors to progress the board succession plan; however, these activities were paused temporarily to focus on addressing the COVID-19 pandemic.

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 appointment.

The performance of the MD/CEO is formally assessed half-yearly by the chairman, based on a combination of financial and non-financial goals, and that assessment is reviewed by the other non-executive directors. The MD/CEO is responsible for evaluating the performance of the other members of the senior leadership team. Formal evaluations of the MD/CEO 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 most recent performance evaluation was completed in 2019, and the next evaluation will be scheduled prior to 31 December 2020.

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 Investor Centre website at https://investor.data3.com/Investor-Centre/

The measurable objectives adopted for the 2020 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 increased from 27% to 30%, which is well above the IT industry average.

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

- The proportion increased from 19% to 33%.

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 table below:

	2020		2019	
	Female	Male	Female	Male
All employees	30%	70%	27%	73%
Management team	33%	67%	19%	81%
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 selected by board members, 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, being four non-executive directors in addition to the MD. The membership of the board is set out in the directors' report on page 24. Details of each individual director's background is set out in the directors' report on page 25 and the directors' profiles on page 12.

Remuneration and nomination committee

The remuneration and nomination committee is composed of three independent non-executive directors, being Mr Gray (Chairman), Ms Muller and Mr Anderson. Mr Gray was elected chairman of the committee (succeeding Mr Anderson) in August 2019. The responsibilities of the remuneration and nomination committee are set out in its formal charter, which is available on Data#3's Investor Centre website at https://investor.data3.com/Investor-Centre/

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.

Details of the remuneration and nomination committee meetings and members' attendance are set out on page 26 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.

Directors also maintain professional development throughout the year to enable them to discharge their duties effectively and add value. This professional development includes: regulatory updates and legislative changes including WH&S, Modern Slavery, Cyber Security, general industry developments and professional development required as members of the Australian Institute of Company Directors and other professional bodies.

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 Esler, Mr Gray and Ms Muller are also considered independent non-executive directors. Ms Muller was appointed to the board in 2016 and Mr Gray was appointed in 2017. Mr Esler retired from his executive roles at Data#3 in April 2014, and there was a period of over five years between ceasing his employment and his appointment to the board in August 2019. As such the board has determined that Mr Esler will bring an independent judgement to bear on issues before the board. Whilst Mr Anderson has been on the board since 1997 the board has determined that his appointment remains in the best interests of Data#3 because of the substantial knowledge and expertise he brings to the board.

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. A director's register of interests and positions is maintained and updated as required. Directors are asked to declare conflicts at the commencement of each board meeting.

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 2020 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 met 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 review any major risk mitigation thereof.

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. Ongoing director education on the Data#3 business is also facilitated through regular management presentations and interaction and by relevant site and customer 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 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, and with 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 Investor Centre website: https://investor.data3.com/Investor-Centre/

Other policies

During the year Data#3 has enhanced its Whistleblower Policy and Anti-bribery, Anti-Corruption and Conflict of Interest Policy and has developed a Modern Slavery Policy. The company is also developing a Provider Code of Ethics and Conduct to reflect legislative changes and reinforce Data#3's culture of acting lawfully, honestly, ethically and responsibly.

As part of Data#3's Risk Management Policy, the board is informed of any material non-compliances or breaches of these policies.

Corporate social responsibility

During the year Data#3 continued to develop its formal corporate social responsibility program. For further information see pages 14 to 17.

A key tenet of this program has been a focus on Data#3's approach to identifying, addressing and remediating (if necessary) Modern Slavery risks and practices in its operations and supply chain including for the purposes of ongoing compliance under the Modern Slavery Act 2018 (Cth). Further details on Data#3's activities in this regard will be detailed in its first Modern Slavery Statement, to be submitted prior to 31 December 2020, and its Modern Slavery Policy is available on the Data#3 website at https://www.data3.com.au/policy/

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 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 Investor Centre website at https://investor.data3.com/Investor-Centre/

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 an accurate 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 12. The responsibilities of the audit and risk committee are set out in its formal charter, which is available on Data#3's Investor Centre website at https://investor.data3.com/Investor-Centre/

Details of the audit and risk committee meetings and members' attendance are set out on page 26 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 as considered appropriate.

The MD/CEO 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 relevant audit and risk committee meetings, and each AGM, and is available to answer questions from shareholders on the conduct of 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 Investor Centre website at https://investor.data3.com/Investor-Centre/

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's continuous disclosure policy 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 of this annual report.

Data#3 usually convenes its AGM during November. 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.

The 2020 AGM will be conducted as a fully virtual meeting to facilitate remote participation, and it is expected that all future meetings will either adopt a fully virtual or a hybrid format (being a combination of remote and in-person attendance).

Data#3's share registry, Link Market Services, 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 summary of this policy is available on Data#3's Investor Centre website at https://investor.data3.com/Investor-Centre/

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 and risk appetite in the 2020 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. In response to the COVID-19 pandemic the committee has placed even greater emphasis on Data#3's business continuity management system and information security management system. Both of these management systems had an increase in resources and oversight prior to the COVID-19 pandemic.

The board receives regular assurance from the MD/CEO 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 consider that it has material exposure to environmental or social sustainability risks but it is also continuing to review the effectiveness of the current framework in identifying new and emerging risks. The risks faced by Data#3 are assessed across the following categories: strategic; information technology and cyber security; human resources; customer success, solution quality and project success; health, safety and environment; financial management; reputational; compliance, legal & regulatory; real property; and market-related risks.

The risk management system addresses the material business risks including the following:

- market demand for ICT products and services
- changes in customers' ICT procurement models
- key vendor channel strategies and customer engagement models
- effective positioning of Data#3's solutions in the market
- identification of ICT industry opportunities and new technology trends
- attraction and retention of key personnel
- quality and skill of the senior leadership team
- delivery of customer solutions within agreed expectations
- health and safety and environment
- ethical conduct and reputation (including Modern Slavery risks)
- security, including cyber risk resilience
- legal and compliance
- internal information technology systems and processes
- competitor activity.

The company does not have a separate internal audit function; however, the Legal & Risk Advisory team and the Quality Assurance team undertake periodic audits of all internal processes.

The board, the board's audit and risk committee, senior Data#3 executives and the wider management team monitor and evaluate risks through a variety of existing systems, programs and policies, as follows:

- identification and assessment of strategic risks through periodic reviews as part of strategic business planning and objective setting
- monthly review and reporting of operational risks relating to individual business units
- financial budgeting and key performance indicator reporting systems to monitor monthly performance against budgets and targets
- monthly written reports from senior executives
- delegations of authority, including approval limits for operational and capital expenditure
- a comprehensive annual insurance review program
- work, health and safety and environment reviews and reports
- 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. The responsibilities of the remuneration and nomination committee are set out in its charter which is available on Data#3's Investor Centre website at https://investor.data3.com/Investor-Centre/

In relation to remuneration, the committee is responsible for

- Data#3's remuneration, recruitment, retention and termination policies and approach 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 26 to 35. Data#3 has clearly differentiated the structure of non-executive directors' remuneration from that of the MD/CEO 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 2020. 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:

- Cloud – highly secure data centre solutions to improve business efficiency, reduce costs and scale customers' technology requirements in hybrid IT environments
- Modern Workplace – solutions to optimise our customers' IT environment and assist them to realise the full value of their technology assets
- 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
- Connectivity – solutions to enable customers to seamlessly connect to business networks and information – anywhere, any time and on any device

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 FY20	8.8	13,550
Dividends paid in the year:		
Interim for FY20	5.1	7,853
Final for FY19	7.1	10,932
	12.2	18,785

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 attached 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 11 of the attached Operating and Financial Review.

5. Earnings per share

	2020 Cents	2019 Cents
Basic earnings per share	15.35	11.76
Diluted earnings per share	15.30	11.75

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 2020 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 attached Operating and Financial Review on page 11.

9. Directors

The names and details of Data#3 Limited's directors are set out below. Mr W T Powell was a director for the financial year until 13 November 2019, the date of his retirement. Mr M R Esler was a director from 30 August 2019, the date of his appointment, and remains in office at the date of this report. All other 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 (from 2001 to 2019) and Lindsay Australia Limited (since 2002). Mr Anderson is also president of Guide Dogs Queensland.

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

M R Esler, FAICD

(Non-executive Director)

Independent non-executive director since August 2019. Mr Esler has extensive experience in IT, first in a number of roles with IBM before joining the Data#3 group in 1984 as an executive director. Mr Esler served as an executive director of Data#3 Limited from 1997 to 2002, and performed senior management roles in Sales and Marketing, Operations and Supply Chain before retiring from his role as Queensland General Manager in 2014. Mr Esler has been actively involved in many IT-related forums and was a member of both the Asia Pacific and Worldwide Hewlett-Packard Global Partner Advisory Boards from 2011 until 2014. He has also been recognised as a 25-year Fellow of the Australian Institute of Company Directors.

