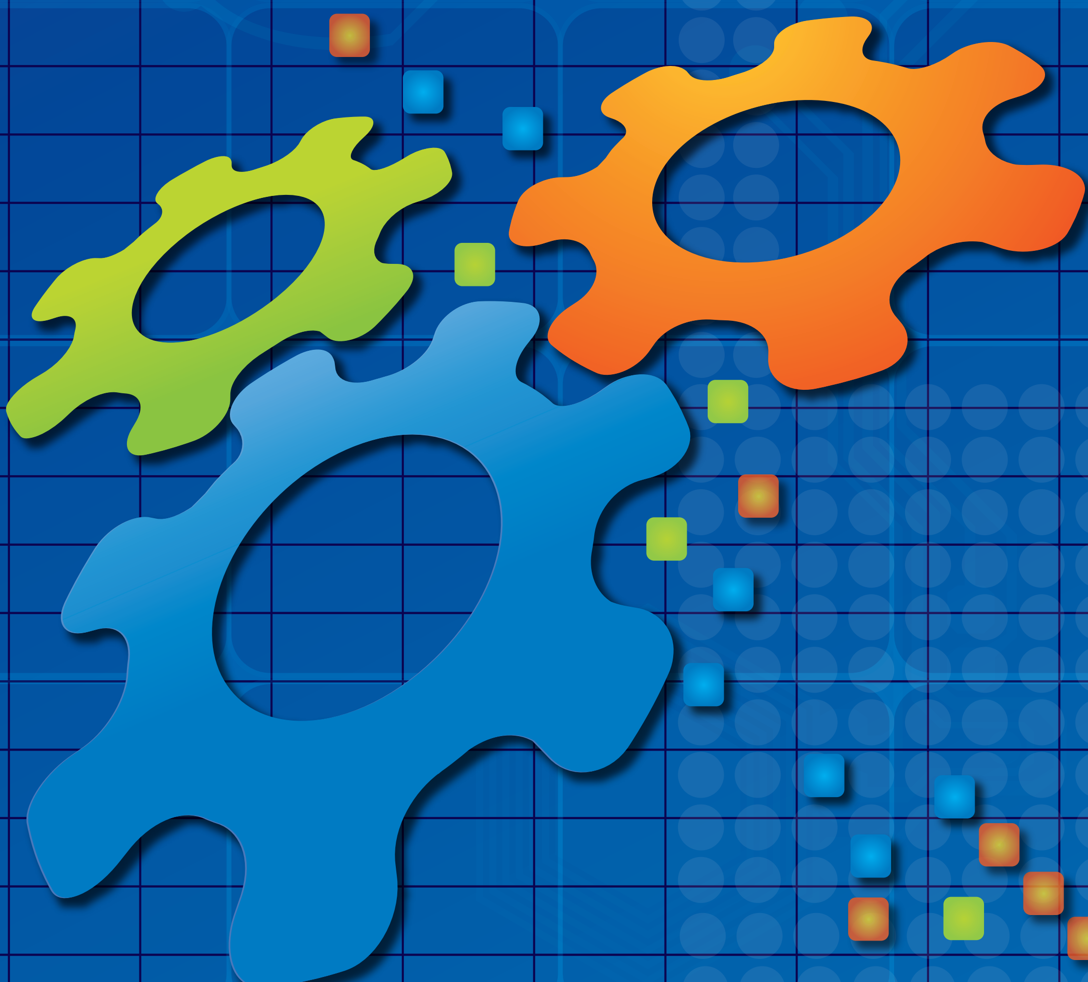
Data#3

Annual Report 2012



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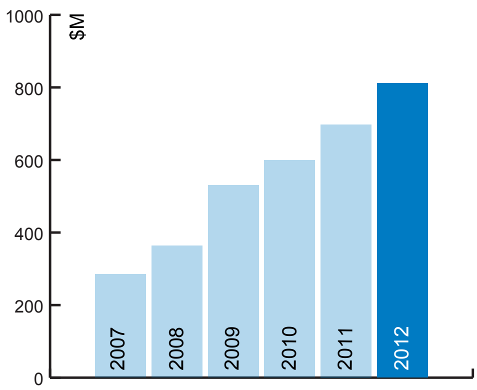
"Financial performance in 2012, while behind the exceptionally strong performance of the previous year, was very pleasingly ahead of the long term trend. This achievement, in a year in which our customers became increasingly restrained and diligent in their investment in technology and in which poor global conditions impacted local sentiment, is testimony to the strong market positioning your company enjoys and the expertise and commitment of its management team and people. With this solid performance the board has declared a full year dividend of 7.0 cents per share, a 5.8% yield on the average share price over the year."

RICHARD ANDERSON - CHAIRMAN

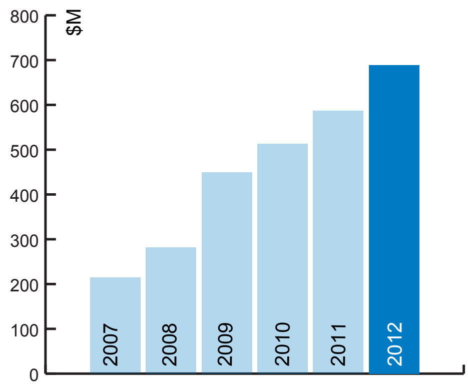
ANNUAL GENERAL MEETING

The Annual General Meeting of Data#3 Limited will be held in Brisbane at 10:30am on Thursday 8 November 2012 at the Data#3 Corporate Head Office, Ground Floor, 67 High Street, Toowong

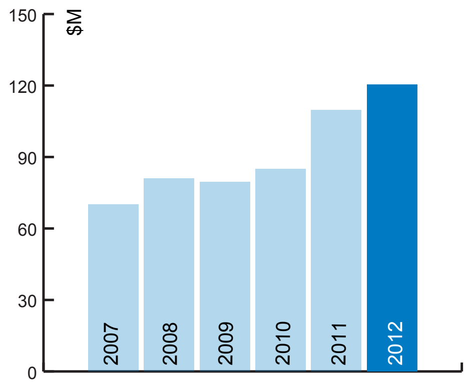
FINANCIAL HIGHLIGHTS



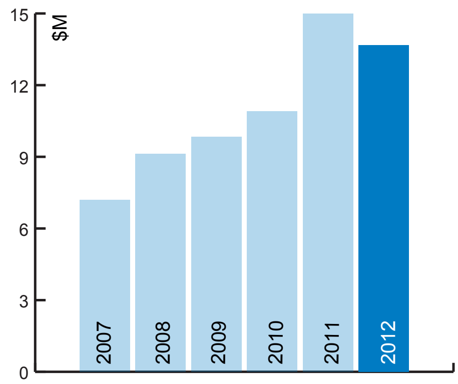
Total revenue grew by 16.3% to $811.4 million with 62% under contract



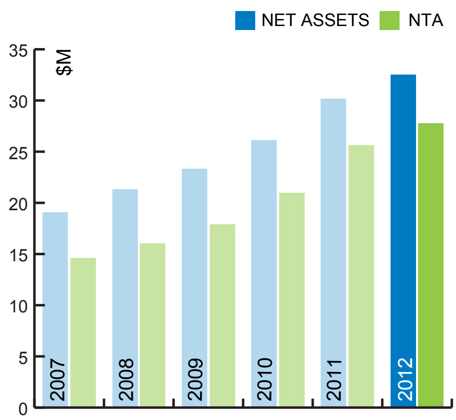
Product revenue grew by 17.5% to $689.1 million



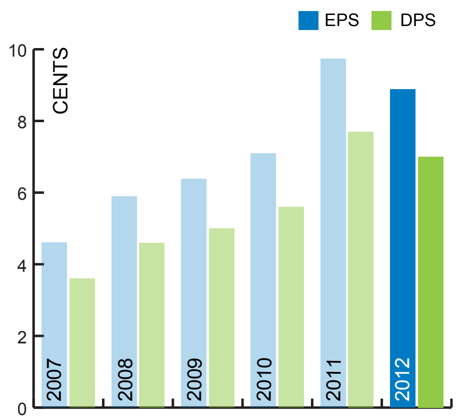
Services Revenue grew by 9.7% to $120.4 million



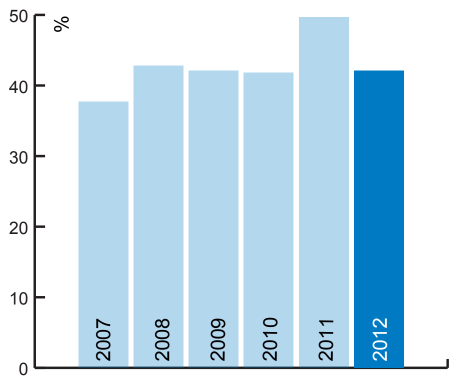
Net profit after tax of $13.7 million, ahead of the long-term trend



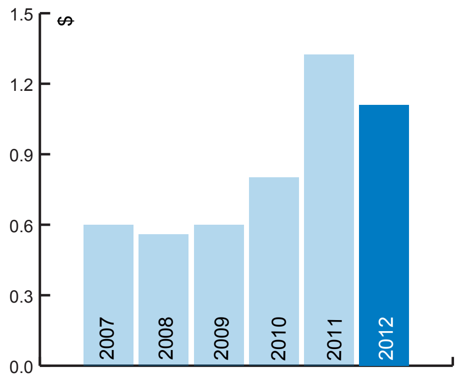
Net assets increased by 7.8% and net tangible assets increased by 8.5%



Earnings per share of 8.88 cents
Dividends per share of 7.0 cents, representing a 79% payout



Return on equity of 42.1%, a sector-leading result



Share price decreased by 16.2% to $1.11 at 30 June 2012

CHAIRMAN'S REPORT

On behalf of the board I am pleased to report on the 2012 financial year - a year in which the IT sector became increasingly susceptible to negative market sentiment, but one in which your company's performance remained ahead of the long-term trend.

The overall result demonstrated the resilience of the business, with a very strong performance from the sale of licensed software products offsetting the impact of a significant decline in the hardware product and associated project services market. Our Managing Director's Review examines the 2012 performance and our expectations for the 2013 financial year in detail.

Following strong appreciation through 2011, Data#3's share price declined over 2012 and finished the year at $1.11. This was - as with the profit performance - ahead of the long term trend, and the full year dividend of 7.0 cents per share (first half: 3.45 cents, second half: 3.55 cents) gave investors a very solid yield of 5.8% fully franked.

The core of our plan for the 2012 financial year remained as it had been previously:

a. To achieve market share growth to ensure the business remains well positioned in our customers' and partners' plans
b. To deliver an improvement in earnings per share over the 2011 year, and
c. To conduct ongoing ordinary activities net free of debt.

We clearly achieved the growth objective with total revenue increasing 16% to $811.4 million. In a difficult market, however, the performance was mixed across the business. A marked slowing in large infrastructure and related hardware product investments late in the first half caused us to adjust headcount early in the second half. The resultant impact on expenses was largely offset by the costs of doing so and consequently earnings per share slipped 8.8% behind the outstanding 2011 result to 8.88 cents per share. Our cash and other balance sheet items continued to be well managed and the company remained essentially debt free.

While our strategy remained fuelled by organic growth, we considered several opportunities during the year, but chose not to pursue further growth through acquisition. Our people remained firmly committed to the company, our offerings continued to position us competitively to win and our continued investment in new internal systems saw further improvements in operational efficiency and productivity through the year.

This strategy has been refined through the 2013 planning process and is discussed further in the Managing Director's Review.

While global uncertainty will again play out in 2013 and is likely to continue to impact levels of investment in our markets, shareholders can continue to be comforted by a number of factors relating to their investment in Data#3:

- Data#3 operates in the largest segments of the IT services market
- We continue to judiciously apply our resources and funding in building reputation and customer relationships to leverage the trusted Data#3 brand.
- The IT services sector continues to have attractive underlying fundamentals related to the imperative in business and government to increase efficiency and productivity
- Data#3 has very strong relationships with global leading brands that are investing in their reseller channel and that provide the demand for our services
- Data#3 has the scale and market position to allow it to compete and grow
- Data#3 is viewed as a preferred employer in the IT services sector
- Data#3 is in a strong financial position with a track record of successful performance.

The 2013 business plans recently approved by the board include lower levels of revenue growth than we've experienced in recent years and some improvement in sales margin as services contribution improves. We also expect increases in head count primarily in sale and delivery of services and increases in operating costs through investment in infrastructure to support our 'as a service' solutions, new premises in Sydney and Melbourne, and continuing investments in efficiency and productivity to positively impact performance.

The plans also include further fine-tuning of the structure to address the changing needs of our customers and to improve our competitive position in the market.

On balance, and presuming no worsening of the market, we believe the company is well positioned to improve performance over 2012.

The company's management team and staff continue to steer through changing market conditions very successfully and we expect this to continue. The board acknowledges their excellent contribution on behalf of all shareholders.

I trust that shareholders continue to share the confidence of management and the board in the company's future success.

Richard Anderson
Chairman

FINANCIAL REVIEW

The following table sets out our performance in 2012 compared with previous years.

	2007 $'000	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000
Product revenue	214,414	281,845	450,049	513,585	586,354	689,060
% change						*+17.5%*
Services revenue	70,245	81,013	79,616	85,015	109,804	120,427
% change						*+9.7%*
Total revenue	285,117	363,707	530,481	599,215	697,788	811,390
% change						*+16.3%*
Revenue under contract %	55.4%	57.0%	59.5%	58.6%	59.3%	62.4%
Total gross profit	57,742	71,599	82,711	90,045	111,745	119,957
% change						*+7.3%*
Gross margin %	20.3%	19.7%	15.6%	15.0%	16.1%	14.8%
Internal staff costs	38,970	49,360	57,975	63,471	76,983	87,878
% change						*+14.2%*
Operating expenses	8,952	10,161	11,752	11,589	14,565	14,244
% change						*-2.2%*
Internal staff & operating expense as % of total gross margin	83.0%	83.1%	84.3%	83.4%	81.9%	85.1%
Earnings before interest (net), tax, depreciation & amortisation [EBITDA]	10,516	12,919	14,469	16,262	21,189	19,430
% change						*-8.3%*
Earnings before interest (net) & tax [EBIT]	9,902	12,208	13,419	15,247	20,514	18,302
% change						*-10.8%*
Net profit before tax	10,338	13,033	14,153	15,793	21,827	19,738
% change						*-9.6%*
Net profit after tax	7,197	9,137	9,832	10,914	14,999	13,679
% change						*-8.8%*
Net profit margin %	2.52%	2.51%	1.85%	1.82%	2.15%	1.69%
Return on equity %	37.7%	42.8%	42.1%	41.8%	49.7%	42.1%
Basic earnings per share (See note below)	4.61 cents	5.89 cents	6.38 cents	7.09 cents	9.74 cents	8.88 cents
% change						*-8.8%*
Dividends per share, fully franked (See note below)	3.6 cents	4.6 cents	5.0 cents	5.6 cents	7.7 cents	7.0 cents
% change						*-9.1%*
Payout ratio	78%	78%	78%	79%	79%	79%
Share price at 30 June (see note below)	$0.60	$0.56	$0.60	$0.80	$1.32	$1.11
% change						*-16.2%*
Net assets	19,077	21,326	23,333	26,086	30,153	32,514
% change						*+7.8%*
Net tangible assets	14,607	16,049	17,904	20,948	25,620	27,791
% change						*+8.5%*

Note: The comparative basic earnings per share, dividends per share and share prices for the 2007 to 2011 financial years have been adjusted for the 10-for-1 share split that occurred in November 2011.