A M Gray, DUniv, B.Econ (Hons), FAICD, SF (FINSIA)

(Non-executive Director)

Independent non-executive director since August 2017. Mr Gray is Chairman of Sugar Terminals Limited and Tailored Superannuation Solutions and a non-executive director of the Royal Flying Doctor Service of Australia (National Board and Queensland Section), Queensland Urban Utilities, genomiQa and Queensland Cricket. Previous senior executive appointments include 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.

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:
Chairman of the remuneration and nomination committee (since August 2019)
Member of the audit and risk committee

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, Guide Dogs Queensland, Peak Services Holdings Pty Ltd, Peak Services Pty Ltd, Local Buy Pty Ltd (trading as Peak Services), Mayflower Enterprises Pty Ltd, and Hyne Timber Group companies, and she also served on the board of QInsure Limited until 31 December 2019.

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

W T Powell, B.Econ

(Non-executive Director until 13 November 2019)

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 and retired on 13 November 2019.

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	15	15	5	5	2	2
L C Baynham	15	15	**	**	**	**
M R Esler	11	11	**	**	**	**
A M Gray	14	15	4	5	2	2
L M Muller	14	15	5	5	2	2
W T Powell	5	6	**	**	**	**

**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 the following, in accordance with section 300A of the *Corporations Act 2001* (Corporations Act):

- 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 (until 13 November 2019)
Mark Gray	Non-executive Director
Leanne Muller	Non-executive Director
Mark Esler	Non-executive Director (from 30 August 2019)
Laurence Baynham	Managing Director/CEO
Other executives:	
Michael Bowser	Executive General Manager
Brad Colledge	Executive General Manager
Brem Hill	Chief Financial Officer

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 plan 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 the non-financial component of the STI, the STI is earned based on 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.		

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	The LTI plan from FY19 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.
Award allocation	FY20 offers 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 FY19 audited financial statements to determine the number of performance rights granted. FY19 offers 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. FY18 offers MD/CEO: $380,000; Executive General Managers and CFO: $350,000 each
Measurement period	Three years unless otherwise determined by the board. FY20 offers – Three years from 1 July 2019 to 30 June 2022 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	FY20 offers Vested rights are exercisable within 60 days following release of the FY22 financial report, except where the board exercises its discretion to settle in the form of cash. FY19 offers 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. FY18 offers 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 FY20 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 34% (FY19: 39%). In FY20 actual short-term bonuses as a proportion of planned short-term executive remuneration was 35% due to overachievement of profit-related performance metrics (FY19: 44%).

In FY20 the planned profit-related component represented 71% of the short-term bonuses (FY19: 76%). The balance of the short-term bonus is determined by performance against agreed non-financial objectives relevant to each individual.

Long-term incentives

LTI remuneration is based solely on the basic 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	2020	135,115	-	12,836	-	-	147,951	-
	2019	130,000	-	12,350	-	-	142,350	-
Esler, M. R. (from 30/08/2019)	2020	66,308	-	6,299	-	-	72,607	-
	2019	-	-	-	-	-	-	-
Gray, A.M.	2020	82,673	-	7,854	-	-	90,527	-
	2019	75,000	-	7,125	-	-	82,125	-
Muller, L.M.	2020	87,493	-	8,312	-	-	95,805	-
	2019	85,000	-	8,075	-	-	93,075	-
Powell, W.T. (until 13/11/2019)	2020	26,827	-	2,549	-	-	29,376	-
	2019	75,000	-	7,125	-	-	82,125	-
Subtotals – non-executive directors	2020	398,416	-	37,850	-	-	436,266	-
	2019	365,000	-	34,675	-	-	399,675	-
Executive director								
Baynham, L.C. Chief Executive Officer/MD	2020	531,000	15,312	21,003	280,732	297,406	1,145,453	50.5
	2019	515,431	8,591	20,531	354,141	176,260	1,074,954	49.3
Other key management personnel								
Bowser, M.J. Executive General Manager	2020	319,300	10,353	21,003	209,204	280,081	839,941	58.3
	2019	310,000	15,257	20,531	277,070	163,055	785,913	56.0
Colledge, B.D. Executive General Manager	2020	380,732	13,504	21,003	253,638	280,081	948,958	56.2
	2019	362,602	10,034	20,531	320,056	163,055	876,278	55.1
Hill, B.I. Chief Financial Officer	2020	325,437	9,022	21,003	135,865	280,081	771,408	53.9
	2019	315,958	8,600	20,531	200,601	163,055	708,745	51.3
Subtotals – other key management personnel	2020	1,025,469	32,879	63,009	598,707	840,243	2,560,307	56.2
	2019	988,560	33,891	61,593	797,727	489,165	2,370,936	54.3
Totals – key management personnel	2020	1,954,885	48,191	121,862	879,439	1,137,649	4,142,026	48.7
	2019	1,868,991	42,482	116,799	1,151,868	665,425	3,845,565	47.3

(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, in FY19, the transitional equity bonus in lieu of LTI.
(d) LTI comprises both cash and share-based incentives, as follows:

Key Management Person	Cash bonus LTI		Share-based LTI	
	2020 $	2019 $	2020 $	2019 $
Baynham, L.C.	184,927	133,070	112,479	43,190
Bowser, M.J.	170,328	122,564	109,753	40,491
Colledge, B.D.	170,328	122,564	109,753	40,491
Hill, B.I.	170,328	122,564	109,753	40,491
	695,911	500,762	441,738	164,663

(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 FY20 was 65,574 performance rights, subject to vesting at the end of three years.
- 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 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 FY20 was 61,475 performance rights, subject to vesting at the end of three years.
- 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 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 LTI compensation

FY20 grants

Performance rights were granted to key management personnel as compensation during FY20 for no consideration as follows:

Key management person	Performance rights granted	Date of grant	Fair value per right	Fair value of rights	FY20 employee benefits expense of FY20 rights	FY20 rights expense as a percentage of KMP's total remuneration
	Number	Date	$	$	$	%
Baynham, L.C.	65,574	13/11/2019	3.17	207,865	69,289	6.0
Bowser, M.J.	61,475	21/10/2019	3.38	207,786	69,262	8.2
Colledge, B.D.	61,475	21/10/2019	3.38	207,786	69,262	7.3
Hill, B.I.	61,475	21/10/2019	3.38	207,786	69,262	9.0
	249,999			831,223	277,075	7.5

FY19 grants

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

Key management person	Performance rights granted	Date of grant	Fair value per right	Fair value of rights	FY20 employee benefits expense of FY19 rights	FY20 expense as a percentage of KMP's total remuneration
	Number	Date	$	$	$	%
Baynham, L.C.	98,160	31/12/2018	1.32	129,571	43,190	3.8
Bowser, M.J.	92,025	31/12/2018	1.32	121,473	40,491	4.8
Colledge, B.D.	92,025	31/12/2018	1.32	121,473	40,491	4.3
Hill, B.I.	92,025	31/12/2018	1.32	121,473	40,491	5.2
	374,235			493,990	164,663	4.4

At 30 June 2020 and the date of this report all the performance rights granted in FY20 and FY19 were outstanding, and none were exercisable.

No rights or options vested or lapsed during the year (FY19: nil), and no rights or options were exercised during the year (FY19: nil).

Cash-based LTI compensation

FY18 grants

Cash bonuses were granted to key management personnel as compensation during FY18 for no consideration as follows:

Key management person	Cash bonuses granted	Date of grant	FY20 employee benefits expense of FY18 grants	FY20 expense as a percentage of KMP's total remuneration
	$	Date	$	%
Baynham, L.C.	380,000	01/07/2017	184,927	16.1
Bowser, M.J.	350,000	01/07/2017	170,328	20.3
Colledge, B.D.	350,000	01/07/2017	170,328	17.9
Hill, B.I.	350,000	01/07/2017	170,328	22.1
	1,430,000		695,911	18.8

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 2018	Other changes*	Balance 30 June 2019	Other changes*	Balance 30 June 2020
Directors:					
Anderson, R.A.	620,000	30,000	650,000	-	650,000
Baynham, L.C.	491,095	-	491,095	(388,900)	102,195
Esler, M.R. (from 30/08/2019) [(1)]	-	-	-	2,814,330	2,814,330
Muller, L.M.	20,000	30,000	50,000	-	50,000
Powell, W.T. (until 13/11/2019) [(1)]	3,190,000	(172,366)	3,017,634	(3,017,634)	-
Other executives:					
Bowser, M.J.	132,385	-	132,385	11,100	143,485
Colledge, B.D.	218,671	-	218,671	11,100	229,771
Hill, B.I.	432,385	-	432,385	11,100	443,485
	5,104,536	(112,366)	4,992,170	(558,904)	4,433,266

* Except as noted, other changes refer to the individual's on-market trading.

[(1)] The amount in other changes is the individual's shareholding at the date he commenced or ceased to be a key management person, as applicable, in addition 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 FY20 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
FY20	1,625,941	23,636	15.35	4.540	12.20	254.20
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

* 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 2015 the group's net profit has grown at an average compounded rate of 17.4% per year, the average executive remuneration has increased by an average compounded rate of 8.3% per year and total shareholder return increased by an average compounded rate of 60.9%. 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 FY19 ensures significant focus is maintained on the group's long-term performance, as each year's LTI offering is subject to three-year vesting.

Cash bonuses

For each short-term 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.	103%	0%
Bowser, M.J.	103%	0%
Colledge, B.D.	103%	0%
Hill, B.I.	102%	0%

Remuneration in FY20 reflected overachievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY19: overachievement).

Long-term incentives
For long-term incentives the percentage of the planned incentive (being one-third of the incentives granted, as they vest 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.

	FY20 incentives		FY19 incentives		FY18 incentives	
Name	**Earned %**	**Forfeited %**	**Earned %**	**Forfeited %**	**Earned %**	**Forfeited %**
Baynham, L.C.	100%	0%	100%	0%	>100%	0%
Bowser, M.J.	100%	0%	100%	0%	>100%	0%
Colledge, B.D.	100%	0%	100%	0%	>100%	0%
Hill, B.I.	100%	0%	100%	0%	>100%	0%

The long-term targets for all LTI offers were fully met in FY20 (FY19: fully met).

For the LTI cash bonuses granted in FY18, the cumulative three-year basic EPS target was a minimum 25.9 cents and a maximum 35.7 cents. The actual cumulative three-year basic EPS achieved was 36.25 cents.

2019 Annual General Meeting
We received a 96.8% vote in support of the adoption of our Remuneration Report for the 2019 financial year.

Other transactions with key management personnel
There were no transactions during FY20 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 engaged an independent remuneration consultant (Ortus Consulting) in FY18 and FY19 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 $132,000 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 FY20. 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:

	2020 $	2019 $
Audit and other assurance services		
Audit and review of financial statements	164,000	160,000
Non-audit services		
Tax compliance services	27,251	18,120
Other business advice	-	-
	27,251	18,120
Total remuneration	191,251	178,120

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 (including Independence Standards).*

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
19 August 2020

PITCHER PARTNERS

Level 38, 345 Queen Street
Brisbane, QLD 4000

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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 2020, 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 (including Independence Standards).*

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

Pitcher Partners

PITCHER PARTNERS

DAN COLWELL
Partner

Brisbane, Queensland
19 August 2020

Financial Report 2020

Consolidated financial statements

Notes to the consolidated financial statements

Consolidated statement of profit or loss

for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Revenue			
Revenue from contracts with customers	3	1,623,841	1,414,352
Other revenue	3	2,100	1,217
		1,625,941	1,415,569
Expenses			
Changes in inventories of finished goods		14,245	3,543
Purchase of goods		(1,295,148)	(1,080,757)
Employee and contractor costs directly on-charged (cost of sales on services)		(75,484)	(72,955)
Other cost of sales on services		(79,475)	(90,276)
Internal employee and contractor costs		(133,821)	(125,166)
Telecommunications		(2,259)	(2,228)
Rent	4	(2,933)	(6,702)
Travel		(1,460)	(2,109)
Professional fees		(858)	(1,109)
Depreciation and amortisation	4	(4,905)	(2,527)
Goodwill impairment	12	-	(1,200)
Finance costs	4	(1,146)	(164)
Other		(8,631)	(7,355)
		(1,591,875)	(1,389,005)
Profit before income tax expense		34,066	26,564
Income tax expense	5	(10,338)	(8,619)
Profit for the year		23,728	17,945
Profit for the year is attributable to			
Owners of Data#3 Limited		23,636	18,112
Non-controlling interests		92	(167)
		23,728	17,945
Earnings per share for profit attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share	17	15.35	11.76
Diluted earnings per share	17	15.30	11.75

The accompanying notes form part of these financial statements.

Consolidated statement of other comprehensive income

for the year ended 30 June 2020

	2020 $'000	2019 $'000
Profit for the year	23,728	17,945
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	202	-
Total comprehensive income	23,930	17,945
Profit and comprehensive income is attributable to:		
Owners of Data#3 Limited	23,838	18,112
Non-controlling interests	92	(167)
	23,930	17,945

The accompanying notes form part of these financial statements.

Consolidated balance sheet

as at 30 June 2020

	Notes	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents	6	255,147	121,198
Trade and other receivables	7	256,247	293,645
Contract assets	8	4,856	2,508
Inventories	9	21,158	6,913
Other	10	4,462	7,036
Total current assets		541,870	431,300
Non-current assets			
Trade and other receivables	7	3,686	5,403
Property and equipment	11	4,495	2,861
Right-of-use assets	20	17,533	-
Deferred tax assets	5	4,632	3,139
Intangible assets	12	15,222	16,291
Total non-current assets		45,568	27,694
Total assets		587,438	458,994
Current liabilities			
Trade and other payables	13	464,911	354,724
Contract liabilities	14	36,455	42,376
Lease liabilities	20	2,396	-
Borrowings	21	-	29
Current tax liabilities		4,652	2,868
Provisions	15	6,025	5,147
Other	16	-	80
Total current liabilities		514,439	405,224
Non-current liabilities			
Trade and other payables	13	1,415	2,685
Lease liabilities	20	15,857	-
Borrowings	21	-	3
Provisions	15	3,017	3,625
Other	16	-	12
Total non-current liabilities		20,289	6,325
Total liabilities		534,728	411,549
Net assets		52,710	47,445
Equity			
Contributed equity	19	8,278	8,278
Share-based payments reserve	29	606	165
Foreign currency translation reserve		202	-
Retained earnings		43,151	38,621
Equity attributable to owners of Data#3 Limited		52,237	47,064
Non-controlling interests		473	381
Total equity		52,710	47,445

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2020

		Attributable to owners of Data#3 Limited						
		Contributed equity	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total shareholders' equity
	Notes	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 30 June 2018		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	29	-	165		-	165	-	165
Balance at 30 June 2019		8,278	165	-	38,621	47,064	381	47,445
Change in accounting policy	20	-	-	-	(321)	(321)	-	(321)
Restated total equity at 1 July 2019		8,278	165	-	38,300	46,743	381	47,124
Profit (loss) for the year		-	-	-	23,636	23,636	92	23,728
Other comprehensive income, net of tax		-	-	202	-	202	-	202
Total comprehensive income		-	-	202	23,636	23,838	92	23,930
Transactions with owners in their capacity as owners:								
Payment of dividends	18	-	-	-	(18,785)	(18,785)	-	(18,785)
Employee share schemes – value of employee services	29	-	441	-	-	441	-	441
Balance at 30 June 2020		8,278	606	202	43,151	52,237	473	52,710

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2020

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,806,975	1,493,416
Payments to suppliers and employees (inclusive of GST)		(1,606,196)	(1,440,786)
GST paid		(30,742)	(34,759)
Interest received		1,153	962
Interest and other borrowing costs paid		(1,067)	(164)
Income tax paid (net of refunds)		(9,909)	(6,993)
Net cash inflow from operating activities	6	160,214	11,676
Cash flows from investing activities			
Payments for property and equipment	11	(3,090)	(1,125)
Payments for software assets	12	(846)	(1,825)
Proceeds from sale of property and equipment	11	-	7
Net cash (outflow) from investing activities		(3,936)	(2,943)
Cash flows from financing activities			
Payment of dividends	18	(18,785)	(15,705)
Lease liability payments	20	(3,746)	(178)
Net cash (outflow) from financing activities		(22,531)	(15,883)
Net increase/(decrease) in cash and cash equivalents held		133,747	(7,150)
Cash and cash equivalents, beginning of financial year		121,198	128,348
Effect of exchange rate changes on cash and cash equivalents		202	-
Cash and cash equivalents, end of financial year	6	255,147	121,198

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 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 2019. 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 19 August 2020. 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
Level 1, 555 Coronation Drive
TOOWONG QLD 4066

Note 1. Changes in accounting standards

We adopted AASB 16 *Leases* and Interpretation 23 *Uncertainty over Income Tax Treatments* on 1 July 2019. The effect on the consolidated financial statements for FY20 and the new accounting policies we adopted as a result of the new/amended accounting standards, where they are different to those applied in prior periods, are set out below.