2012 COMPARED TO 2011

The exceptionally strong profit result in the 2011 financial year resulted from strong revenue and gross profit growth in all areas of the business combined with a cost structure that was unsustainably low, particularly in terms of headcount. Consequently in the second half of the 2011 financial year, and in what we saw as a growth environment, we started increasing headcount and investing in expanded facilities.

Our plan for the 2012 financial year was to continue to deliver organic growth in all areas of the business, and throughout the first half of the year we continued to increase staff levels and to invest in expanded premises, internal applications and infrastructure to support the anticipated growth. We expected to leverage this cost structure with continued strong growth in revenues and gross profits.

In the second quarter it became apparent that the market uncertainty caused by global financial and local political issues was causing our customers to delay or defer investments in technology projects to drive transformational change, and this stalled growth in our project services and hardware product businesses. In response to this general project slow-down, we adjusted our cost structures in the third quarter, with headcount reductions in some parts of the business and a renewed focus on optimising operating costs.

Consequently, while total gross profit in the 2012 financial year increased by $8.2 million and other income increased by $0.3 million, total internal staff costs increased by $10.9 million and operating expenses decreased by $0.3 million, resulting in a $2.1 million decline in net profit before tax to $19.7 million. While this profit result was below the exceptionally high result in the 2011 financial year, it remains consistent with the longer term growth trend.

REVENUE AND GROSS PROFIT

We achieved the overall revenue growth objective for the 2012 financial year with revenue up 16.3% to $811.4 million, well ahead of industry growth. Total product revenue increased by 17.5% to $689.1 million and total services revenue increased by 9.7% to $120.4 million.

Revenue growth in our areas of specialisation was mixed with growth in 3 out of 5 areas. Revenue growth was particularly strong in Licensing Solutions (up 35.5%) and Managed Services (up 30.1%), and solid in People Solutions (up 8.0%). As mentioned previously, the market uncertainty caused by global financial and economic issues reduced hardware product and project services revenues, impacting Integrated Solutions' revenue (down 14.5%) and Product Solutions' revenue (down 7.0%).

Total gross profit increased by 7.3% to $120.0 million and total gross margin decreased from 16.1% to 14.8% due to the change in mix of products and services. The overall product gross margin decreased from 10.2% to 9.3%, reflecting the increased proportion of lower margin software product sales. The overall services gross margin decreased slightly from 47.1% to 46.6% reflecting a reduced proportion of project-related services.

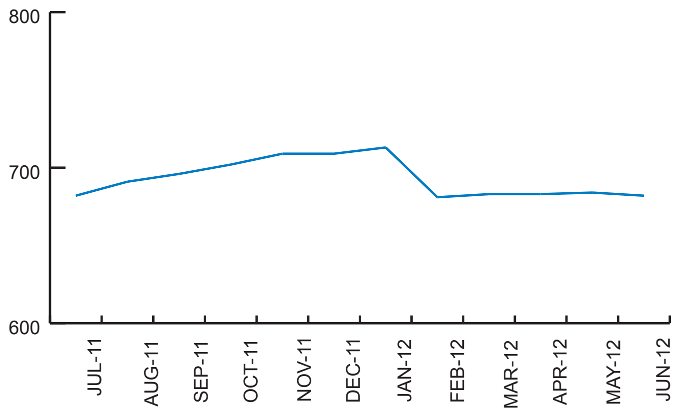
On balance we consider this a solid overall result given the general expenditure constraints that have continued in many sectors, the very competitive market and the ongoing pressure on pricing and margins that was experienced throughout the year.

EXPENSES AND PROFIT

Please refer to the '2012 compared to 2011' section above for a summary of the changes in cost structures that occurred during the 2012 financial year.

The following graph illustrates the changes in internal headcount during the year:

PERMANENT & CASUAL STAFF HEADCOUNT TREND



The headcount reductions in the second half the 2012 financial year had a relatively small positive impact on the full year result due to the cost of redundancies; however these changes were implemented to realign our cost structure for the 2013 financial year.

Consequently, total internal staff costs for the 2012 financial year increased by $10.9 million even though the year-end headcount remained essentially unchanged from the previous year, and operating expenses decreased by $0.3 million. This resulted in a $2.1 million (or 9.6%) decline in net profit before tax to $19.7 million.

The aggregated product profit decreased by 0.8% reflecting steady growth in contribution from software products offset by a reduced contribution from hardware products. The aggregated services profit decreased by 9.0% reflecting the sharp reduction in project services contribution, partly offset by increased contributions from managed services and recruitment and contracting.

Net profit after tax decreased by 8.8% to $13.7 million, representing basic earnings per share of 8.88 cents. This equated to a return on equity of 42.1%, another exceptionally strong and sector-leading result.

We declared fully franked dividends of 7.0 cents per share for the full year, maintaining the same payout ratio as the previous year.

CASH FLOW

The net cash flow from operating activities was a very healthy inflow of $28.9 million, considerably higher than the previous year. As usual the operating cash flow and year-end cash balance were boosted by the temporary cash surplus arising from the timing of receipts and payments around 30 June, with the traditional May/June sales peak producing higher than normal collections pre-30 June and the associated supplier payments occurring post-30 June. Consequently the 30 June 2012 cash balance of $70.8 million was inflated by this temporary year-end surplus.

Cash flow from investing activities was a net outflow of $3.1 million, reflecting payments for property, equipment and software.

Cash flow from financing activities was a net outflow of $11.9 million, comprising $11.3 million of dividend payments and $0.6 million of finance lease payments for the head office fit-out.

Due to the cash flow seasonality around 30 June and the resulting temporary surplus at year end, it is more meaningful to compare the average daily cash balance throughout the year. The average cash balance for the current year was $36.7 million, up from $32.5 million in the previous year.

BALANCE SHEET

Trade receivables and payables are generally highest at year-end due to the traditional sales peak in May/June. Sales in June were particularly strong and consequently trade receivables at 30 June 2012 were $47.4 million higher than the previous year and trade payables were $55.4 million higher, in part reflecting the timing differences in the collections from customers and payments to suppliers around 30 June (referred to in the cash flow section above).

The year-end cash balance increased from $57.0 million to $70.8 million due to these temporary surplus funds combined with the strong underlying operating cash flow.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and consistent with the previous year, and the ageing of trade receivables reduced compared to the previous year. This is an excellent result which demonstrates that our focus on collections and credit management has effectively countered the tendency for customers to extend their payment cycles in the difficult current economic environment.

Total inventory holdings decreased from $5.3 million to $4.2 million, reflecting even tighter control over the volume of product held in our warehousing and configuration centres pending shipment to customers. We have continued to forward order inventory on behalf of customers in some instances to buffer the unpredictability of our vendors' supply chains and to meet delivery expectations of our customers. We believe this strategy is important to maintain our position as a major national product supplier and the forward ordering practice has continued to be monitored closely to minimise the associated working capital impact.

Total net assets increased by 7.8% over the year and total net tangible assets increased by 8.5%. Our balance sheet remains conservative with no material debt.

MANAGING DIRECTOR'S REVIEW

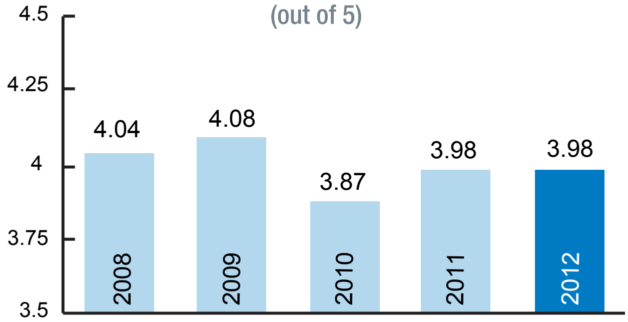
Following the very strong performance of our business in the first half of 2011 and guided by independent analysts' forecasts for organic growth in customer expenditure in the range 3.5% to 4% in 2012, we increased investment in a number of new technology areas in the second half of 2011. We entered 2012 with confidence and with the objective of improving on the very strong performance in 2011. At the end of the first quarter it was clear that market conditions had weakened with tender deferral rates at an all-time high. For only the second time in our history, we were forced to make adjustments to our staff levels in the third quarter to reflect what we saw as flat to declining opportunity for parts of our business. The savings generated, while offset by redundancy payments in the second half, will play into the 2013 financial year.

The fourth quarter saw very strong flow of business through what we identified as a combination of pressure to spend budgets prior to year-end and the backlog of deferred expenditure we'd seen building through the year.

Overall, driven by very strong growth in our software licensing and managed services which offset significant decline in product and project services, revenues grew strongly. Given this change in sales mix, gross and net margins declined. Cashflow was well managed and the balance sheet ended the year in its strongest ever position.

We see opportunity in 2013 to be at best the same as in 2012, but believe we are well positioned to respond to whatever the market may bring.

OVERALL SATISFACTION
(out of 5)



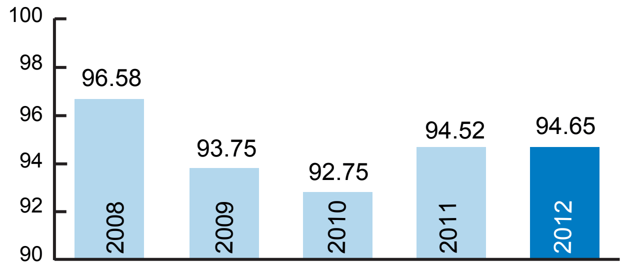
2012 PERFORMANCE

Performance against whole of company objectives:

The plan for 2012 outlined in our 2011 Annual Report set a number of objectives. The progress we made against these objectives is as follows:

a. To be the employer of choice in our industry

% RECOMMEND DATA#3 TO OTHERS



We finished the year with 922 people (648 permanent, 34 casual and 240 contractors) down on 2011's 1,032 (638 permanent, 42 casual and 352 contractors). Our people remained committed and engaged through a difficult time. Overall satisfaction was at our target level, with the willingness to recommend Data#3 as an employer to others improving slightly on the previous year and very near our target of 95%.

The year also saw our team in NSW move into refurbished and expanded premises in North Sydney. The office design echoed that implemented in Brisbane in the previous year and offers a modern, fully mobile and flexible workplace. For the fifth time in succession we were voted ARN's Enterprise Reseller of the Year by our peers.

b. To provide thought leadership and solutions that are market-leading and customer relevant and delivered across a range of platforms

We continued to further develop and expand the solutions we offer across what we uniquely describe as the Technology Consumption Model – consumption from one-time purchase to pay-per-use on or off customer premises.

ON customer premises						
			OFF premises			
buy product	buy expertise	buy an outcome solution	contract an outcome outsource	pay per use Private Cloud	pay per use Data#3 Trusted Cloud	pay per use Public Cloud
choices						

Diagram: *Technology Consumption Model*

We brought new services solutions to our customers:

- Strategic Consulting - enhancing our customers' ability to align business and technology strategy, navigate the cloud and implement service management frameworks
- Business Productivity Services - enhancing the productivity of our customers' users by better applying their desktop and mobile technologies
- Systems Management services - enhancing our customers' ability to better optimise and manage the technology infrastructure that supports their business applications and the mobile technologies their users need to be integrated into the enterprise environment (commonly known as 'bring your own device' - BYOD)

We brought new intellectual property based solutions to our customers:

- Business Resource Productivity Kit – providing our customers with tools and methodologies to drive user productivity across their organisation
- School Information System - Microsoft SharePoint based applications offering our education sector customers integrated school and student information
- Trusted Cloud Infrastructure as a Service - providing our customers with the ability to add to or replace their owned on premises or datacentre infrastructure with managed storage and compute power on a pay per use basis.

All of these solutions acquired a foothold in the market in 2012 and offer the opportunity to increasingly contribute to margins and profit in 2013.

c. To be backed by strong and innovative partners

We retained a leadership position with all of our key partners in 2012 receiving a number of awards as testimony:

- Microsoft - Global Finalist in the Innovative Customer Advocacy Worldwide Partner of the Year category
- IBM - Smarter Planet Award, Maintenance Partner of the Year and Technology Growth Partner of the Year

- HP - Highest Total Revenue Partner in ANZ
- VMware - Cloud Infrastructure Partner of the Year
- Symantec - Specialised Partner of the Year

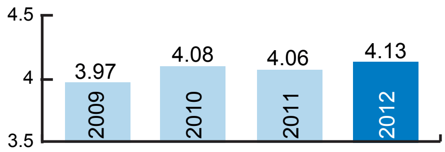
In addition, we formed a relationship with EMC, the world's largest storage systems and storage management provider, as a Signature partner, and we have achieved early success that bodes well for 2013.

Our partners also demonstrated their commitment to Data#3 by increasing their financial support for and participation in what is now Australia's leading technology Forum, JuiceIT. This year, JuiceIT saw more than 1,000 customers attending 30 sessions over 3 days in Adelaide, Perth and Brisbane.

d. To create competitive differentiation

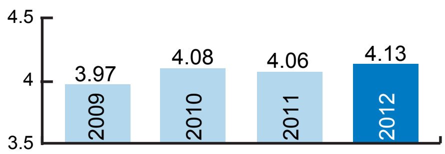
While there are points of difference in some of the solutions we take to market, differentiation as a reseller primarily comes as a result of how we engage with our customers and how meaningfully what we have to offer aligns with their business objectives. We judge this based on the response they give us in our annual survey.

SATISFACTION WITH PRODUCTS & SERVICES
(out of 5)



Satisfaction with the products and services we offer our customers increased to the best ever rating exceeding our target level of 4 out of 5.