Interpretation 23 *Uncertainty over Income Tax Treatments*

Interpretation 23 had no material effect on the consolidated financial statements for FY20.

AASB 16 Leases

This new standard replaced 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 remain largely unchanged from AASB 117. We adopted the new standard on 1 July 2019 using the modified retrospective approach. In calculating the effect on adoption, we used an incremental borrowing rate of 5.5% and have applied the following practical expedients available under AASB 16:

- we applied a single discount rate to all our property leases
- we excluded leases expiring within one year of the implementation date
- we excluded leases of low value (less than $5,000)
- we preserved our assessment of whether an arrangement was a lease under the previous lease standards
- we used hindsight when determining the lease term.

The recognised right-of-use assets relate to premises and equipment leases. The impact on assets, liabilities and retained earnings as at 1 July 2019 is set out below.

	As previously reported	AASB 16 adjustments	As restated
	$'000	$'000	$'000
Right-of-use assets	-	11,707	11,707
Equipment (net of accumulated depreciation)	1,027	(33)	994
Leasehold improvements (net of accumulated amortisation)	1,834	(51)	1,783
Deferred tax assets	3,139	137	3,276
Other payables – current	27,515	(808)	26,707
Borrowings – current	29	(29)	-
Borrowings – non-current	3	(3)	-
Lease liability – current	-	3,260	3,260
Lease liability – non-current	-	9,743	9,743
Lease incentive liability – current	80	(70)	10
Lease incentive liability – non-current	12	(12)	-
Retained earnings	38,621	(321)	38,300

The present value of operating lease commitments disclosed in our FY19 annual financial statements, discounted using the discount rate at transition date, differed from the lease liabilities recognised on adoption of AASB 16; a reconciliation of the difference is set out below:

	2019
	$'000
Operating lease commitments disclosed at 30 June 2019	19,788
Discounted using our incremental borrowing rate at the date of initial application	16,582
Add: finance lease liabilities recognised at 30 June 2019	32
Add: adjustments resulting from different treatment of extension options	3,571
Less: short-term leases recognised on a straight-line basis as expense	(506)
Less: low-value leases recognised on a straight-line basis as expense	(401)
Less: lease committed to but asset not yet available for use at 1 July 2019	(6,275)
Lease liability recognised at 1 July 2019	13,003
Recognised at 1 July 2019 as	
Current lease liability	3,260
Non-current lease liability	9,743
	13,003

Note 1. Changes in accounting standards (continued)

Accounting for leases

We lease various offices, warehouses, data centres and office equipment under rental contracts that normally range from three to eight years, with many contracts containing extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. These leases are under normal commercial lease terms and conditions.

Prior to the 2020 financial year, we classified leases of property, plant and equipment as either finance or operating leases; leases in which a significant portion of the risks and rewards of ownership were retained by the lessor were classified as operating leases. Operating lease payments, net of any incentives received from the lessor, were charged to expense on a straight-line basis over the period of the lease.

From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the lease transfers ownership of the underlying asset to us by the end of the lease term or the cost of the right-of-use asset reflects that we will exercise a purchase option; in these instances we depreciate the right-of-use asset over the useful life of the asset.

We initially measure assets and liabilities arising from a lease on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, unless those lease incentives relate to fitout payments that are immediately the property of the lessor
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Where we expect to exercise options to extend the terms of leases, lease payments in the extended term are included in the calculation of the lease liability. Term extensions are normally done at market value; at the commencement of each lease we estimate the lease payments for the extension period based on the annual increases set out in the initial period of the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

Right-of-use assets are measured at cost and comprise the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs
- restoration costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

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 FY20 (FY19: 99%).

In previous reporting periods we disclosed two reportable segments: product and services. As the group's business units have evolved, the sale of product and services has become increasingly integrated into the IT solutions that each business unit delivers to its customers. Each business unit services a similar customer base, applies similar methods to distribute those products and services to customers, and operates within a similar economic and regulatory environment. On this basis, we have determined that separate reporting of our business units does not add significantly to the understanding of them because there is significant overlap of product and services within each business unit, and there are frequent changes between the business units, resulting in the business units having characteristics that are so similar that they are expected to have the same future outcome. As a result, we have concluded that the company has only one reportable segment, which is that of value-added IT reseller and IT solutions provider. These solutions typically comprise a combination of infrastructure, software and service elements.

The company's revenue, results and assets for this reportable segment can be determined by reference to the Consolidated Statement of Profit or Loss and the Consolidated Balance Sheet.

Note 3. Revenue

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

Business unit	2020 $'000	2019 $'000
Infrastructure Solutions (a)	412,972	379,924
Software Solutions (b)	984,703	787,711
Business Aspect (c)	16,200	26,376
Project Services (d)	59,430	54,643
Support Services (e)	86,589	107,737
Recruitment and Contracting (f)	58,864	53,422
Discovery Technology (g)	5,083	4,539
Total revenue from contracts with customers	1,623,841	1,414,352
Other revenue		
Interest	1,133	970
Other recoveries	967	247
	2,100	1,217
Total revenue	1,625,941	1,415,569

(a) Infrastructure Solutions includes sales of hardware, device-as-a-service and managed print services.
(b) Software Solutions includes volume licensing and public cloud subscription services.
(c) Business Aspect provides management and information technology consulting services.
(d) Project Services include the design and implementation of technology solutions.
(e) Support Services include managed services and maintenance services.
(f) Recruitment and Contracting includes the provision of contractors and permanent staff.
(g) Discovery Technology (77.4% owned by Data#3) provides Wi-Fi analytic services and Wi-Fi infrastructure.

Management exercises judgment in determining the categorisation of revenues as there is an increasing tendency for manufacturers to bundle various elements in the products and services that we resell – for example, some infrastructure offerings include software and/or bundled vendor services, and vendor maintenance offerings can include software licenses.

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 at a point in time 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. Services revenue recognised over time comprises less than 10% of our total revenue.

Other revenue

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

Note 4. Expenses

	2020 $'000	2019 $'000
Depreciation and amortisation of property and equipment (Note 11)	1,195	2,025
Depreciation of right-of-use assets (Note 20)	3,374	-
Amortisation of intangibles (Note 12)		
Amortisation of software included in depreciation and amortisation expense	286	202
Amortisation of software recorded in cost of sales	874	937
Amortisation of customer relationships included in depreciation and amortisation expense	50	300
	1,210	1,439
	5,779	3,464
Employee benefits expense	123,936	114,284
Termination benefits expense	825	1,747
Defined contribution superannuation expense (a)	13,785	12,924
Other charges against assets		
Impairment of goodwill (Note 12)	-	1,200
Impairment of trade receivables (Note 7(b))	652	234
Finance costs		
Interest on lease liabilities (Note 20)	794	-
Other interest and finance charges paid/payable	273	128
Unwinding of discount on provisions and other payables	79	36
	1,146	164

(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

	2020 $'000	2019 $'000
The major components of income tax expense are		
Current income tax expense	11,819	9,011
Deferred income tax relating to the origination and reversal of temporary differences	(1,449)	(439)
Adjustments for current tax of prior years	(32)	47
Income tax expense	10,338	8,619
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	34,066	26,563
Income tax calculated at the Australian tax rate: 30% (FY19: 30%)	10,220	7,969
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible items	313	603
	10,533	8,572
Difference in overseas tax rates	(163)	-
Under/(over) provision in prior year	(32)	47
Income tax expense	10,338	8,619
	%	%
Effective tax rate (income tax expense as a percentage of profit before tax)	30.3	32.4

We paid income taxes (net of refunds in relation to the prior year, if any) of $9,909,000 during FY20 (FY19: $6,993,000).