UNDERSTAND AND MEET CUSTOMER NEEDS
(out of 5)

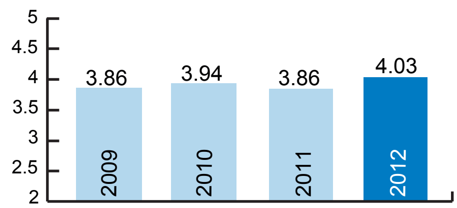


Similarly our customers rated our ability to understand and meet their needs at best ever levels - strongly ahead of our target.

e. To be easy to do business with

We have a large business with many points of engagement with customers and partners across five specialist businesses, six states and territories and through our corporate services business units. We believe ease of doing business is founded on consistent and efficient communication and business processes, clarity of roles and responsibilities, and a culture of taking responsibility and going the extra mile. We judge the effectiveness with which we do this based on the response we get from customers in our annual survey.

SATISFACTION WITH EASE OF DOING BUSINESS
(out of 5)



Our customers rated ease of doing business with us at the highest level ever and above our target.

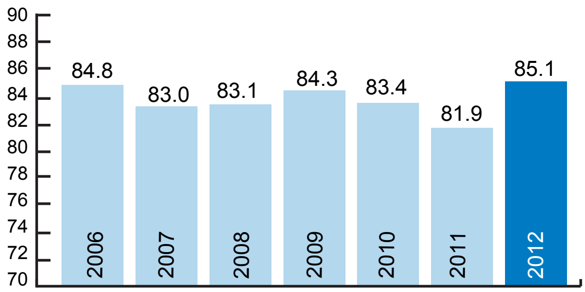
f. To be the most innovative and productive

Innovation is difficult to capture quantitatively. A culture of innovation is embedded in our core values 'agility and innovation' and the measure of this is evident in the 'new things' we do every year – new solutions, new systems, new approaches to premises, new processes etc.

Productivity gains often come through innovation. In 2012, new systems for document and IP management, sales process, service desk, supply chain and professional services automation contributed to productivity through the efficiencies they brought. Through a program run across the business, *A Million Minutes of Productivity*, our people were encouraged to look for ways we could change and improve to deliver quantifiable productivity improvements. This program delivered 1,084,747 minutes of productivity improvement, returning approximately one million dollars to the bottom line.

Our productivity measure is the cost ratio (= gross profit / expenses).

COST RATIO %



Operating at higher levels of cost than optimum impacted negatively on the overall cost ratio for the business. In our products segment, the negative impact on cost ratio was softened by the strong growth in sale of licensed software, and consequently the product cost ratio increased slightly. However the difficult market for project services saw the cost ratio in our services segment increase substantially this year.

g. To have invested consistently in the future of the business without impact on sustained year on year financial performance.

As we have in previous years, we continued to invest in solutions, premises and systems in 2012 to maintain our strong market position, ensure our workplace brings out the best in our people and to lower operating costs. These investments countered the difficult market, and net profit after tax, while 8.8% down on the very strong 2012, finished ahead of the long-term trend with a 5 year compound annual growth rate of 14%.

PERFORMANCE ACROSS THE STATES

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

In **Queensland**, given the scale of our business, significant annuity contracts and long-term customer relationships, we were able to respond well to a difficult market in both the private and public sectors to increase revenues by 5% over 2011. Contribution to profit was slightly up on 2011 with solid performance from all specialist businesses.

In **New South Wales** the 2011 financial year had seen stellar growth with revenues up 25% and people by 30% on the previous year. 2012 presented a very different and much more difficult market, one in which the overarching issues of restraint in hardware product and project services were most pointed. As a result, while revenues increased 24%, due to significant growth in licensed software sales at lower margins, gross profit declined 12%. With costs similar to the previous year, contribution to profit declined significantly. During the year we refurbished and extended our North Sydney office in line with the mobility oriented design we'd implemented previously in Queensland, improving customer meeting and demonstration facilities and upgrading our Managed Services help desk facility in the process.

Victoria continued its growth trajectory with revenues up 23% and contribution to profit up substantially on 2011. The Licensing Solutions business maintained market leadership and significant growth in major projects associated with Microsoft Windows 7 and systems management improved services contribution over 2011. In addition, investments in IBM specialist sales saw a significant increase in datacentre infrastructure sales and deployment projects. The Victorian operation also expanded into Tasmania with its inclusion on key Government software and hardware procurement panels.

South Australia had another year of strong growth, with revenue up 15% and contribution to profit up significantly over 2011. The Licensing Solutions business led this growth but a number of significant wins with Federal Defence and military systems integrators brought the full capability of the business to the fore. These projects involved multiple hardware and software vendors with implementation over multiple sites and further enhanced Data#3's reputation of delivering complex and high value projects.

Western Australia experienced significant growth during the course of the 2012 financial year, increasing revenue by 14%, doubling the size of the services team and increasing contribution to profit substantially over 2011. Whilst maintaining market leadership in software licensing, the year was also punctuated with a series of significant infrastructure wins the benefit of which will flow into the 2013 year.

PERFORMANCE OF THE SPECIALIST BUSINESSES

The specialist businesses - Licensing Solutions, Integrated Solutions, Product Solutions, Managed Services and People Solutions - remained unchanged. They bring market leading solutions and capability individually to the benefit of our customers and a unique integrated proposition when united.

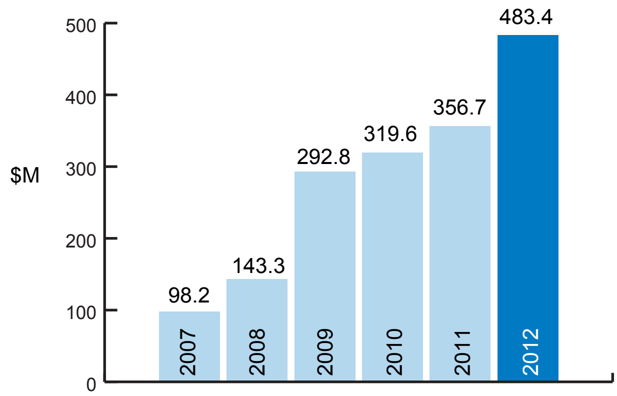
Licensing Solutions

Licensing Solutions remained the market leader in providing software licensing and asset management services that answer our customers' need to optimise and manage the acquisition of software in volume. This year, its offerings were expanded to include business productivity services to help our customers increase the productivity through improved use and application of their desktop software. Licensing Solutions operates in all our locations.

For the seventeenth consecutive year, Licensing Solutions exceeded all its targets growing revenue very strongly by 35.5% to $483.4 million, a very significant achievement in a flat market.

Contribution to profit grew through a combination of increased market share, maximising vendor channel incentives and improving operational efficiency. Investments in resources and systems to implement the new Microsoft channel incentive program provided a return in the second half of the financial year, while increased investments in technical presales with our security vendors increased margins in this area. The electronic data interchange (EDI) project implemented with our key suppliers was a huge success. It automated the transfer of purchasing, receipting and pricing information between our and our suppliers' IT systems increasing operational efficiency by removing manual and repetitive tasks from the supply chain.

LICENSING SOLUTIONS TOTAL REVENUE



Other aspects of this business's performance in 2012 included:

- Revenue under contract increased to $363 million
- Expansion to Tasmania with staff located in Hobart
- Increasing sales of cloud based licensing solutions
- Further investment to allow customers to do business with Data#3 online
- Continued strong growth in revenues from Asset Management Services with new agreements in both software and hardware asset management
- Increased revenue from Business Productivity Services consulting and the development of resalable product that provides a framework and an application to share knowledge and skills within our customers' organisations
- Continuing membership of the Microsoft World Wide Partner Engagement Board.

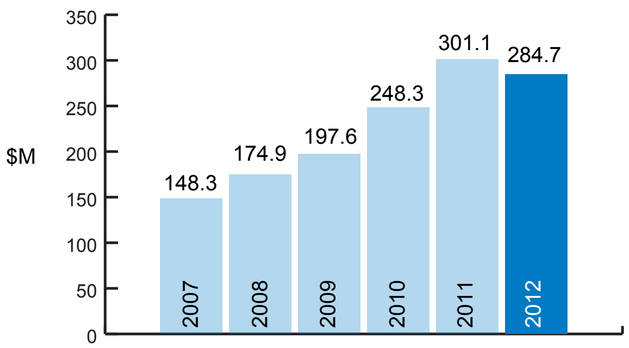
The Licensing Solutions team continued to be the most recognised Licensing team in Australia winning major awards with all of our Key software licensing partners including:

- Microsoft Large Account Reseller Partner of the Year for Australia
- Microsoft Worldwide Innovative Customer Advocacy Partner of the Year Award Finalist
- Microsoft APAC Solution Award
- VMware Cloud Infrastructure Partner of the Year
- Symantec Specialised Partner of the Year
- Adobe Creative Suite Partner of the Year
- Websense APAC Partner of the Year
- Sophos LAR Partner of the Year
- Trend Micro ANZ Southern Region Partner of the Year Award
- Veeam Growth ProPartner of the Year Award

Infrastructure Solutions

The solutions offered in this area help our customers to cost effectively design, procure, deploy and operate hardware and software infrastructure across their desktop, network and data centre technology environments. It operates in all states and includes our Integrated Solutions, Product Solutions and Managed Services businesses.

INFRASTRUCTURE SOLUTIONS TOTAL REVENUE



Following solid growth in 2011, this year saw a restrained market for large scale services projects and their associated data centre infrastructure and large scale desktop technology refresh projects. This impacted the Integrated and Product Solutions businesses with an overall decline in revenue of 5.5%.

Integrated Solutions

This business integrates our consulting, design and deployment expertise with our partners' hardware and software technologies to meet our customers' desktop, network and data centre infrastructure requirements.

Following significant growth in 2011, our larger markets this year saw longer decision cycles, deferral or cancellation of some projects and increased competition for the available work. As a result, project services revenues declined 11% to $30.7 million. Given that many of these projects would normally include hardware product, this decline also impacted on product revenues.

Key aspects of this business's performance in 2012 included:

- Significant growth in services related to Microsoft technologies even given the overall decline in professional services revenues
- Reduction of costs to match market opportunity
- Improved customer satisfaction
- Improved satisfaction of our team
- Formation and growth of the Strategic Consulting team
- Growth in capability and revenues in Western Australia
- Further investment in the management information systems that support project services.

Product Solutions

This business provides 'life-cycle' hardware technology solutions from advice through cost-effective procurement, delivery (typically through preferred supplier agreements, contracts and forward orders), asset tagging, deployment and disposal.

As indicated previously, this business was impacted by the overall decline in capital expenditure on hardware particularly in the data centre, extension of the life of desktop hardware and the increasing trend to technology consumption as a service. Consequently, revenues declined 10% to $208.3 million.

Key aspects of this business's performance in 2012 included:

- An ever increasing demand for tablets and portable devices at low unit prices and margin
- Being recognised as HP's largest revenue partner in Australasia and Cisco's fastest growing Gold Partner
- The opening of our Melbourne Integration Centre which together with similar facilities in Brisbane and Sydney provides a unique differentiator to our competitors
- Further automation of supplier aspects of our supply chain
- Participation in all our key partners' strategic and operational advisory councils
- Retention and enhancement of all key vendor certifications.

Managed Services

This business helps our customers cost effectively manage, operate and maintain the solutions they have deployed.

Managed Services offers its solutions to customers in all locations via a 24 x 7 service desk based in Sydney, data centre facilities in Sydney and Brisbane and onsite support and operational teams on customer premises.

Managed Services revenues grew 30% over the previous year to $45.7 million as customers continued to outsource selective parts of their infrastructure, utilised cloud services and extended maintenance and support agreements on their existing on-premises infrastructure to address the constraint in their own technical resources and pressure to reduce operating costs.

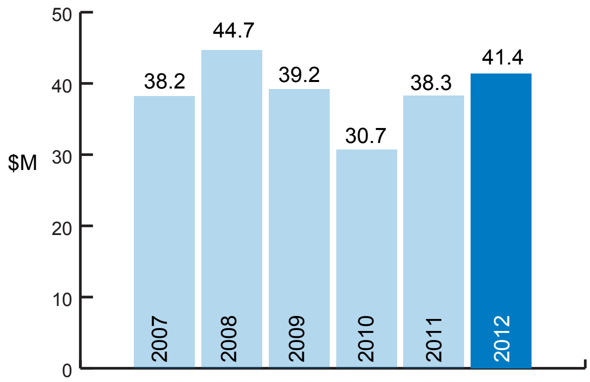
Key aspects of this business's performance in 2012 included:

- Implementation of ITIL based service management tools to underpin our outsourced managed operations and support solutions
- Expansion of the software application portfolio offered as a Service
- Increased sales capacity for outsourcing
- New multi-year outsourcing agreements in a number of new customers including Ipswich City Council, Victorian Arts Council and Eagle Boys Pizza.

People Solutions

This specialist business aligns with our customers' need to recruit and/or contract people with the appropriate expertise for their internal IT function. It operated in the eastern states in 2012 and increased revenue by 8% to $41.4 million and contribution to profit over the previous year. Contractor placement activity was down 2% but permanent placement activity improved significantly increasing 54% year on year.

PEOPLE SOLUTIONS TOTAL REVENUE



Key aspects of this business's performance included:

- Another strong performance in Queensland from a solid base of contract revenue particularly in government and strong relationships with both customers and contractors underpinned the overall result for the business
- Consistent with our broader experience in New South Wales, contracting revenue declined over 2011. However revenues from permanent recruitment increased solidly and the business secured a number of preferred supplier contracts, the benefit of which will flow into 2013
- Revenue growth continued in the Victorian business, with a sound sales structure and new sales leadership
- Success in a number of national preferred supplier contracts
- Close integration with our Managed Services business as its primary recruiter ensured its access to the appropriate resources at the lowest cost
- Ongoing improvements in the administration of the business reduced overheads, increased productivity and delivered operational efficiencies.

OUR PLAN FOR 2013

The foundations for our strategy and plans are our vision, our core values and our stakeholder commitments. These remain unchanged.

Our **vision** is to be an exceptional company - one that unites to enable our customers' success through technology; inspires our people to do their best every day; and rewards investors' confidence and support.