Deferred income tax assets and liabilities are attributable to the following temporary differences:	$'000	$'000
Lease liabilities	5,475	-
Accrued liabilities	2,275	2,060
Provisions	2,951	2,736
Lease incentive liabilities	-	29
Depreciation	964	1,235
Other	331	453
Total deferred tax assets	11,996	6,513

Note 5. Income tax (continued)

	2020 $'000	2019 $'000
Right-of-use assets	(5,260)	-
Intangible assets	(253)	(282)
Lease incentive assets	-	(18)
Contract assets	(1,475)	(2,498)
Other	(376)	(576)
Total deferred tax liabilities	(7,364)	(3,374)
Net deferred tax assets	4,632	3,139

Movements in deferred tax assets are as follows:

	Lease liabilities $'000	Accrued liabilities $'000	Provisions $'000	Lease incentive liabilities $'000	Depreciation $'000	Other $'000	Total $'000
Balance at 1 July 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
Adjustment on adoption of AASB 16	3,891	(242)	-	(25)	10	-	3,634
Balance at 1 July 2019	3,891	1,818	2,736	4	1,245	453	10,147
(Charged)/credited							
- to profit or loss	1,584	440	236	(4)	(279)	(45)	1,932
- to current tax liability	-	17	(21)	-	(2)	(77)	(83)
Balance at 30 June 2020	5,475	2,275	2,951	-	964	331	11,996

Movements in deferred tax liabilities are as follows:

	Right-of-use assets	Intangible assets	Lease incentive assets	Contract assets	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 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)
Adjustment on adoption of AASB 16	(3,512)	-	15	-	-	(3,497)
Balance at 1 July 2019	(3,512)	(282)	(3)	(2,498)	(576)	(6,871)
(Charged)/credited						
- to profit or loss	(1,748)	29	18	1,018	200	(483)
- to current tax liability	-	-	(15)	5	-	(10)
Balance at 30 June 2020	(5,260)	(253)	-	(1,475)	(376)	(7,364)

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.

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.

Note 5. Income tax (continued)

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 instalments. 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 (FY19: nil).

Note 6. Cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and on hand	29,133	13,184
Deposits at call	226,014	108,014
	255,147	121,198

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	2020 $'000	2019 $'000
Profit for the year		23,728	17,945
Loss on disposal of property, equipment and software		881	100
Depreciation and amortisation	4	5,779	3,464
Goodwill impairment	12	-	1,200
Unwinding of discount on provisions	4	79	36
Bad and doubtful debts	4	652	234
Excess and obsolete inventory		38	3
Non-cash employee benefits expense – share-based payments	29	441	165
Other		(30)	(80)
Change in operating assets and liabilities			
Decrease/(increase) in receivables and contract assets		36,163	(88,494)
Decrease/(increase) in inventories		(14,283)	(3,543)
Decrease/(increase) in other operating assets		2,574	(1,993)
Decrease/(increase) in net deferred tax assets		(1,356)	(329)
Increase in payables		109,724	61,523
Increase/(decrease) in contract liabilities		(5,921)	18,191
Increase/(decrease) in other operating liabilities		(315)	656
Increase in current tax liabilities		1,784	1,955
Increase in provision for employee benefits		276	643
Net cash inflow from operating activities		160,214	11,676

Note 7. Trade and other receivables

	2020 $'000	2019 $'000
Current		
Trade receivables (a)	239,603	272,380
Allowance for impairment (b)	(712)	(233)
	238,891	272,147
Other receivables (c)	17,356	21,498
	256,247	293,645
Non-current		
Trade receivables on deferred payment terms (d)	3,686	5,403

Note 7. Trade and other receivables (continued)

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.

(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 $652,000 in the current year (FY19: $234,000). 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 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
Impairment loss recognised during the year	652
Receivables written off during the year	(125)
Unused provision reversed during the year	(48)
Carrying amount at 30 June 2020	712

Our ageing of trade receivables, receivables past due not impaired, and the expected loss percentage applied to each ageing category at 30 June 2020, is as follows:

	2020				2019			
	Expected loss	Trade receivables	Credit loss allowance	Past due but not impaired	Expected loss	Trade receivables	Credit loss allowance	Past due but not impaired
	%	$'000	$'000	$'000	%	$'000	$'000	$'000
Current	-	212,179	-	-	-	251,137	-	-
31-60 days	0.5%	17,706	88	17,618	-	12,148	-	12,148
61-90 days	2.5%	5,384	131	5,253	-	3,997	-	3,997
91-120 days	9.0%	2,726	245	2,481	2.5%	874	22	852
+120 days	15.1%	1,608	248	1,360	5.0%	4,224	211	4,013
		239,603	712	26,712		272,380	233	21,010

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

	2020 $'000	2019 $'000
Contract assets	4,856	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. 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 2020.

Note 9. Inventories

	2020 $'000	2019 $'000
Goods held for sale – at cost	21,158	6,913

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 FY20 amounted to $347,897,000 (FY19: $337,678,000).

Note 10. Other assets

	2020 $'000	2019 $'000
Prepayments	4,352	6,781
Security deposits	110	255
	4,462	7,036

Note 11. Property and equipment

	2020 $'000	2019 $'000
Leasehold improvements – at cost	9,351	10,684
Accumulated amortisation	(6,271)	(8,850)
	3,080	1,834
Equipment – at cost	5,205	4,807
Accumulated depreciation	(3,790)	(3,780)
	1,415	1,027
	4,495	2,861

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 or the lease term, whichever is shorter. If an asset is impaired, we immediately write down its carrying amount to its recoverable amount.

	2020 $'000	2019 $'000
Leased assets Property and equipment include the following amounts where we are a lessee under a finance lease:		
Cost	-	533
Accumulated depreciation	-	(500)
Carrying amount	-	33

Our accounting policy for leased assets changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Notes 1 and 20 for further information.

Note 11. Property and equipment (continued)

Prior to 1 July 2019 we classified leases of property and equipment where the group, as lessee, had substantially all the risks and rewards of ownership as finance leases. Finance leases were 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 included the corresponding rental obligations, net of finance charges, in other short-term and long-term payables. Lease payments were allocated between the liability and interest expense. We depreciated 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 secured the related lease liabilities (Note 20).

	Leasehold improvements $'000	Equipment $'000	Total $'000
Carrying amount at 1 July 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
Adjustments on adoption of AASB 16 (Note 1)	(51)	(33)	(84)
Carrying amount at 1 July 2019	1,783	994	2,777
Additions	2,488	602	3,090
Transfer of fitout assets	(468)	468	-
Depreciation and amortisation (Note 4)	(559)	(636)	(1,195)
Disposals	(164)	(13)	(177)
Carrying amount at 30 June 2020	3,080	1,415	4,495

Note 12. Intangible assets

	2020 $'000	2019 $'000
Goodwill – at cost	11,843	11,843
Accumulated impairment	(1,787)	(1,787)
	10,056	10,056
Software assets – at cost	3,529	3,766
Accumulated amortisation and impairment	(1,367)	(1,081)
	2,162	2,685
Internally generated software assets – at cost	8,093	7,732
Accumulated amortisation and impairment	(5,089)	(4,232)
	3,004	3,500
Customer relationships	1,500	1,500
Accumulated amortisation and impairment	(1,500)	(1,450)
	-	50
	15,222	16,291

	Goodwill $'000	Software assets $'000	Internally generated software $'000	Customer relationships $'000	Total $'000
Carrying amount at 1 July 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
Additions	-	468	378	-	846
Disposals	-	(705)	-	-	(705)
Amortisation (Note 4)	-	(286)	(874)	(50)	(1,210)
Carrying amount at 30 June 2020	10,056	2,162	3,004	-	15,222

Note 12. Intangible assets (continued)

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.

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

Cash generating unit (CGU)	Carrying amount at 1 July 2018	Impairment recognised during FY19	Carrying amount at 30 June 2019	Impairment recognised during FY20	Carrying amount at 30 June 2020
	$'000	$'000	$'000	$'000	$'000
Infrastructure Solutions	847	-	847	-	847
Software Solutions	2,013	-	2,013	-	2,013
Business Aspect	1,532	-	1,532	-	1,532
Project Services	1,211	-	1,211	-	1,211
Support Services	2,396	-	2,396	-	2,396
Recruitment and Contracting	1,180	-	1,180	-	1,180
Discovery Technology	2,077	(1,200)	877	-	877
	11,256	(1,200)	10,056	-	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 cash generating unit based on a value-in-use calculation using cash flow projections on the basis of financial projections approved by senior management for FY21. For all cash generating units except Discovery Technology, we applied an 11% before-tax discount rate to cash flow projections (FY19: 11%) and extrapolated cash flows for the four years beyond the FY21 financial year using an average growth rate of 3.5% (FY19: 3.5%) and a terminal value growth rate thereafter of 3.0% (FY19: 3.0%). No impairment was identified on these cash generating units at 30 June 2020.

For the separate Discovery Technology cash generating unit, 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 FY21. We applied a 13% before-tax discount rate to cash flow projections (FY19: 13%) and extrapolated cash flows for the four years beyond the FY21 financial year using an average growth rate of 10% (FY19: 7.5%) and a terminal value growth rate thereafter of 3.0% (FY19: 3.5%). No impairment was identified at 30 June 2020.

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 cash generating unit, at the date of impairment test. For Discovery Technology, if the discount rate were to increase to 15% and the average cash flows for the four years beyond FY21 grew by only 3.0%, with a terminal value growth rate of 2.5%, the carrying value of that goodwill would be completely impaired.

Note 13. Trade and other payables

	2020 $'000	2019 $'000
Current		
Trade payables – unsecured	437,164	327,209
Other payables – unsecured (a)	27,747	27,515
	464,911	354,724
Non-current		
Trade payables on deferred payment terms	1,415	2,685

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 three 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 cash 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

	2020 $'000	2019 $'000
Contract liabilities	36,455	42,376

Contract liabilities arise from revenue contracts when customers pay us amounts due under the contracts before the goods or services identified in the contracts are delivered. The contract liabilities relate almost solely to contracts where the revenue is recognised at a point in time. We recognised revenue of $39,966,000 that was included in the contract liability balance at 1 July 2019 in relation to customer contracts for the provision of IT products and services (FY19: $20,213,000).

Note 15. Provisions

	2020			2019		
	Current	Non-current	Total	Current	Non-current	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Employee benefits	5,219	2,467	7,686	4,888	2,522	7,410
Lease remediation	806	550	1,356	259	1,103	1,362
	6,025	3,017	9,042	5,147	3,625	8,772

Movements in provisions other than employee benefits are as follows:

	Lease remediation $'000
Balance at 1 July 2018	513
Arising during the year	818
Increase to present value	36
Used during the year	(5)
Balance at 30 June 2019	1,362
Arising during the year	292
Increase to present value	79
Used during the year	(304)
Unused and reversed during the year	(73)
Balance at 30 June 2020	1,356

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

	2020 $'000	2019 $'000
Current		
Lease incentives	-	80
Non–current		
Lease incentives	-	12

Our accounting policy for lease incentives changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Notes 1 and 20 for further information.

Note 17. Earnings per share

	2020	2019
Basic earnings per share (cents)	15.35	11.76
Diluted earnings per share (cents)	15.30	11.75
Earnings used in the calculation of basic and diluted earnings per share ($000)	23,636	18,112
Weighted average number of ordinary shares for basic earnings per share (number)	153,974,950	153,974,950
Adjustment for dilutive elements (share rights)	542,927	185,580
Weighted average number of ordinary shares for diluted earnings per share (number)	154,517,877	154,160,530

There were no changes in the number of shares on issue during FY20.

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.

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

	2020 $'000	2019 $'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for FY19: 7.1c per share (FY18: 6.6c)	10,932	10,162
Interim fully franked dividend for FY20: 5.1c per share (FY19: 3.6c)	7,853	5,543
	18,785	15,705
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for FY20: 8.8c (FY19: 7.1c)	13,550	10,932
The tax rate at which dividends paid have been franked is 30% (FY19: 30%). Dividends declared will be franked at the rate of 30% (FY19: 30%).		
Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (FY19: 30%)	26,457	22,897

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 $5,807,000 (FY19: $4,685,000).

Note 19. Contributed equity

(a) Movements in ordinary share capital

There were no movements in ordinary share capital during FY20 and FY19 (153,974,950 shares on issue).

(b) Ordinary shares

All ordinary shares issued as at 30 June 2020 and 2019 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 2020 (2019: nil).

(d) Share rights

Please refer to Note 29.

(e) 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 FY20 the board paid dividends of $18,785,000 (FY19: $15,705,000). 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. Leases

Right-of-use assets

	Right-of-use assets (premises) $'000	Right-of-use assets (equipment) $'000	Total right-of-use assets $'000
Carrying amount at 1 July 2018	-	-	-
Carrying amount at 30 June 2019	-	-	-
Initial adoption of AASB 16	11,674	33	11,707
Carrying amount at 1 July 2019	11,674	33	11,707
Additions	9,200	-	9,200
Depreciation (Note 4)	(3,344)	(30)	(3,374)
Carrying amount at 30 June 2020	17,530	3	17,533

Lease liabilities

	2020 $'000	2019 $'000
Current lease liabilities	2,396	-
Non-current lease liabilities	15,857	-
Total lease liabilities	18,253	-
Total payments for leases during the year comprise the following:		
Principal payments	3,746	-
Interest expense	794	-
Payments made in relation to lease liabilities	4,540	-
Other payments in relation to leases recognised as liabilities	1,240	-
Payments made for short-term leases	1,929	-
Payments made for low-value leases	224	-
	7,933	-
Future payments of lease liabilities, including interest, are set out below:		
Due within one year	3,317	-
Due between one year and five years	9,621	-
Due after five years	10,271	-
	23,209	-

Our accounting policy and procedures for leases changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Note 1 for further information.

We lease various offices, warehouses, data centres and office equipment under rental contracts that normally range from three to eight years, with many contracts containing extension options, normally for two to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. Generally the premises lease agreements require us to maintain a bank guarantee (please refer to Note 24(c)) as security for the lease agreement. All our significant premises leases allow assignment of the lease or sublease of the premises with the approval of the landlord. All leases are under normal commercial lease terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the lease transfers ownership of the underlying asset to us by the end of the lease term or the cost of the right-of-use asset reflects that we will exercise a purchase option; in these instances we depreciate the right-of-use asset over the useful life of the asset.

We initially measure assets and liabilities arising from a lease on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, unless those lease incentives relate to fitout payments that are immediately the property of the lessor
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Where we expect to exercise options to extend the terms of leases, lease payments in the extended term are included in the calculation of the lease liability. Term extensions are normally done at market value; at the commencement of each lease we estimate the lease payments for the extension period based on the annual increases set out in the initial period of the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

We did not receive any rent concessions in connection with COVID-19 during FY20.

Note 21. Borrowings

	2020 $'000	2019 $'000
Current		
Finance lease liabilities – secured	-	29
Non–current		
Finance lease liabilities – secured	-	3
Total secured liabilities	-	32

Our accounting policy for finance leases changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Notes 1 and 20 for further information.

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 23).

Note 22. Net debt reconciliation

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

Net debt	2020 $'000	2019 $'000
Cash and cash equivalents	255,147	121,198
Leases	(18,253)	-
Finance leases	-	(32)
Net debt	236,894	121,166

Our accounting policy for leases changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Notes 1 and 20 for further information.

Movement in net debt	Cash $'000	Leases $'000	Finance leases $'000	Total $'000
Net debt at 1 July 2018	128,348	-	(210)	128,138
Cash flows	(7,150)	-	178	(6,972)
Net debt at 30 June 2019	121,198	-	(32)	121,166
Adjustment on adoption of AASB 16	-	(13,003)	32	(12,971)
	121,198	(13,003)	-	108,195
Cash flows	133,949	3,746	-	137,695
Acquisition – leases	-	(8,996)	-	(8,996)
Net debt at 30 June 2020	255,147	(18,253)	-	236,894

Note 23. Commitments

Our accounting policy for operating and finance leases changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Notes 1 and 20 for further information and disclosures in relation to FY20. Short-term leases include leases of premises where the lease term expires within one year and low-value leases are leases of office equipment for assets of low value ($5,000 or less). These leases are under normal commercial lease terms and conditions. In FY19 operating leases included all leases of premises and office equipment.

	2020 $'000	2019 $'000
(a) Non-cancellable leases		
Future minimum lease payments under non-cancellable short-term or low-value leases (FY19: operating leases) are as follows:		
Within one year	326	5,225
Later than one year but not later than five years	269	10,113
Later than five years	-	4,450
	595	19,788

	2020 $'000	2019 $'000
(b) Finance leases		
Commitments related to finance leases as at 30 June are payable as follows:		
Within one year	-	30
Later than one year but not later than five years	-	3
		33
Less: future finance charges	-	(1)
Recognised as a liability	-	32
The present value of finance lease liabilities is as follows:		
Within one year	-	29
Later than one year but not later than five years	-	3
	-	32

FY19: A controlled entity leases equipment under finance leases which are due to expire in August 2020.

Note 24. 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. We make sales via our Fiji branch to customers who require the currency of settlement to be in Fiji dollars. We opened a Fijian bank account during FY19 to facilitate these transactions.

At 30 June 2020 if the foreign exchange rates had changed, as illustrated in the table below, with all other variables remaining constant, other comprehensive income and equity would have been affected as follows:

	Other comprehensive income		Equity	
	Higher/(lower)		Higher/(lower)	
	2020 $000	2019 $000	2020 $000	2019 $000
-5.0% (FY19: -2.0%)	(412)	(48)	(412)	(48)
+7.0% (FY19: +2.0%)	652	50	652	50

Profit or loss would not be affected by a movement in the exchange rates as calculated in the table above because the foreign exchange gain or loss is unrealised and is recorded in other comprehensive income until such time as the gain or loss is realised.