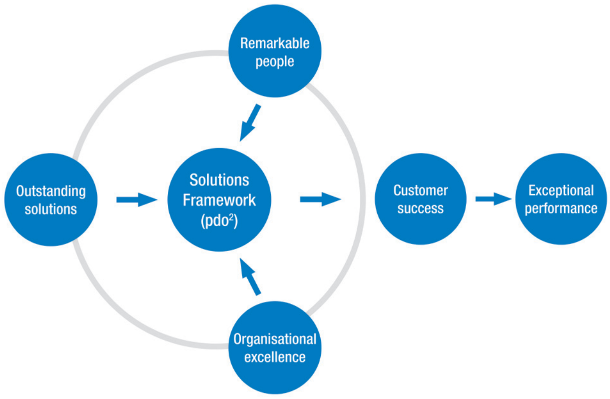
Our **core values** guide how we behave:

- Honesty & integrity
- Respect & trust
- Collaboration & teamwork
- Excellence, agility & innovation
- Taking responsibility & going the extra mile.

The commitments to our stakeholders:

- Our people - we will inspire and support our peoples' passion for excellence and to do their best every day; empower them to contribute to make positive change; support the challenge of work life balance; encourage them to grow; and reward and celebrate team and individual success
- Our customers - we will ensure our solutions enable business and technology success for our customers through a unique framework that unites market leading expertise and technologies with a culture that puts customers first
- Our partners - we invest to release the value of our partners' technologies and capabilities for our customers and do so with the commitment and trust implicit in long term partnerships
- Our shareholders - we ensure shareholders are well informed and appropriately rewarded for their confidence and support.

Our **strategy** remains unchanged at the macro level being to unite outstanding solutions, remarkable people and organisational excellence through our Solutions Framework to deliver customer success. Doing so consistently over time will deliver us exceptional performance.



Our **plan** for 2013 is based on the following assumptions:

- Global economic conditions will remain volatile and uncertain and opportunity overall in 2013 will be, at best, similar to 2012
- Aggressive competition for the best people will continue
- We have a strong platform for sustained growth in our customer base, strong references from which to capture new customers and can provide additional benefit from an extended online engagement
- Our customers' business priorities will be growth at lower cost, efficiency and compliance, and productivity
- To address these, our customers' technology priorities will be mobile technologies including 'BYOD' (bring your own device), cloud computing (Software as a Service and Infrastructure as a Service), virtualisation, system and service management, and collaboration technologies
- We believe the overarching trend will see customers increasingly consume technology in 'as a service' models
- Our partners' channel strategies will continue to be the major platform for market access and sales and their rebate strategies will reward behaviours as well as results
- Providing context for our solutions through our Solutions Framework and Technology Consumption Model remains highly relevant and a point of market differentiation.

Our plan sets specific goals and targets across each element of our strategy and we believe success in 2013 will be marked by:

- Remaining an employer of choice
- The solutions we offer standing out in the market, aligning with our customers' business and technology priorities and providing choice across our Technology Consumption Model
- An increasingly broad range of solutions that are uniquely our own
- The strongest of relationships with our key partners
- Significant growth in project and annuity services, particularly in 'as a service' solutions
- Discipline and productivity in the way we work
- Providing an outstanding customer experience
- Continuing to be able to rapidly adapt to changing customer needs.

THE SPECIALIST BUSINESSES IN 2013:

Licensing Solutions

In 2013, Licensing Solutions will focus on delivering the following solutions:

MAINTAIN INVESTMENT ● (blue)
INCREASE INVESTMENT ● (green)
BOLD = PRIMARY PROVIDER
REGULAR = SECONDARY PROVIDER

	PRODUCT	EXPERTISE	SOLUTION	OUTSOURCE	PRIVATE CLOUD	TRUSTED CLOUD	PUBLIC CLOUD
SOFTWARE LICENSING	Maintain	Maintain	Maintain	Maintain	Maintain	Maintain	Maintain
ASSET MANAGEMENT	Maintain	Maintain	Maintain	Maintain	Maintain		
BUSINESS PRODUCTIVITY		Increase	Increase		Maintain	Maintain	
SECURITY	Maintain						
VIRTUALISATION	Maintain						
SYSTEMS MANAGEMENT	Maintain						
COLLABORATION	Maintain						

Key initiatives that are intended to underpin performance of this business in 2013 include:

- Implementation of the new online customer portal to allow customers to do business with us more easily and effectively
- An increased sales focus on Data#3's new Software as a Service offerings
- Active marketing programs aligned to major product releases such as Microsoft with Windows 8 and Server 2012
- Continued investment in our security software vendors
- Continued improvement in operational efficiency.

The change in Microsoft channel incentives introduced in 2012 will have a greater impact in 2013 as profit is recognised monthly throughout the duration of a 3 year customer contract rather than annually. We plan to offset this by further increases in market share in a stronger market stimulated by new software releases.

We expect an overall slowing in growth in licensing software sales and growth in Asset Management and Business Productivity Services.

Infrastructure Solutions

Integrated Solutions

In 2013, Integrated Solutions will focus on delivering the following solutions:

MAINTAIN INVESTMENT ● (blue)
INCREASE INVESTMENT ● (green)
BOLD = PRIMARY PROVIDER
REGULAR = SECONDARY PROVIDER

	PRODUCT	EXPERTISE	SOLUTION	OUTSOURCE	PRIVATE CLOUD	TRUSTED CLOUD	PUBLIC CLOUD
STRATEGIC CONSULTING		Increase					
DATACENTRE		Maintain	Maintain	Maintain	Maintain		
VIRTUALISATION		Maintain	Maintain	Maintain	Maintain		
SYSTEMS MANAGEMENT		Increase	Increase	Maintain	Maintain		
NETWORK INTEGRATION		Maintain	Maintain	Maintain			
DISASTER RECOVERY		Maintain	Maintain	Maintain	Maintain		
COLLABORATION		Maintain	Maintain	Maintain	Maintain		
END-USER COMPUTING		Maintain	Maintain	Maintain	Maintain		
ENTERPRISE PRODUCTIVITY APPLICATIONS		Maintain	Maintain				
SECURITY		Maintain	Maintain	Maintain	Maintain		
MOBILITY		Maintain	Maintain	Maintain			

Key initiatives that are intended to underpin performance of this business in 2013 include:

- Increased investment in sales and technical capability, especially targeting growth in services revenues
- Programs that capitalise on the impact of major technology announcements that will influence customer investment e.g. Microsoft Windows 8, Server 2012 and Office 2015
- Increased focus on strategic consulting offerings that help our customers understand how to leverage the potential of the Cloud appropriately for their business
- Improvement in the efficiency and productivity of our people.

Overall, while our belief is the market will remain challenging in 2013, we see the potential for growth in selected areas within the Integrated Solutions portfolio of offerings.

Product Solutions

In 2013, Product Solutions will focus on delivering the following solutions:

MAINTAIN INVESTMENT ● (blue)
INCREASE INVESTMENT ● (green)
BOLD = PRIMARY PROVIDER
REGULAR = SECONDARY PROVIDER

	PRODUCT	EXPERTISE	SOLUTION	OUTSOURCE	PRIVATE CLOUD	TRUSTED CLOUD	PUBLIC CLOUD
HARDWARE PROCUREMENT & LIFECYCLE MANAGEMENT	Maintain	Increase	Increase	Maintain	Maintain	Maintain	
MOBILITY	Maintain						
DATACENTRE	Maintain						
NETWORK INTEGRATION	Maintain						
DISASTER RECOVERY	Maintain						

Key initiatives that are intended to underpin performance in 2013 include:

- Maximising customer adoption of the new online portal
- Investing in sales capability, supply chain automation and optimised business processes
- A dedicated focus on signing Preferred Supplier Agreements with existing and new customers
- Campaigns and promotions that capitalise on the impact of major technology announcements that will influence customer investment.

Overall, with the advent of new technologies and the resulting pressures on existing client infrastructure, we see the potential for growth, albeit small, across our hardware portfolio of offerings in 2013.

Managed Services

The Managed Services business continues to address the support needs of our clients through cost effective solutions across the full spectrum of the consumption model.

In 2013, Managed Services will focus on delivering the following solutions:

MAINTAIN INVESTMENT ● (blue)
INCREASE INVESTMENT ● (green)
BOLD = PRIMARY PROVIDER
REGULAR = SECONDARY PROVIDER

	PRODUCT	EXPERTISE	SOLUTION	OUTSOURCE	PRIVATE CLOUD	TRUSTED CLOUD	PUBLIC CLOUD
SAAS				Increase		Increase	Maintain
MANAGED OPERATIONS & SUPPORT				Increase	Increase	Increase	
MAINTENANCE	Increase	Maintain	Maintain	Maintain	Maintain		
IAAS				Increase		Increase	Maintain
END-USER SUPPORT		Maintain	Maintain	Maintain	Maintain	Maintain	

Key initiatives that are intended to underpin performance in 2013 include:

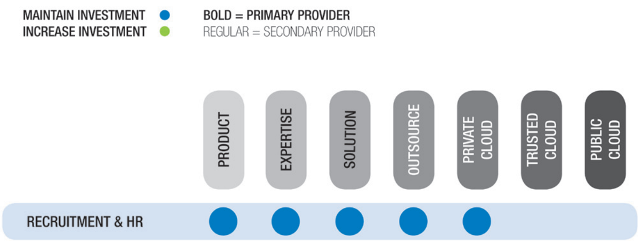
- Increased investment in sales of hardware maintenance solutions from all our key partners to respond to the pressure on our customers to extend the life of their installed assets
- Continued expansion of our Trusted Cloud infrastructure and services as customers seek to access enterprise class scalable infrastructure and software as a service (IAAS & SAAS)
- Increased investment in sales capability, systems and processes to underpin the success for these solutions
- Sales programs across all geographies to take the Managed Operations and Support offerings to a broader market
- Programs that ensure our existing customers enjoy the transformational benefits arising from the improved efficiencies available from our ITIL based IT service management tools.

Overall, with the expectation that customers will continue to be driven to lower operating costs and minimise capital expenditure, we see the potential for solid growth in revenue from all solutions within the Managed Services portfolio.

People Solutions

It is expected that the labour hire market will again face a difficult year in 2013 with continued economic and budget pressures impacting employment growth in many organisations.

In 2013, People Solutions will focus on delivering the following solutions:



Key initiatives that are intended to underpin performance in the People Solutions business in 2013 include:

- Establishing a foothold in the strong Western Australian market
- Extending our offerings to include Resource Process Outsourcing (RPO)
- Enhancing our Contractor Care Program & contractor portal
- Improving candidate search efficiencies through Online/Social Media tools
- Improving sales collateral significantly
- Improved Operational efficiency and consultant productivity.

In the prevailing market, we are targeting performance to be near to that achieved in 2012 through maximising revenues from existing preferred supplier contracts, aggressively pursuing the available opportunity in the Queensland Government where we expect considerable pressure on expenditure, and generating relatively strong growth in permanent and contract revenues in the private sector in New South Wales and Victoria.

IN SUMMARY

2012 saw performance ahead of the long term trend. We believe we continue to be as well positioned as possible to create and manage opportunity in whatever market exists in 2013. We have a solid range of solutions, strong customer relationships and broad geographic access to the market. While we see market conditions as challenging, we believe we can once again increase market share to deliver organic growth in all areas of the business. In addition we will remain watchful for partnering and acquisition opportunities mindful of the cultural and financial issues that accompany them. Our overall financial objective in 2013 is to improve on the performance of 2012.

My thanks to our many stakeholders. It is the close, supportive and interwoven nature of the Data#3 corporate culture that is its greatest strength. The Data#3 team across Australia continues to flourish professionally – our team adapts, excels and creates success for our customers. Our customers continue to invest in our ability to realise their business goals because they know we deliver outstanding ICT solutions. Our partners continue to offer us the leading edge technologies with which we can satisfy our customers' ever-changing needs. Our shareholders provide us with investment and their reward has been many years of market leading returns on that investment. We recognise and appreciate the immense value to our business of these trusted, long-term alliances.

John Grant
Managing Director

BOARD OF DIRECTORS

Richard Anderson OAM

Non-executive Chairman

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

Glen Boreham AM

Non-executive Director

Glen joined the board of Data#3 Limited in November 2011. With a career spanning 25 years at IBM, Glen was the Managing Director of IBM Australia and New Zealand for the last 5 years before stepping down in January 2011. While at IBM, he gained substantial global experience having worked for two years in Japan in Asia Pacific roles and over six years in Europe with responsibilities covering Europe, the Middle East and Africa. In June 2008, he was appointed as the inaugural Chair of Screen Australia and was the Chair of the Australian Government's Convergence Review in 2011 and 2012. Glen has recently been appointed as Chairman of Advance, a not-for-profit organisation that supports Australia's global community.

Ian Johnston

Non-executive Director

Ian joined the board of Data#3 Limited in 2007, bringing with him extensive experience in treasury, corporate banking and equity capital markets. Following a career of nearly 25 years in the banking industry, Ian joined RBS Morgans Limited in 1988 as Head of Corporate Finance and is now Chairman Corporate Finance and a member of its advisory board. He is a member of the Board of Cardno Limited and a former member of The Rock Building Society Limited and Northern Energy Corporation Limited.

Back (L-R): Terry Powell, Glen Boreham, John Grant
Front (L-R): Ian Johnston, Richard Anderson

Terry Powell

Non-executive Director

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

John Grant

Managing Director

John joined the company that subsequently became Data#3 in 1982. He was a Director of Data#3 from 1984 and then Chief Executive Officer or Managing Director from 1996. From 1980 to 1982, John worked with IBM in sales. John has a degree in Engineering with Honours from the University of Queensland and worked as a civil engineer with the Brisbane City Council from 1970 until 1980. John is the immediate past Chairman and a current Director of the Australian Information Industry Association (the ICT industry's peak representative body) and is the inaugural Chairman of the Australian Rugby League Commission.

SENIOR LEADERSHIP TEAM

Laurence Baynham

Group General Manager

Laurence is an ICT professional with 28 years' industry experience spanning multi-national hardware, software and services vendors. He is responsible for profit and customer satisfaction across the company's lines of business. Laurence joined Data#3 in 1994, has a Bachelor of Business (with honours) from East London University, is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy, member of the Faculty of IT Advisory Board for Queensland University of Technology, member of the Hewlett Packard Asia Pacific Partner Advisory Board, member of the Cisco Advisory Board for Asia Pacific and has been a member of the Australian Computer Society since 1992. Laurence is a fellow of the Australian Institute of Company Directors.

Michael Bowser

General Manager - Queensland and
General Manager - Business Services

Michael joined Data#3 in 1987 and has worked in a number of key roles within the company including technical services, services management, sales, pre-sales management and business management in Queensland and NSW. Michael has been responsible for the creation and development of Data#3's outsourcing solutions, introduced and developed Data#3's networking services and has worked in and managed Data#3's consulting services group. His responsibilities as the Queensland Manager include the operational sales management of the Queensland team and the direct management of the Major Accounts Group. As General Manager - Business Services, Michael has responsibility for marketing, solutions development, national tenders and the national sales process and administration groups within the company.

Brad Colledge

General Manager - Licensing Solutions

Brad holds a degree in Business Management from Queensland University of Technology. He has 23 years' experience in the ICT industry and joined Data#3 in 1995. Brad started the Licensing Solutions business and is a Microsoft Certified Professional in Licensing Delivery and Software Asset Management. Brad is a member of the Microsoft World Wide Partner Engagement Board.

Bruce Crouch

General Manager - Integrated Solutions

Bruce holds a Bachelor of Applied Science degree from Queensland University of Technology. He has 25 years' experience in the ICT industry holding roles in systems engineering with IBM and in ERP software sales prior to joining Data#3 in 1995. He started the Enterprise Infrastructure Solutions business with responsibility for its leadership for 9 years, prior to taking up his current role.

Paul Crouch

General Manager - NSW/ACT

Paul has 29 years' experience in the ICT industry, including 8 years in the UK and 8 years in Asia Pacific. These roles spanned field and technical support to sales and service management for both technology vendors including Dell and Memorex Telex, as well as channel sales organisations. Paul is a graduate of the Australian Institute of Company Directors. He joined Data#3 in 2003 progressing through sales leadership roles to his current position which he has held for the past 6 years.

Michael de Broughe

State Manager - South Australia

Michael joined Data#3 in 2008, helping establish the Data#3 presence in South Australia. With responsibility for driving growth across the Data#3 ICT portfolio, Michael leads a highly capable team who have developed strategic relationships within the market, enabling continual growth and development of the South Australian branch. He has 27 years' experience in the IT Industry, holding roles spanning administrative, sales and management positions with companies such as IBM, Volante and Commander.

Mark Esler

General Manager - Product Solutions

Mark and was a founding director of Data#3 in 1984. He has been involved in the ICT industry for 36 years having formerly worked at IBM in Australia and has played a key role in many areas within Data#3. Mark is a member of the Australian Computer Society and Fellow of the Australian Institute of Company Directors. He is actively involved in many ICT related forums.

Cathy Ford

General Manager - Information, Productivity & Technology

Cathy joined Data#3 in 2009. She has a Graduate Diploma in Computing Science from Queensland University of Technology and was awarded a Bachelor of Science degree with first class honours from the University of Queensland. Cathy's previous positions include Chief Operating Officer of McCormick Rankin Cagney (a specialist engineering firm) and Regional Director, Queensland for SMS Management & Technology. She is currently a member of the Australian Institute of Company Directors. Cathy is Chair of Transmax and is also Chair of the Smart Transport Research Centre at Queensland University of Technology.

Brem Hill

Chief Financial Officer and Company Secretary

Brem joined Data#3 in 1991 following positions at Defiance Milling, Royal Bank Leasing (London) and IBM Australia. He is responsible for the finance & accounting and commercial advisory services functions at Data#3. Brem holds a Bachelor of Business (with distinction) from the University of Southern Queensland. He is a member of CPA Australia and a fellow of Chartered Secretaries Australia.

Leonie Knight

National Manager - People Solutions

Leonie joined Data#3 in 2008. She initially managed People Solutions in Queensland through an exciting period of expansion, then also in NSW and Victoria, before being appointed as National Manager in 2011. First entering the IT industry in 1993, Leonie specialised at a senior level in IT recruitment with an in-house role at Unisys and at specialist agencies such as Affinity IT and Paxus/CSC Technology, before running her own agency. Leonie is a certified QA Auditor, a member of the ITCRA committee, Women in IT (WIT), the AIIA and has extensive industry connections.

Lindy MacPherson

General Manager - Organisational Development & Human Resources

Lindy joined Data#3 in 2000 running the recruitment business in Queensland. She expanded this business into NSW and Victoria, before taking over the Organisational Development & Human Resources role in 2003. Lindy has held sales and operational management roles for over 20 years' and has experience working in small business through to large multinational corporations in the leisure, philanthropic, transport, recruitment and ICT sectors. She is a member of Australian Human Resources Institute and WIT (Women in IT), holds qualifications in Leisure Management and is currently studying in the field of Social Science, majoring in Management and Leadership.

Glenn McAtee

State Manager - Western Australia

Glenn joined Data#3 in October 2012 and is responsible for managing operations in the Western Australian branch. He has nearly 30 years' ICT experience in the Western Australian marketplace, holding executive management positions for the past 20 years. Prior to joining Data#3, Glenn held a variety of executive roles with integrator L7 Solutions, preceding that he was the founder and CEO of Perth-based systems integrator The Net Effect.

Patrick Murphy

General Manager - Managed Services

Patrick holds a Bachelor of Business (Commercial Computing and Accounting) degree from Bond University. He has 22 years' experience in the ICT industry holding roles spanning from field support to sales and IT management, and infrastructure management. He joined Data#3 in 1999 in the Outsourcing business.

Christine Scammell

General Manager - Victoria

Christine joined Data#3 in April 2010 and is responsible for driving continued growth across the company's portfolio of IT product and service solutions in Victoria. Christine holds a Bachelor of Business Studies degree and is also a graduate of the Australian Institute of Company Directors. Before joining Data#3, Christine held positions with Oakton, Hewlett-Packard Australia and Hewlett-Packard New Zealand, where she was responsible for providing a broad range of IT consulting, outsourcing and support services to customers across Australian and New Zealand. Christine has over 26 years' of experience in the IT industry, and the New Zealand finance and retail sectors. She also has a special interest in leadership development and change management.

CORPORATE SOCIAL RESPONSIBILITY

Our commitment to the Data#3 social responsibility program grew in 2012, as did our pride in the fact that we remain dedicated to having a positive influence on the communities we work in 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, sporting sponsorships, volunteering and 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 in disposing of their IT equipment responsibly.

OUR COMMITMENT TO THE COMMUNITY

We continue to be actively involved in supporting community events and charities. Some of the community activities we have organised or supported over the past year are highlighted below:

- Our annual 12 Days of Christmas program supported 12 charities through December, including World Vision, Sydney Homeless Connect, FoodbankSA, FoodbankWA, Royal Brisbane and Women's Hospital Foundation, Animal Welfare League, State Schools Relief, The Smith Family, Day of Difference, Landcare, Riding for the Disabled Association and The Black Dog Institute
- The Biggest Morning Tea was celebrated in our NSW office, with funds raised going to support the Cancer Council NSW
- Generous staff donations have enabled us to support numerous other fundraising efforts for charities including Cancer Council Qld, The Salvation Army, Mater Little Miracles Fund and the Toowong RSL
- We have supported the Child Sponsorship program through World Vision for over ten years through staff donations and we currently sponsor 15 children
- Our sponsorship of the Data#3 Cisco Racing Team saw the hard-training cyclists move from strength to strength, with the team growing in numbers and earning recognition in the cycling world, whilst also raising money for a range of charities
- We also support our staff's commitment to the community by allowing them to take one day paid leave per year to participate in voluntary programs.

We will continue to support the communities in which we work and live, and the charities close to our employees' hearts and minds.

OUR COMMITMENT TO THE ENVIRONMENT

We regard environmental sustainability as an important aspect of sound business operation and consequently we are very conscious of the need be more efficient in the use of energy, water and the procurement of materials to reduce the direct environmental impact of our operations.

Together with our leading vendor partners we are continually working towards reducing the impact of technology on the environment by reducing energy consumption, decreasing carbon emissions, increasing recycling and eliminating hazardous materials. To further support this initiative we encourage our customers to re-use, recycle and dispose of their IT equipment responsibly by offering an IT equipment disposal service. In 2012, Data#3 also participated in the Government accredited 'GreenPower' initiative.

As a part of our efforts to meet the requirements of ISO 14001 – the International Standards Organisation's standard for environmental management systems – we have developed an Environmental Management System which will be used as the tool for continually reducing the impact of our operations on the environment.

The business has implemented a range of recycling programs across all office locations. These include the recycling of white office paper, coloured paper, newspapers, cardboard, comingled products and other packaging products in our warehouses.

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; help them meet the challenge of work-life balance; empower them to contribute to positive change; and reward and celebrate their success as members of the team and as individuals.

Our employee numbers at year-end included 648 permanent staff, 34 casual and 240 contractors. 28% of our workforce is female, putting us above the current ICT industry average of 27% (based on Australian Information Industry Association statistics).

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

In 2012 we continued to increase our commitment to enhanced professional development programs resulting in the development of a range of tailored online curriculum designed to promote greater flexibility and accessibility of our learning programs. Our comprehensive online learning program offers our people access to thousands of professional and IT courses and books enabling them to undertake self-paced learning 24 hours a day, 7 days a week. Our structured Mentoring Program supports professional and career development. The aim of this program is to encourage a one-on-one relationship, where the mentor - through their knowledge, experience, passion, innovation or motivation - uses a structured process to assist another to grow, learn and achieve outcomes.

Work-Health-Life Balance

We are committed to helping our people achieve a healthy balance between their work and home life. We encourage corporate gym and healthcare membership with programs aimed at increasing employee wellbeing. Data#3 employees are empowered to take control of their career development and work-life balance, with strong support from managers, colleagues and the Organisational Development & Human Resources team.

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". In 2012 we received a 94.6% favourable response, slightly higher than the previous year and close to our ultimate target of 95%. We think this is an outstanding outcome given the particularly challenging year our people have faced.

Work Health And Safety

Work health and safety has become an increasingly important element of our developing business and is an integral part of our business operations.

The past 12 months have seen significant changes to safety legislation throughout Australia with the introduction of harmonised legislation to most states and territories in January 2012. This has had a significant impact on businesses such as ours with operations in multiple jurisdictions.

Some states are yet to adopt the harmonised legislation which has presented us with the challenge of developing a safety management system that complies not only with the harmonised legislation, but also with the legislation of these other states. In order to compensate for the differences in legislative requirements we have taken a 'best practice' approach, whereby we have developed systems that take into account the highest standards of each piece of legislation as it applies to our operations.

We have been working diligently to improve the way in which we operate to meet the growing needs of our clients, strengthen our safety management systems, and to improve the level of protection for all our workers both domestically and internationally.

The development of our safety management system has been guided by the principles of Australian Standard AS/NZS 4801 and the International Standard OHSAS 18001, and incorporates the principles of Data#3's (pdo)[2] continuous improvement lifecycle methodology. This has been done to ensure that systems and processes relating to the management of work health and safety risks continue to meet the needs of customers, ensure the company's compliance with current legislative requirements and allow for future certification of our systems to these standards.

CORPORATE GOVERNANCE STATEMENT

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

In developing Data#3's corporate governance framework the board has considered the ASX Corporate Governance Principles and Recommendations (the "Recommendations"). This statement outlines how Data#3's main corporate governance practices and policies align with these Recommendations. Data#3 considers that its corporate governance practices complied with all of the Recommendations throughout the 2012 financial year.

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

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

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

- Participating in the development of, and subsequently approving, corporate strategy to position the company so that its sustainable value, and shareholders' ability to realise that value, is maximised
- Reviewing and approving business plans, budgets and financial policies
- Reporting to shareholders and the market
- Ensuring policies and processes are in place to assure compliance with applicable regulations and standards and assure that all material business risks are taken into account, and approving systems and controls to manage those risks
- Reviewing key internal controls and internal and external audit reports to maintain the integrity of accounting and financial records and reporting
- Monitoring and influencing the culture and reputation of the company
- Managing board composition, director selection and board processes and performance
- Ratifying key executive appointments, transfers and terminations and ensuring executive succession planning
- Reviewing the performance of the Managing Director and the senior leadership team and their respective delegated levels of authority
- Reviewing and approving remuneration policies and practices generally and determining remuneration packages and other terms of employment for directors (within the maximum amount approved by the shareholders) and senior executives
- Ensuring that the board as a whole has a sufficient understanding of each substantial segment of the business
- Determining the amount, timing and nature of dividends to be paid to shareholders
- Reviewing business results, monitoring budgetary control and corrective actions
- Adopting and overseeing the implementation of corporate governance practices that represent good practice in the company's particular circumstances
- Authorising and monitoring major strategic investments and capital expenditure.

The board's charter also contains a statement of the responsibilities delegated to the Managing Director and other senior executives. The board has delegated authority and powers to the Managing Director 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. The Managing Director is the board's principal link to the senior leadership team. The Managing Director may further delegate within specific policies and delegation limits to members of the senior leadership team, but remains accountable for all authority delegated to its members. The board ensures that the senior leadership team is appropriately qualified, experienced and resourced to discharge its responsibilities. The board has in place procedures to assess the performance of the Managing Director and other members of the senior leadership team.

Mr Boreham was appointed as a non-executive director on 9 November 2011. No other new directors or senior executives were appointed during the year. Mr Boreham participated 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.

The performance of Data#3's senior executives has been assessed in accordance with the process adopted by the board against pre-set financial and non-financial goals. The Managing Director's performance is formally assessed annually by the Chairman and that assessment is reviewed by the other non-executive directors. The Managing Director is responsible for evaluating the performance of the Group General Manager, the Chief Financial Officer, the General Manager - Organisational Development & Human Resources the General Manager – Information, Productivity & Technology. The

Group General Manager reviews the performance of each other member of the senior leadership team in conjunction with the Managing Director.

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
- Reflect Data#3's strategic objectives.

Directors are initially appointed by the board, subject to election by the shareholders at the next Annual General Meeting (AGM). Data#3's constitution specifies that all directors (with the exception of the Managing Director) 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, who have 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. The membership of the board is set out in the directors' report on page 31. Details of each individual director's background is set out in the directors' report on page 31, and the director's profiles on page 19.

Independence

The board recognises that all directors – whether independent or not – should bring independent judgment to bear on the board's decisions. The board has adopted specific principles in relation to an 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 an independent, non-executive director. Mr Boreham, Mr Johnston and Mr Powell (and therefore the majority of the board) are also independent non-executive directors.

To facilitate independence, directors have the right, in connection with their duties and responsibilities, to obtain independent professional advice at Data#3's expense. Prior written approval of the Chairman is required, but this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all other directors. This right was neither exercised nor sought to be exercised during the year.

Directors' arrangements with Data#3 in the past have not been material and have therefore not adversely impacted the directors' independent status. Disclosure of related party transactions is set out in the financial statements.