(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 our lease liabilities are fixed rate instruments which do not expose us to fair value interest rate risk. At balance date we maintained the following variable rate accounts:

	30 June 2020		30 June 2019	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$'000	%	$'000
Cash at bank and on hand	0.6%	29,133	1.2%	13,184
Deposits at call	1.0%	226,014	1.5%	108,014
Cash and cash equivalents	1.0%	255,147	1.5%	121,198

Note 24. Financial risk management (continued)

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		Equity	
	Higher/(lower)		Higher/(lower)	
	2020 $000	2019 $000	2020 $000	2019 $000
-0.25% (25 basis points) (FY19: -0.25%)	(197)	(212)	(197)	(212)
-0.50% (50 basis points) (FY19: -0.50%)	(394)	(424)	(394)	(424)

(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. COVID-19 has adversely affected the credit risk associated with receivables from certain customers, particularly those in the travel and tourism industry. We are confident in our assessment of the risk of collectability associated with receivables of this type as at 30 June 2020 and believe the provision for impairment set out in Note 7(b) is adequate to cover the potential exposure.

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

- Cash and cash equivalents are maintained at one large financial institution.
- During the FY20 year, sales to one government customer comprised 5.5% of revenue (FY19: 5.0%).
- At 30 June 2020, one debtor comprised 11% of total debtors (FY19: 11%), and the ten largest debtors comprised approximately 35% of total debtors (FY19: 47%), of which 100% were accounts receivable from government customers (FY19: 100%).
- 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 FY20 bad debt write-offs as a percent of the trade receivables carrying amount was 0.1% (FY19: 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 $4,385,000 (FY19: $3,579,000) 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:

	2020 $'000	2019 $'000
Multi-option bank facility	7,615	8,421

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 FY20 was 4.9% (FY19: 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 and measured at amortised cost.

	Less than 1 year $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	More than 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2020						
Trade and other payables	457,892	935	659	-	459,486	459,307
Lease liabilities *	3,317	2,428	7,193	10,271	23,209	18,253
	461,209	3,363	7,852	10,271	482,695	477,560
At 30 June 2019						
Trade and other payables	351,141	3,049	-	-	354,190	351,483
Finance lease liabilities *	30	3	-	-	33	32
	351,171	3,052	-	-	354,223	351,515

* Our accounting policy for leases changed on 1 July 2019, the date we implemented AASB 16 *Leases*. Please refer to Notes 1 and 20 for further information.

(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 25. 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 26. 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)	
		2020 %	2019 %
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:

	2020 $'000	2019 $'000
As at 30 June		
Current assets	539,425	425,763
Total assets	586,162	453,888
Current liabilities	512,601	399,432
Total liabilities	532,641	405,519
Shareholders' equity		
Contributed equity	8,278	8,278
Share-based payments reserve	606	165
Foreign currency translation reserve	202	-
Retained earnings	44,435	39,926
Total equity	53,521	48,369

	2020 $'000	2019 $'000
For the year ended 30 June		
Net profit for the year	23,615	19,255
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	202	-
Total comprehensive income	23,817	19,255

Note 27. Contingent liabilities

At 30 June 2020 we had provided bank guarantees totalling $4,180,000 (FY19: $3,160,000) to lessors as security for premises we lease and $165,000 (FY19: $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 28. Key management personnel

Key management personnel compensation is set out below.

	2020 $	2019 $
Short-term employee benefits	2,834,324	3,020,859
Long-term employee benefits	1,185,840	707,907
Post-employment benefits	121,862	116,799
	4,142,026	3,845,565

Short-term employee benefits
Remuneration in FY20 reflected overachievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY19: overachievement). The transitional equity bonus (in lieu of LTI) was fully met in FY19.

Long-term employee benefits
The long-term targets for the FY18, FY19 and FY20 LTI offers were fully met in FY20 (FY19: fully met).

Transactions with key management personnel

There were no transactions during FY20 or 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.

Note 29. 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.

The number of rights to be granted is determined based on the currency value of the board-approved LTI divided by the volume weighted average share price for the five trading days following the release of the preceding year's audited financial statements.

The following table shows the rights granted and outstanding at the beginning and end of the reporting period:

	Fair value per right granted $	Share rights Number
Balance at 30 June 2018		-
Granted on 31 December 2018	1.32	374,235
Balance at 30 June 2019		374,235
Granted on 21 October 2019	3.38	184,425
Granted on 13 November 2019	3.17	65,574
Balance at 30 June 2020		624,234

At 30 June 2020 none of the performance rights were exercisable (FY19: nil). No rights or options vested, lapsed or were forfeited during the year (FY19: nil), and no rights or options were exercised during the year (FY19: nil).

Note 29. Share-based payments (continued)

Fair value of performance rights granted
The assessed fair value at grant date of performance rights granted was calculated using the Black Scholes Model that takes into account the following inputs:

	Date of rights grant		
	31 December 2018	**21 October 2019**	**13 November 2019**
Exercise price per share	Nil	Nil	Nil
Expiry date	30 June 2021	30 June 2022	30 June 2022
Share price at grant date	$1.50	$3.65	$3.43
Expected volatility of the company's shares	20.4%	30.6%	30.6%
Expected dividend yield	5.13%	3.01%	3.01%
Risk-free interest rate	1.7%	0.8%	0.8%

The expected price volatility is based on the historic volatility (based on the three financial years ended just prior to the relevant grant), adjusted for any expected changes to future volatility due to publicly available information.

Employee benefits expense of $441,000 in relation to the performance rights was recognised in the FY20 profit and loss, with a corresponding increase in the share-based payments reserve in equity (FY19: $165,000).

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 30. Remuneration of auditor

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

	2020 $	2019 $
Audit and other assurance services		
Audit and review of financial statements	164,000	160,000
Non-audit services		
Tax compliance services	27,251	18,120
Other business advice	-	-
	27,251	18,120
Total remuneration	191,251	178,120

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

Note 31. 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 2020, are as follows:

Standard/Interpretation	Application date of Standard [1]	Application date for the group [1]
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
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	1 January 2020	1 July 2020
AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020	1 July 2020
AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	1 January 2022	1 July 2022
IASB Amendments to IFRS 3 *Business Combinations*	1 January 2022	1 July 2022
IASB Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*	1 January 2022	1 July 2022
IASB Annual Improvements to IFRS 9 *Financial Instruments* and the Illustrative Examples accompanying IFRS 16 *Leases*	1 January 2022	1 July 2022

[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 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.

Note 31. Accounting standards not yet effective (continued)

AASB 2019-3 – the standard amends AASB 7 *Financial Instruments: Disclosures,* AASB 9 *Financial Instruments* and AASB 139 *Financial Instruments: Recognition and Measurement* to modify some specific hedge accounting requirements to provide relief from the potential effects of the uncertainty caused by the interest rate benchmark reform. In addition, the amendments require entities to provide additional information about their hedging relationships that are directly affected by these uncertainties. When these amendments are first adopted for the year ending 30 June 2021, there will be no material impact on the financial statements.

AASB 2019-5 – the standard amends AASB 1054 *Australian Additional Disclosures* by adding a disclosure requirement for an entity intending to comply with IFRS standards to disclose the information specified in paragraphs 30 and 31 of AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* on the potential effect of an IFRS standard that has not yet been issued by the AASB. This ensures that for-profit publicly accountable entities complying with Australian Accounting Standards can assert compliance with IFRS standards. When this Standard is first adopted for the year ending 30 June 2021, additional disclosures may be necessary if there are any pronouncements issued by the International Accounting Standards Board that have not yet been issued by the AASB at the date of authorisation of our financial report.

AASB 2020-1 – the standard amends AASB 101 *Presentation of Financial Statements* to clarify that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. When this Standard is first adopted for the year ending 30 June 2023, we do not expect there will be any changes to the classification of liabilities within our financial report, as we do not have any material borrowings.

IASB Amendments to IFRS 3 *Business Combinations* – the amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. When this Standard is first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

IASB Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – the amendments specify which costs a company includes when assessing whether a contract will be loss making. IAS 37 defines an onerous contract as one in which the unavoidable costs of meeting the entity's obligations exceed the economic benefits to be received under that contract. Unavoidable costs are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. When this Standard is first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

IASB Annual Improvements to IFRS 9 *Financial Instruments* and the Illustrative Examples accompanying IFRS 16 *Leases* – the amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. The amendment to Illustrative Example 13 that accompanies IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives. When these Amendments are first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

Directors' declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 39 to 72 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 2020 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

R A Anderson
Director

Brisbane
19 August 2020

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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 2020, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 2020 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 2020 includes goodwill of $10.1m and internally generated software of $3.0m. 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 and the terminal value. The recoverable amount (determined using a value-in-use calculation) of the Cash Generating Units "CGUs" was calculated to be higher than their carrying amount, and therefore, no provision for impairment was recorded for the year ended 30 June 2020. 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: • Understanding and evaluating the design and implementation of controls over the impairment assessment process; • 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; • Assessing the reasonableness of management's cashflow forecasts with reference to current economic conditions; • Comparing the prior year forecast to assess the accuracy of the forecasting process; • Reviewing management's value-in-use calculations for accuracy; • Performing a sensitivity of management's value-in-use calculation to assess the level of headroom available; and • Assessing the adequacy of the disclosures in the financial report.
Revenue recognition (Refer to note 3)	
Given the nature of Data#3's 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: • Understanding and evaluating the design and implementation of controls over the revenue recognition and invoicing process; • 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 (sales recognised at a point in time), a specified project milestone had been achieved (sales recognised over time) or labour hours had been worked (sales recognised over time), 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; and • Assessing the adequacy of the disclosures in the financial report.