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

The board meets as often as the directors determine necessary to fulfil its responsibilities and duties – generally on a monthly basis. The number of meetings of the board and its committees held during the year ended 30 June 2012, 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. The meetings are chaired by the Chairman or, in his absence, his nominee. The Chairman is responsible for ensuring that the governance objectives of the board are pursued and that the conduct of the meetings is efficient and appropriate. The Company Secretary and the Group General Manager are usually invited to attend all meetings and other executives attend the meetings periodically by invitation when appropriate. Board and committee agendas are structured to reflect their defined responsibilities, to give the board a detailed overview of the performance and significant issues confronting each business unit and Data#3, and to identify major risk elements for review to ensure that assets are properly valued and that protective strategies are in place.

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

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 financial reporting" and "Principle 7: Recognise and manage risk".

Remuneration and nomination committee

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

- Assessing the necessary and desirable competencies of board members
- Reviewing board and senior executive succession plans
- Evaluating the board's performance
- Appointing new directors and senior executives.

The remuneration and nomination committee met two times during the year. Members' attendance at these meetings is set out on page 32 in the directors' report.

The board and committees have 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. An internal performance evaluation was completed in 2011 using a detailed assessment questionnaire. The results were reviewed by the Chairman and presented to the board.

The efficient operation of the board is assisted by Mr Hill, Company Secretary and Mr Bonner, Joint Company Secretary. Each company secretary is accountable to the board, through the Chairman, for all governance matters.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

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

Code of conduct

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

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 board adopted a formal diversity policy in July 2011 to facilitate a more diverse and representative workforce and management structure, and set measurable objectives to be reported against for the 2012 financial 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
- Employment decisions are transparent, equitable and procedurally fair.

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

The measurable objectives adopted for the 2012 financial year and an update on the company's progress towards achieving those objectives is set out in the following table:

Objective: To appoint a member of the senior leadership team with responsibility for diversity. ➲ Completed. The General Manager - Organisational Development & Human Resources was assigned this responsibility.
Objective: To complete an analysis of gender pay equity. ➲ Completed. No material difference was identified.
Objective: To maintain at least a 27% female proportion of all employees. ➲ Achieved. The proportion increased from 27% to 28%.
Objective: To increase the proportion of women in the senior leadership team by the end of 2012. ➲ Achieved. One additional female member was appointed to the team, increasing the proportion from 27% to 29%.
Objective: To continue to seek the appointment of an appropriately qualified female board member. ➲ Ongoing activity. During the 2012 financial year various potential board candidates were identified, including women. Discussions were completed and an appointment of a woman was considered but unfortunately was not able to be accepted by the candidate. At the same time discussions were held with Mr Boreham who has outstanding experience and standing in the IT industry, and his appointment was confirmed in November 2011.

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

	2012		2011	
	Female	Male	Female	Male
All employees	28%	72%	27%	73%
Senior leadership team	29%	71%	27%	73%
Board of directors	0%	100%	0%	100%

Corporate social responsibility

During the year Data#3 continued to develop its formal corporate social responsibility program, called the Data#3 Social Responsibility program. For further information see pages 22 and 23.

Share trading policy

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

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

Audit and risk committee

The board has established an audit and risk committee which is composed of three independent non-executive directors, being Mr Powell (Chairman), Mr Anderson and Mr Johnston; their profiles are set out on page 19. Each member of the audit and risk committee is financially literate and has the technical and business expertise necessary to serve on the committee. The responsibilities of the audit and risk committee are set out in its formal charter, which is available on Data#3's website.

The audit and risk committee met four times during the year, with the Managing Director and the Chief Financial Officer participating by invitation.

Members' attendance at these meetings is set out on page 32 in the directors' report. The audit and risk committee has, within the scope of its responsibilities, unlimited access to members of the senior leadership team and access to the external auditor. Directors receive detailed financial and operational reports from senior management regularly and managers are available to discuss the reports with the board if necessary.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous disclosure policy

The board has established a continuous disclosure policy which contains written policies and procedures that promote timely and balanced disclosure of all material matters concerning Data#3. The continuous disclosure policy is available on Data#3's website. The company secretary has been nominated as the person responsible for communications to the ASX. This role includes responsibility for ensuring 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 to email alerts for all company announcements (on Data#3's website).

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 SHAREHOLDERS

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

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk management policy

The board has established a risk management policy and procedures (in accordance with AS/NZS ISO 31000:2009) that promote the identification, assessment, monitoring and managing of risk, and the identification of any material changes to Data#3's risk profile. A copy of that policy is available on Data#3's website. There are many risks that Data#3 faces in its business operations and the industry within which it operates. A range of factors, some of which are beyond the reasonable control of Data#3, can influence performance. The board has assigned the primary responsibility for operational risk management to the audit and risk committee. Refer to "Principle 4: Safeguard integrity in financial reporting" for information on the members and meetings of the audit and risk committee. The board and audit and risk committee are satisfied that management has ensured that sound risk management practices are embedded into the operations of the business; that management has continued to review and improve those practices; and that management has reported to the board as to the effectiveness of Data#3's management of its material business risks.

The board receives regular assurance from the Managing Director and the Chief Financial Officer 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 in all material respects in relation to financial reporting risks.

Risks faced by Data#3 include operational, environmental, compliance, strategic, reputational, product and service quality, human resources and market-related risks. Specifically, the risk management system takes account of the following material business risks:

- ICT government procurement models and trends
- Attraction and retention of key personnel
- The quality of skill of the senior leadership team
- Market demand for ICT products and services
- Key vendor channel strategy and customer engagement models
- Identification of ICT industry opportunities and new technology trends
- Effective positioning of Data#3's solutions in the market
- Internal information technology systems and processes
- Delivery of customer solutions within agreed expectations
- Nature of competitor activity.

Data#3 Limited is also a Quality Certified Company to AS/NZS ISO9001:2008, holding NCSI Certification Number 6845.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

Remuneration and nomination committee

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

- Data#3's remuneration, recruitment, retention and termination policies and procedures for senior executives
- Senior executives' remuneration and incentives
- Superannuation arrangements
- The 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 32 to 35. Data#3 has clearly differentiated the structure of non-executive directors' remuneration from that of the Managing Director 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 Data#3 Limited and its subsidiaries (the group) for the year ended 30 June 2012.

1. PRINCIPAL ACTIVITIES

The principal activity of the group is the delivery of information technology solutions which draw on the group's broad range of products and services and its alliances with other industry providers. This includes software licensing and software asset management; the design, deployment and operation of desktop, network and data centre hardware and software infrastructure; and the provision of contract and permanent recruitment services.

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

2. DIVIDENDS

	Cents	$'000
Final dividend recommended for the year ended 30 June 2012	3.55	5,466
Dividends paid in the year:		
Interim for the year ended 30 June 2012	3.45	5,312
Final for the year ended 30 June 2011	3.90	6,006
		11,318

3. OPERATING AND FINANCIAL REVIEW

- Total revenue of the group increased by 16.3% to $811,390,000.
- Gross profit increased by 7.3% to $119,957,000.
- The overall gross margin percentage decreased from 16.1% to 14.8%, reflecting the significant growth in software product revenues at historically lower relative gross margins.
- Net profit after tax decreased by 8.8% to $13,679,000.
- Earnings per share decreased by 8.8% to 8.88 cents.
- Fully franked dividends declared of 3.55 cents per share for the financial year, representing a payout ratio of 79%, which is consistent with the prior year payout ratio.
- Strong cash flow position with cash flow from operations of $28,891,000 and an average daily cash balance of $36.7 million, up from $32.5 million last year. As in previous years the 30 June cash balance included temporary surplus funds due to timing differences in customer collections and payments to suppliers.
- Solid financial position with no material debt.
- Internal staff costs increased by 14% and operating expenses decreased by 2%.

4. BUSINESS STRATEGY

Our vision is to be an exceptional company - one that unites to enable our customers' success through the use of technology; inspires our people to do their best every day; and rewards investors' confidence and support.

To achieve this vision, our focus is on three key areas:
- *Remarkable people* – who are inspired and supported in their passion for excellence and to do their best every day; who meet the challenge of work/life balance; who are empowered to contribute to positive change; and who are rewarded and celebrated both as members of the team and as individuals.
- *Outstanding solutions* – that embody market-leading expertise in technologies from vendors that are driving the industry globally, and that quickly adapt to changes in the environment.
- *Organisational excellence* – embedded processes that continuously review and improve the effectiveness of our business operations to ensure we remain a leader in our industry.

Achieving the objectives we have in each of these areas will see expertise and solutions in technology unite through our solutions framework to enable ***customer success.***

Our customers' success will in turn deliver ***exceptional performance*** with the appropriate rewards to all stakeholders.

5. EARNINGS PER SHARE

	2012	2011
	Cents	Cents
Basic and diluted earnings per share	8.88	9.74

DIRECTORS' REPORT (CONTINUED)

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the group during the year.

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matter or circumstance has arisen since 30 June 2012 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

In the 2013 financial year we expect the tighter economic environment and competitive market conditions to remain in place; however we believe there are continuing opportunities for organic growth in all areas of the business through our demonstrable ability to increase market share. We expect to improve the productivity of our people through systems and process improvement but also believe we will need to accommodate increased competition for the best skills and the inherent upward pressure on remuneration levels. To maintain Data#3's position as an employer of choice, we intend to invest further in developing the expertise of our staff and in the software and systems that support the operations of the business.

We will continue to look for appropriate partnerships and acquisitions to enhance either our geographic scale or our expertise in specific areas and ultimately further improve financial performance. For shareholders we expect to improve on the financial performance of 2012 and are looking to continue to deliver dividends that balance the need for working capital and the provision of returns near the top of the sector.

9. DIRECTORS

The following persons were directors of Data#3 Limited during the whole of the financial year and continue in office at the date of this report:

R A Anderson
J E Grant
I J Johnston
W T Powell

Mr G F Boreham was appointed as a director on 9 November 2011 and continues 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. Formerly a partner with PricewaterhouseCoopers, the firm's Managing Partner in Queensland, and a member of the firm's National Committee. 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 three other public companies: Namoi Cotton Cooperative Limited (director since 2001), Lindsay Australia Limited (director since 2002) and Villa World Group (director since 2002). President of the Guide Dogs for the Blind Association of Queensland.

Special responsibilities:
Chairman of the board
Member of audit and risk committee
Chairman of remuneration and nomination committee
Chairman of superannuation policy committee (not a committee of the board of directors)

G F Boreham, AM, BEcon (*non-executive director*)
Independent non-executive director since 9 November 2011, the date of his appointment. Extensive experience in the IT industry, including 25 years at IBM, (Managing Director, IBM Australia, from 2006 to 2011 and various senior roles prior to 2006) and former Chair of the Australian Government's Convergence Review. Currently Chair of Screen Australia (since 2008), and Chair of Advance (since August 2012).

J E Grant, BEng (*Managing Director*)
Director of the company from its foundation in 1984; Chief Executive Officer or Managing Director from 1996; extensive experience in the IT industry; immediate past Chairman and a current Director of the Australian Information Industry Association, the ICT industry's peak representative body; and the inaugural Chairman of the Australian Rugby League Commission.

I J Johnston, DipCM, GradDip App Fin & Inv, ASIA, ACIS, FAICD (*non-executive director*)
Non-executive director since November 2007. Currently Chairman Corporate Finance at RBS Morgans and a member of its advisory board. Extensive experience in the banking and stockbroking industries including roles in treasury, corporate banking and equity capital markets.

During the past three years Mr Johnston has also served as a non-executive director of two other public companies: Cardno Limited (current director, since 2004) and Northern Energy Corporation Limited (former director in 2011).

DIRECTORS' REPORT (CONTINUED)

9. DIRECTORS (CONTINUED)

Special responsibilities:
Member of audit and risk committee
Member of remuneration and nomination committee

W T Powell, BEcon *(non-executive director)*
Non-executive director since 2002. Executive Chairman of the company from its foundation in 1984 and then Managing Director from 1989 to 1996. Prior to 1984 had extensive experience in the IT industry and was the Managing Director of Powell Clark and Associates, formed in 1977. Re-joined the board of Data#3 Limited in 2002.

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

Interests in shares
As at the date of this report, the interests of the directors in the shares of Data#3 Limited were:

	Number of ordinary shares
R A Anderson	600,000
G F Boreham	42,150
J E Grant	7,166,450
I J Johnston	600,000
W T Powell	3,900,000

Meetings of directors
The number of meetings of the company's board of directors (including meetings of the board committees) held during the year, and the numbers of meetings attended by each director were:

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	4	4	2	2
G F Boreham	10	10	**	**	**	**
J E Grant	15	15	**	**	**	**
I J Johnston	15	15	4	4	2	2
W T Powell	15	15	4	4	2	2

* *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, was appointed to the position of Company Secretary in 1997. He has served as the Financial Controller or Chief Financial Officer of the company since 1992 and is a member of CPA Australia and a fellow of Chartered Secretaries Australia.

Mr T W Bonner, LLB, BComm, ACIS, was appointed to the position of Joint Company Secretary in November 2007. He has served as the Legal Counsel of the company since 2005 and is a member of the Queensland Law Society and Chartered Secretaries Australia.

11. REMUNERATION REPORT

The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E Additional information

A Principles used to determine the nature and amount of remuneration

Role of the remuneration committee
The remuneration and nomination committee is a separate committee of the board and is responsible for:
- Data#3's remuneration, recruitment, retention and termination policies and procedures for senior executives
- Senior executives' remuneration and incentives
- Superannuation arrangements
- The remuneration for directors.

DIRECTORS' REPORT (CONTINUED)

11. REMUNERATION REPORT (CONTINUED)

The committee's objective in relation to remuneration policy is 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. The Corporate Governance Statement provides further information on the role of this committee.

Executives

The board and the remuneration committee address remuneration policies and practices generally, and determine remuneration packages and other terms of employment for senior executives. Executive remuneration and other terms of employment are reviewed annually by the board having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the group's operations, achieving the group's strategic objectives, and increasing shareholder wealth.

The executive pay and reward framework has three components:

- Base pay and benefits
- Performance-related bonuses
- Other remuneration such as statutory superannuation.

The combination of these comprises the executive's remuneration.

Base pay

Base pay is structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed base pay increases included in any senior executives' contracts.

Performance-related bonuses

Performance-related cash bonus entitlements are linked to the achievement of financial and non-financial objectives which are relevant to meeting the company's business objectives. In 2012 the proportion of the planned total executive remuneration for key management personnel that was performance-related was 30% (2011: 35%).