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Initial adoption of AASB 16 Leases
(Refer to note 20)

The 30 June 2020 financial year was the first year of adoption of Australian Accounting Standard AASB 16: *Leases.* The Group has a number of leases over premises.

The Group elected to apply the modified retrospective approach. At 1 July 2019 (date of transition) the Group recognised a right-of-use asset of $11.7m and lease liabilities of $13.0m, with an after-tax adjustment of $0.3m impacting retained earnings.

At 30 June 2020 the Group recognised a right-of-use asset of $17.5m and lease liabilities of $18.3m.

Given the financial significance to the Group of its leasing arrangements, the complexity and judgements involved in the application of AASB 16, such as the incremental borrowing rate and the transition requirements of the standard, this was assessed as a key audit matter.

Our procedures included, amongst others:

- Understanding management's processes and controls related to the identification, recognition and measurement of lease liabilities and right of use assets;
- Assessing the integrity of management's AASB 16 lease calculation model, including the accuracy of formulas;
- Tracing inputs into the AASB 16 lease calculation model in relation to the lease term, fixed and variable rent payments, renewal options and lease incentives back to underlying executed lease agreements;
- Assessing the reasonableness of management's judgements in relation to the accounting treatment of lease renewal options under AASB 16;
- Assessing the reasonableness of the incremental borrowing rate used to discount future lease payments to present value;
- Reviewing the Group's new accounting policy to ensure it satisfies the requirements of AASB 16 including the adoption of practical expedients applied by management for the transitional accounting; and
- Reviewing the adequacy of the disclosures in the financial report to ensure compliance with Australian Accounting Standards.

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 2020, 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, actions taken to eliminate threats or safeguards applied.

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 pages 26 to 35 of the financial report for the year ended 30 June 2020. In our opinion, the Remuneration Report of Data#3 Limited, for the year ended 30 June 2020, 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

DAN COLWELL
Partner

Brisbane, Queensland
19 August 2020

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Shareholder Information

The shareholder information set out below was applicable as at 17 August 2020.

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	865,367	0.56	1,713
1,001 to 5,000	5,554,018	3.61	1,970
5,001 to 10,000	7,496,843	4.87	952
10,001 to 50,000	27,594,339	17.92	1,211
50,001 to 100,000	12,274,180	7.97	167
100,001 and over	100,190,203	65.07	119
	153,974,950	100.00	6,132

(b) There were 160 holders of less than a marketable parcel of ordinary shares.

2. Twenty largest quoted equity security holders

Name	Ordinary shares	
	Number held	% of issued shares
HSBC Custody Nominees (Australia) Limited	24,043,227	15.62
J P Morgan Nominees Australia Limited	21,231,147	13.79
Citicorp Nominees Pty Limited	15,251,917	9.91
National Nominees Pty Limited	4,733,924	3.07
Oakport Pty Ltd	2,148,182	1.40
Powell Clark Trading Pty Ltd	2,100,000	1.36
J T Populin	1,690,140	1.10
Anacacia Pty Limited	1,571,349	1.02
BNP Paribas Nominees Pty Ltd	1,444,469	0.94
Elterry Pty Ltd	1,087,948	0.71
Thomson Associates Pty Ltd	1,000,000	0.65
U Pty Ltd	782,280	0.51
Densley Pty Ltd	763,000	0.50
Elterry Super Pty Ltd	700,000	0.45
Banksia Administration Services Pty Ltd	637,000	0.41
BNP Paribas Nominees Pty Ltd	632,444	0.41
R A & M I Anderson	600,000	0.39
W T Powell	570,000	0.37
Citicorp Nominees Pty Limited	519,000	0.34
Densley Pty Ltd	509,700	0.33
	82,015,727	53.27

3. Substantial shareholders

Substantial shareholders in the company are set out below:

Name	Number held	% of issued shares
Mitsubishi UFJ Financial Group, Inc.	7,715,832	5.01

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

2020

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

2021

18 February	Half year results announcement
17 March	Record date for interim dividend
31 March	Interim dividend payment
30 June	Year end

Corporate Directory

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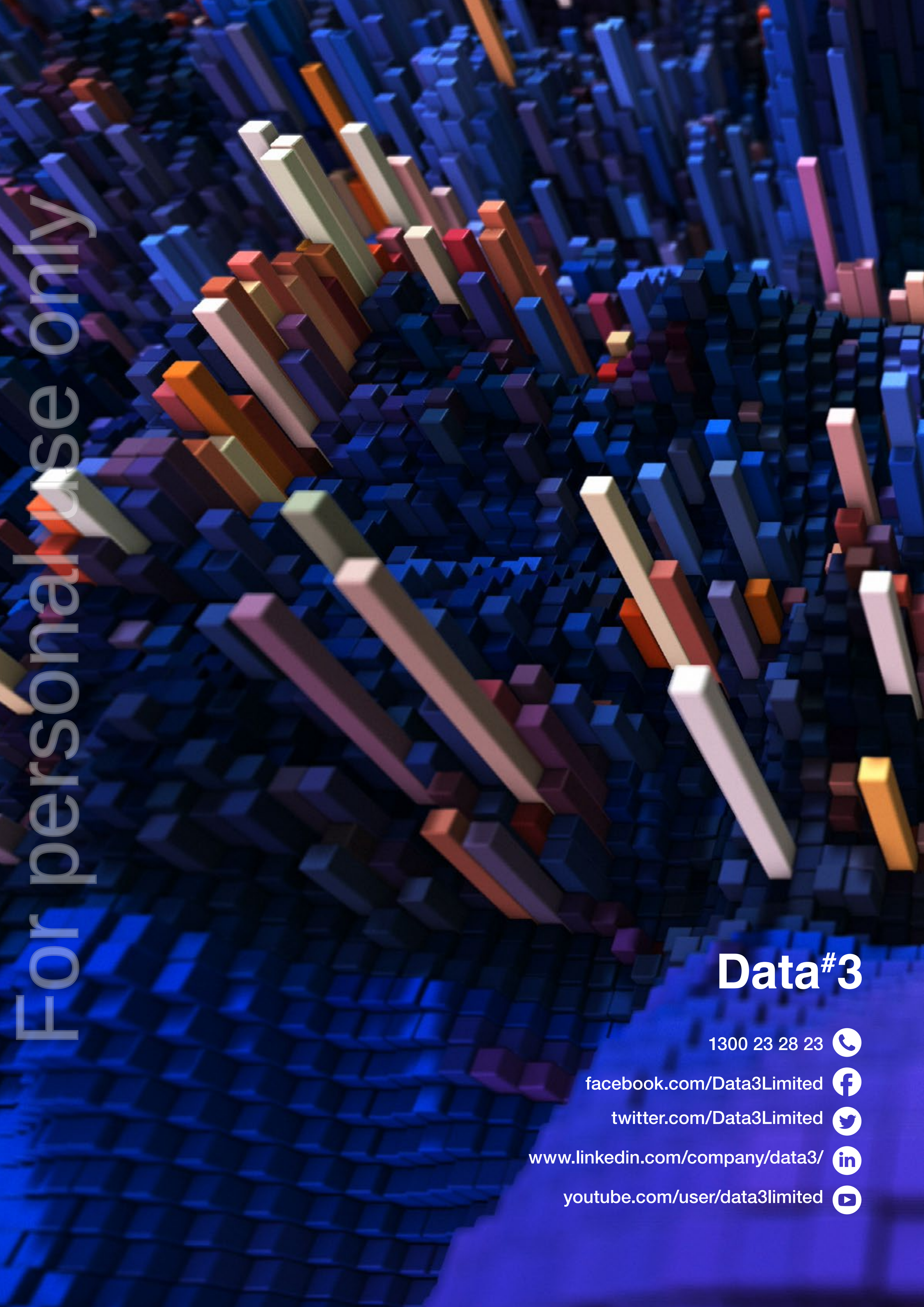

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