A major part of the bonus entitlement is determined by the actual performance against planned group and divisional profit targets relevant to each individual. Using a profit target ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan. In 2012 the planned profit-related component represented 70% of the total executive bonuses (2011: 77%). Profit targets were not met in 2012, resulting in reduced bonus payments calculated on a pro rata basis. The balance of the executive bonus entitlement is determined by performance against agreed non-financial objectives relevant to each individual.

The executives' cash bonus entitlements are assessed and paid either quarterly or six-monthly, based on the actual performance against the relevant full-year profit and key performance indicator targets. The board, together with certain senior managers, is responsible for assessing whether an individual's targets have been met, and profit targets and key performance indicator targets are reviewed and reset annually.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The board determines remuneration of non-executive directors within the maximum amount approved by the shareholders from time to time. This maximum currently stands at $500,000 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 are paid a fixed remuneration comprising base fees and superannuation. 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 and one executive director. The board undertakes a periodic review of its performance and the performance of the board committees against goals set at the start of the year.

B Details of remuneration

Compensation paid, payable, or provided by the group or on behalf of the group, to key management personnel is set out below. Key management personnel include all directors of the company and certain executives who, in the opinion of the board and managing director, have authority and responsibility for planning, directing and controlling the activities of the group directly or indirectly. Comparative information is not shown for individuals who were not considered to be key management personnel in the previous year.

11. REMUNERATION REPORT (CONTINUED)

		Short-term			Long-term	Post-employ-ment	Other benefits		
		Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Long service leave $	Super-annuation $	Termina-tion $	Total $	% perfor-mance related
Non-executive directors									
Anderson, R.	2012	103,500	-	-	-	9,315	-	112,815	-
Chairman	2011	96,750	-	-	-	8,708	-	105,458	-
Boreham, G.	2012	41,856	-	-	-	3,767	-	45,623	-
(appointed 9 November 2011)									
Johnston, I.	2012	63,250	-	-	-	5,693	-	68,943	-
	2011	59,125	-	-	-	5,321	-	64,446	-
Powell, W.T.	2012	74,750	-	-	-	6,728	-	81,478	-
	2011	69,875	-	-	-	6,289	-	76,164	-
Subtotals - non-executive directors	2012	283,356	-	-	-	25,503	-	308,859	-
	2011	225,750	-	-	-	20,318	-	246,068	-
Executive director									
Grant, J.	2012	530,801	133,679	-	8,861	15,775	-	689,116	19.4
Managing Director	2011	481,400	208,639	-	50,272	15,199	-	755,510	27.6
Other key management personnel									
Baynham, L.	2012	274,722	164,969	-	10,771	15,775	-	466,237	35.4
Group General Manager	2011	252,757	255,200	-	10,208	15,199	-	533,364	47.8
Hill, B. – Chief Financial	2012	222,815	94,348	-	8,368	15,775	-	341,306	27.6
Officer and Company Secretary	2011	205,000	163,787	-	3,648	15,199	-	387,634	42.3
Totals – key management personnel	2012	1,311,694	392,996	-	28,000	72,828	-	1,805,518	21.8
	2011	1,164,907	627,626	-	64,128	65,915	-	1,922,576	32.6

Remuneration disclosures in the 2011 financial year included information for all executives who were part of the senior management team. The board has reassessed the executive group and has reduced the disclosures in the above table to remove those individuals who report to the group general manager or who act solely in a support function.

No director or executive received compensation in the form of share-based payments during the year ended 30 June 2012 (2011: nil).

C Service agreements

Terms of employment for the managing director 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 and the other key management personnel are as follows:

J Grant (Managing Director)

- Five-year service agreement effective until 31 December 2015 unless terminated under the terms of the agreement.
- Termination notice of six months is required.
- Payment of a termination benefit on early termination by the company, other than for gross misconduct, of twelve months of his packaged salary together with an additional amount representing the performance-related bonus earned up to the date of termination. If at the annual renewal date the company chooses not to continue the agreement, the company must provide six months' notice and Mr Grant will be entitled to his packaged salary and performance bonus calculated up to the date of his termination.

L Baynham and B Hill

- Termination notice of three months is required.
- Payment of a termination benefit on early termination by the company, other than for gross misconduct, of six months of the packaged salary including performance-related bonuses. A termination benefit is provided for these individuals as these positions are considered most likely to be subject to early termination in the event of a significant business combination.

D Share-based compensation

Share-based compensation may be granted to directors and key management personnel under the Data#3 Limited Employee Share Ownership Plan, the Data#3 Limited Deferred Share and Incentive Plan, and the Data#3 Limited Employee Option Plan.

No shares, rights, or options were granted to directors or key management personnel during the year ended 30 June 2012 (2011: nil), no rights or options vested or lapsed during the year (2011: nil), and no rights or options were exercised during the year (2011: nil).

11. REMUNERATION REPORT (CONTINUED)

E Additional information

Relationship between remuneration and company performance
The overall level of executive reward takes into account the performance of the group over a number of years, with greater emphasis given to improving performance over the prior year. Since 2007, the group's net profit has grown at a compounded average rate of 13.7% per annum, the average executive remuneration has increased by a compounded average rate of 8.3% per annum, and total shareholder return has increased by a compounded average rate of 14.9% per annum over this period.

Cash bonuses
For each cash bonus included in the previous table in Section B, 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.	87%	13%
Grant, J.	87%	13%
Hill, B.	87%	13%

12. SHARES UNDER OPTION

No unissued ordinary shares of Data#3 Limited are under option at the date of this report. No share options were granted or exercised during the financial year. Furthermore, there has been no movement in shares under option since year end up to the date of this report.

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, Data#3 Limited paid a premium of $29,340 to insure the directors and members of the executive management team of the company and the group against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. The executive officers of the group 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

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

15. ROUNDING

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that class order.

16. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Johnston Rorke continues in office in accordance with section 327 of the Corporations Act 2001. During the year the following fees were paid or payable to the auditor for non-audit services:

	2012	2011
	$	$
Non-audit services		
Acquisition due diligence services	20,000	30,000
Tax compliance services	8,200	8,500
	28,200	38,500

Non-audit services
The company employs Johnston Rorke on assignments additional to its statutory duties where the auditor's expertise and experience with the company and/or the group are important.

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 (refer above) did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

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

R A Anderson
Director

Brisbane
24 August 2012

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WARWICK FACE
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The Directors
Data#3 Limited
67 High Street
TOOWONG QLD 4066

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Data#3 Limited for the financial year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been:

(i) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

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

JOHNSTON RORKE
Chartered Accountants

R C N Walker
Partner
Johnston Rorke

Brisbane
24 August 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Revenue			
Sale of goods	2	689,060	586,354
Services	2	120,427	109,804
Other	5	1,903	1,630
		811,390	697,788
Expenses			
Changes in inventories of finished goods		(971)	(3,563)
Purchase of goods		(624,204)	(522,778)
Employee and contractor costs directly on-charged (cost of sales on services)		(43,379)	(40,984)
Other cost of sales on services		(20,976)	(17,088)
Other employee and contractor costs		(87,878)	(76,983)
Telecommunications		(1,420)	(1,451)
Rent	6	(4,968)	(4,806)
Travel		(2,225)	(2,347)
Professional fees		(573)	(840)
Depreciation and amortisation	6	(1,128)	(675)
Finance costs	6	(249)	(228)
Other		(3,681)	(4,218)
		(791,652)	(675,961)
Profit before income tax expense		19,738	21,827
Income tax expense	7	(6,059)	(6,828)
Profit for the year		13,679	14,999
Other comprehensive income, net of tax		-	-
Total comprehensive income		13,679	14,999
		Cents	Cents
Basic earnings per share *	8	8.88	9.74
Diluted earnings per share *	8	8.88	9.74

* Earnings per share for 2011 has been restated for the ten-for-one share split undertaken on 16 November 2011.

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

as at 30 June 2012

	Notes	2012 $'000	2011 $'000
Current assets			
Cash and cash equivalents	10	70,820	56,956
Trade and other receivables	11	135,883	90,438
Inventories	12	4,239	5,265
Other	13	2,222	2,451
Total current assets		213,164	155,110
Non-current assets			
Property and equipment	14	6,196	4,415
Deferred tax assets	7	2,573	1,568
Intangible assets	15	4,723	4,533
Total non-current assets		13,492	10,516
Total assets		226,656	165,626
Current liabilities			
Trade and other payables	16	165,602	102,806
Borrowings	17	639	588
Current tax liabilities		1,899	2,300
Provisions	18	1,433	1,285
Other	19	20,701	24,025
Total current liabilities		190,274	131,004
Non-current liabilities			
Borrowings	17	1,853	2,492
Provisions	18	1,344	1,109
Other	19	671	868
Total non-current liabilities		3,868	4,469
Total liabilities		194,142	135,473
Net assets		32,514	30,153
Equity			
Contributed equity	21	8,278	8,278
Retained earnings		24,236	21,875
Total equity		32,514	30,153

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2012

	Number of Ordinary Shares	Contributed Equity	Retained Earnings	Total Shareholders' Equity
	'000	$'000	$'000	$'000
Consolidated				
Balance at 1 July 2010	153,975	8,278	17,808	26,086
Profit for the year	-	-	14,999	14,999
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	14,999	14,999
Payment of dividends	-	-	(10,932)	(10,932)
Balance at 30 June 2011	153,975	8,278	21,875	30,153
Profit for the year	-	-	13,679	13,679
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	13,679	13,679
Payment of dividends	-	-	(11,318)	(11,318)
Balance at 30 June 2012	153,975	8,278	24,236	32,514

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 30 June 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Profit for the year		13,679	14,999
Depreciation and amortisation		1,128	675
Impairment of intangible assets		-	383
Impairment of inventory		55	178
Bad and doubtful debts		288	157
Loss on disposal of property and equipment		22	132
Other		13	(3)
Change in operating assets and liabilities, net of effects from purchase and sale of businesses			
(Increase) in trade receivables		(47,615)	(3,406)
Decrease in inventories		971	3,563
(Increase)/decrease in other operating assets		2,111	(1,824)
(Increase) in net deferred tax assets		(1,005)	(36)
Increase/(decrease) in trade payables		55,450	(9,358)
(Decrease) in unearned income		(3,324)	(2,624)
Increase in other operating liabilities		7,172	2,510
(Decrease) in current tax liabilities		(401)	(985)
Increase in provision for employee benefits		347	456
Net cash inflow from operating activities		28,891	4,817
Cash flows from investing activities			
Payments for property and equipment	14	(2,730)	(4,344)
Payments for software assets	15	(391)	-
Net cash outflow from investing activities		(3,121)	(4,344)
Cash flows from financing activities			
Payment of dividends	9	(11,318)	(10,932)
Proceeds from borrowings		-	3,380
Finance lease payments	23	(588)	(300)
Net cash outflow from financing activities		(11,906)	(7,852)
Net increase / (decrease) in cash and cash equivalents held		13,864	(7,379)
Cash and cash equivalents, beginning of financial year		56,956	64,335
Cash and cash equivalents, end of financial year	10	70,820	56,956

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented and have been applied consistently by all entities in the group, unless otherwise stated. The financial statements are for the consolidated entity consisting of Data#3 Limited and its subsidiaries.

(a) Basis of preparation of financial report

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. These financial statements have also been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. Data#3 Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000), unless otherwise stated, under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the class order applies.

Compliance with IFRS

These consolidated 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

There are a number of new and amended accounting standards issued by the AASB which are applicable for reporting periods beginning on 1 July 2011. The group has adopted all the mandatory new and amended accounting standards issued that are relevant to its operations and effective for the current reporting period. There was no material impact on the financial report as a result of the mandatory new and amended accounting standards adopted.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Data#3 Limited ("company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Data#3 Limited and its subsidiaries together are referred to in this financial report as the group or the consolidated entity.

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the group and are deconsolidated from the date on which control is transferred out of the group. 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 group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet, respectively.

(c) Foreign currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The group's functional and presentation currency is Australian dollars.

Foreign currency transactions are translated to Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation. As at balance sheet date the group has not entered any hedge transactions, as the risk to the group from foreign-denominated transactions is not material.

(d) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties. Revenue is recognised for major business activities as follows:

(i) Sale of goods

Revenue from the sale of goods is recognised when the goods are shipped to 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 the group has objective evidence that all criteria for acceptance have been satisfied.

(ii) Rendering of services

Revenue from services is recognised in accordance with the percentage of completion method. The stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where it is probable that a loss will arise from a fixed price service contract, the excess of total costs over revenue is recognised as an expense immediately.

(iii) Bundled sales

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition (continued)

(iv) Interest income
Revenue is recognised as interest accrues using the effective interest method.

(v) Dividends
Dividend income is recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence (refer to note 1(k)).

(e) Income tax

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.

Deferred tax assets and liabilities are recognised 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.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets and liabilities are not recognised 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.

Current and deferred tax is recognised 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. Deferred tax assets and deferred tax liabilities are offset only if they relate to the same taxable entity and the same taxation authority, and a legally enforceable right exists to set off current tax assets against current tax liabilities.

Tax consolidation legislation
Data#3 Limited and its wholly-owned Australian subsidiaries are part of a tax-consolidated group under Australian taxation law. Data#3 Limited and the controlled entities in the tax-consolidated group, continue to account for their own current and deferred tax amounts. These amounts are measured as if each entity in the tax-consolidated group continues to be a stand-alone taxpayer in its own right. Data#3 Limited, as the head entity, immediately assumes current tax liabilities or assets and the deferred tax assets arising from unused tax losses and unused tax credits from controlled entities in the tax consolidated group, in addition to its own current and deferred tax amounts. The entities have also entered into tax sharing and funding agreements. Refer to note 7.

(f) Leases

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

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments, net of any incentives received from the lessor, are charged to expense on a straight-line basis over the period of the lease. Where the group is required to return the premises to their original condition on cessation of the lease, a provision for lease remediation is recorded for the present value of the estimated liability.

(g) Cash and cash equivalents

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.

For purposes of the cash flow statement, cash includes cash and cash equivalents, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(h) 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. Collectability of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off by reducing the carrying amount directly. An allowance for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, default payments or debts more than 120 days overdue where there are not extenuating circumstances are considered objective evidence of impairment. The amount of the impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to other revenue in the statement of comprehensive income.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on a specific identification basis and are determined 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. Consideration for an acquisition comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. Consideration also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Costs associated with the acquisition are charged to expense as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises 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.

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 is recorded as goodwill (refer to note 1(o)). If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the exchange. The discount rate used is the entity's 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.

(k) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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, assets that cannot be tested individually are grouped together 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, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

(l) Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale and stated at the lower of their carrying amounts or fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. They are not depreciated or amortised. For an asset or disposal group to be classified as held for sale, it must be available for immediate sale in its present condition and its sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of comprehensive income and the net cash flows attributable to discontinued operations are presented separately on the cash flow statement.

(m) Investments and other financial assets

The group's investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as follows: financial assets at fair value through profit or loss, available-for-sale financial assets, loans and receivables, and held-to-maturity investments. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and reevaluates this designation at each reporting date where appropriate. As at balance sheet date the group has no financial assets at fair value through profit or loss or held-to-maturity investments or available for sale financial assets and has not entered any significant derivative contracts.

Recognition and derecognition

Purchases and sales of investments are recognised on trade date. Investments are initially recognised at fair value plus, for all financial assets not carried at fair value through profit and loss, transaction costs; transaction costs on financial assets carried at fair value through profit and loss are charged directly to expense in the statement of comprehensive income. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active, and for unlisted securities, the group establishes fair value using other valuation techniques such as reference to the fair values of recent arms' length transactions involving the same or similar instruments, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

Subsequent measurement

Financial assets at fair value through profit and loss and available-for-sale financial assets are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in profit or loss in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised as other comprehensive income until the investment is sold, collected or otherwise disposed, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in other comprehensive income is included in profit or loss. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator that the security is impaired. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not reversed through profit or loss.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Investments and other financial assets (continued)

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any discount or premium on acquisition over the period of maturity. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are derecognised or impaired, as well as through the amortisation process. Impairment losses are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed and recognised in profit or loss.

(n) Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and amortisation. Depreciation of equipment is computed using the straight-line method to allocate cost net of residual values over the estimated useful lives of the assets, being three to 20 years. Amortisation of leasehold improvements is computed using the straight-line method over two to ten years.

Upon impairment, an asset's carrying amount is written down immediately to its recoverable amount (refer to note 1(k)).

(o) Goodwill and purchased intangible assets

Goodwill on acquisition is initially measured 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. Goodwill is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and written down when impaired.

Purchased intangible assets other than goodwill are amortised over their useful lives unless these lives are determined to be indefinite. Purchased intangibles are carried at cost less accumulated amortisation and impairment losses. Amortisation is computed using the straight-line method over the estimated useful lives of the respective assets, generally two to five years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of the financial year which are unpaid. The amounts are generally unsecured and are usually paid within 30 to 60 days of recognition.

(q) Borrowings

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 the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of the amount determined in accordance with AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less any cumulative amortisation.

The fair value of financial guarantees is determined as the present value of the difference in net cash flows between the contractual payments under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

(s) Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are measured 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.

Where the group expects some or all a provision to be reimbursed, such as under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

(t) Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages, salaries, including non-monetary benefits, and annual leave expected to be settled 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 sick leave, which are non-vesting, are recognised when the leave is taken and measured at the rates paid or payable.

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. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

t) Employee benefits (continued)

The obligations are presented as current liabilities in the balance sheet if the entity does 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.

Post-employment benefits

Contributions are made by the group to defined contribution superannuation funds. Contributions are charged to expense as they are incurred.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other payables when the group has 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. Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Share-based compensation benefits

Share-based compensation benefits may be provided to employees via the Data#3 Limited Deferred Share and Incentive Plan, an employee option plan, and an employee share ownership plan (ESOP).

The fair value of the incentives and options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the incentives or options. Fair value is determined using an appropriate option pricing model and 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, the group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

The market value of shares issued under the ESOP is recognised in the balance sheet as share capital, with a corresponding charge to the statement of comprehensive income for employee benefits expense.

(u) Contributed equity

Ordinary shares are classified as equity. Issued and paid up capital is recognised at the fair value of the consideration received. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(v) Earnings per share

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.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

(x) Comparatives

Comparative figures have been reclassified where necessary to ensure consistency with current year presentation.

(y) Corporate information

The financial report was authorised for issue in accordance with a resolution of the directors on 24 August 2012. Data#3 Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Data#3
67 High Street
TOOWONG QLD 4066

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) 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 2012, are as follows:

Standard/Interpretation	Application date of Standard[i]	Application date for the group[i]
AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9* AASB 9 addresses the classification and measurement of financial assets and liabilities. The directors anticipate this standard will have no material impact on the financial statements, but the full impact has not yet been assessed. AASB 9 is available for early adoption; the group does not expect to adopt the new standard before its operative date.	1 January 2013[ii]	1 July 2013[ii]
AASB 10 *Consolidated Financial Statements,* AASB 11 *Joint Arrangements,* AASB 12 *Disclosure of Interests in Other Entities, revised* AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures and* AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* This suite of new and amended standards addresses the accounting for joint arrangements, consolidated financial statements and associated disclosures. The directors anticipate these standards will have no material impact on the financial statements, but the full impact has not yet been assessed. The standards are available for early adoption; the group does not expect to adopt the new standards before their operative date.	1 January 2013	1 July 2013
AASB 13 *Fair Value Measurement and* AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* The new standard replaces the fair value measurement guidance contained in the various standards. It provides guidance on how to determine fair value by defining fair value and providing a framework for measurement, but does not change when an entity is required to determine fair value. It also expands the disclosures required when fair value is used. The group is yet to assess the impact of this new standard, if any.	1 January 2013	1 July 2013
AASB 119 *Employee Benefits – revised* These amendments introduce various modifications including changes to the measurement of defined benefit plans, change in the timing for recognition of termination benefits and amend the definition of short-term and other long-term employee benefits. The group is yet to assess the impact of these amendments, if any.	1 January 2013	1 July 2013
AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* This amendment removes individual key management personnel (KMP) disclosure requirements from AASB124 to eliminate replication with the *Corporations Act 2001* and achieve consistency with the international equivalent standard. The KMP disclosures will be reduced as a result of these amendments, but there will be no impact on the amounts recognised in the financial statements.	1 July 2013	1 July 2013
AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* The amendments affect the presentation of items of other comprehensive income. Accordingly, only the presentation and disclosure of related items in the financial report are expected to be impacted.	1 July 2012	1 July 2012
AASB 2012-2 *Amendments to Australian Accounting Standards – Disclosures – Offsetting financial Assets and Liabilities* The amendments to AASB 7 increase the disclosure about offset positions, including the gross position and the nature of the arrangements. The group is yet to assess the impact of these amendments, if any.	1 January 2013	1 July 2013
AASB 2012-3 *Amendments to Australian Accounting Standards - Offsetting Financial Assets and Liabilities* The amendments to AASB 132 clarify when an entity has a legally enforceable right to setoff financial assets and financial liabilities permitting entities to present balances net on the balance sheet. The group is yet to assess the impact of these amendments, if any.	1 January 2014	1 July 2014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Accounting standards not yet effective (continued)

Standard/Interpretation	Application date of Standard(i)	Application date for the group(i)
AASB 2012-5 *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle* These amendments introduce various changes to AASBs. The group is yet to assess the impact of these amendments, if any.	1 January 2013	1 July 2013

(i) Application date is for annual reporting periods beginning on or after the date shown in the above table.
(ii) The IASB has amended IFRS 9 to defer the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. The AASB is yet to issue a similar amendment.

NOTE 2. SEGMENT INFORMATION

The group's business is conducted primarily in Australia. The group's management makes financial decisions and allocates resources based on the information it receives from its internal management system. Sales are attributed 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 the year ended 30 June 2012 (2011: 99%).

Segment information is prepared in conformity with the accounting policies of the group as disclosed in note 1 and Accounting Standard AASB 8 *Operating Segments*. The group does not allocate income tax, assets or liabilities to each segment because management does not include this information in its measurement of the performance of the operating segments. Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length basis and are eliminated on consolidation.

The group has identified two reportable segments, as follows:

- Product - providing hardware and software for our customers' desktop, network and data centre hardware and software infrastructure; and
- Services - providing professional and managed services in relation to the design, implementation and operation of ICT solutions, workforce recruitment and consulting.

Summarised financial information by segment for the financial years ended 30 June 2012 and 2011 is set out in the following table.

	Product		Services		Total	
	2012	2011	2012	2011	2012	2011
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue						
Total revenue	689,586	586,409	131,286	121,034	820,872	707,443
Inter-segment revenue	(526)	(55)	(10,859)	(11,230)	(11,385)	(11,285)
External revenue	689,060	586,354	120,427	109,804	809,487	696,158
Unallocated corporate revenue:						
Interest and other revenue					1,903	1,630
Consolidated revenue					811,390	697,788
Segment result						
Segment profit	21,972	22,144	9,518	10,465	31,490	32,609
Unallocated corporate items						
Interest and other revenue					1,903	1,630
Other employee and contractor costs					(8,761)	(8,007)
Rent					(1,517)	(1,587)
Depreciation and amortisation					(984)	(634)
Other					(2,393)	(2,184)
					(11,752)	(10,782)
Net profit before income tax					19,738	21,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The group determines 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. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 15.

NOTE 4. FINANCIAL RISK MANAGEMENT

The group's activities expose it 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. The group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the group. To date the group has not used derivative financial instruments. The group uses sensitivity analysis to measure interest rate and foreign exchange risks, and aging analysis for credit risk. Risk management is carried out by the 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.

The group's financial assets are all within the loans and receivables category, and its financial liabilities are all within the financial liabilities recorded at amortised cost category.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. From time to time the group makes sales to customers who require the currency of settlement to be a foreign currency. At 30 June 2012 and 2011 the group's exposure to foreign currency risk was immaterial.

(ii) Price risk

The group is not exposed to equity securities or commodity price risk.

(iii) Cash flow and fair value interest rate risk

The group's exposure to cash flow interest rate risk arises predominantly from cash and cash equivalents bearing variable interest rates. The group's exposure to fair value interest rate risk arises from the group's borrowings, which bear a fixed interest rate. At balance date the group maintained the following variable rate accounts:

	30 June 2012		30 June 2011	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on hand	0.3%	10,820	2.4%	17,196
Deposits at call	5.1%	60,000	4.9%	39,760
Cash and cash equivalents	4.5%	70,820	4.5%	56,956

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

	After-tax profit Higher/(lower)		Equity Higher/(lower)	
	2012	2011	2012	2011
	$000	$000	$000	$000
+0.25% (25 basis points) (2011: +1.5%)	124	598	124	598
–.75% (75 basis points) (2011: –.5%)	(372)	(199)	(372)	(199)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Credit risk
Credit risk arises from the financial assets of the group, which comprise cash and cash equivalents and trade and other receivables. The group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The group does not hold any credit derivatives to offset its credit exposure. The group has 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. Risk limits are set for each individual customer in accordance with parameters set by the board. These limits are regularly monitored. Specific information as to the group's credit risk exposures is as follows:

- Cash and cash equivalents are maintained at one large financial institution.
- During the 2012 year, sales to one government customer comprised 8% of revenue (2011: 7%).
- There are a number of individually significant debtors. At 30 June 2012, one government debtor comprised 25% of total debtors, (2011: 6%) and the ten largest debtors comprised approximately 47% of total debtors (2011: 31%), of which 82% were accounts receivable from a number of government customers (2011: 62%).
- Generally our customers do not have independent credit ratings. The group's risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. Compliance with credit limits is regularly monitored by credit management. Management believes the credit quality of the group's customers is high based on the very low level of bad debt write-offs experienced historically. Bad debt write-offs as a percent of the trade receivables carrying amount was 0.2% for 2012 (2011: 0.2%).

(c) Liquidity risk
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the business, the group aims at maintaining flexibility in funding by keeping committed credit lines available. The group manages liquidity risk by monitoring cash flows and ensuring that adequate cash and unutilised borrowing facilities are maintained.

At reporting date the group had utilised $1,854,000 (2011: nil) of the multi-option financing facility for bank guarantees and had access to the following undrawn borrowing facilities at the reporting date:

	2012 $'000	2011 $'000
Multi-option bank facility	9,146	-
Receivables financing facility	-	7,000
	9,146	7,000

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 the year ended 30 June 2012 was 8.0% (2011: 6.8% for the receivables financing facility only).

Maturity of financial liabilities
The table below analyses the group's financial liabilities into relevant maturity groups based on their contractual maturities, calculated as their undiscounted cash flows. All the financial liabilities are non-derivative.

	Less than 6 months $'000	6 – 12 months $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Total contractual cash flows $'000	Carrying amount $'000
At 30 June 2012						
Trade and other payables	165,602	-	-	-	165,602	165,602
Finance lease liabilities	412	412	824	1,236	2,884	2,492
	166,014	412	824	1,236	168,486	168,094
At 30 June 2011						
Trade and other payables	102,806	-	-	-	102,806	102,806
Finance lease liabilities	412	412	824	2,060	3,708	3,080
	103,218	412	824	2,060	106,514	105,886

(d) Net fair values
The carrying amounts of financial assets (net of any provision for impairment) and current financial liabilities approximate net 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2012 $'000	2011 $'000
NOTE 5. OTHER REVENUE		
Interest	1,685	1,541
Other recoveries	218	89
	1,903	1,630
NOTE 6. EXPENSES		
Cost of goods sold	625,175	526,341
Depreciation and amortisation of property and equipment (note 14)	927	570
Amortisation of intangibles (note 15)	201	105
	1,128	675
Employee benefits expense	79,067	69,603
Termination benefits expense	952	-
Defined contribution superannuation expense	6,024	5,093
Other charges against assets		
Impairment of trade receivables (note 11)	288	157
Impairment of inventory (note 12)	55	178
Impairment of intangible assets (note 15)	-	383
Rental expenses on operating leases		
Minimum lease payments	3,528	3,747
Straight lining lease rentals	389	575
Rental expenses – other	1,051	484
	4,968	4,806
Finance costs		
Interest and finance charges paid/payable	236	218
Unwinding of discount on provisions and other payables	13	10
	249	228
Loss on disposal of property and equipment	22	132
NOTE 7. INCOME TAX		
Income tax expense		
The major components of income tax expense are:		
Current income tax expense	6,965	6,869
Deferred income tax relating to the origination and reversal of temporary differences	(932)	(36)
Adjustments for current tax of prior years	(38)	(5)
Foreign dividends tax	64	-
Income tax expense	6,059	6,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2012 $'000	2011 $'000
NOTE 7. INCOME TAX (CONTINUED)		
A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the group's applicable income tax rate is as follows:		
Accounting profit before income tax	19,738	21,827
Income tax calculated at the Australian tax rate: 30% (2011: 30%)	5,921	6,548
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible items	112	134
Other	64	151
	6,097	6,833
Under (over) provision in prior year	(38)	(5)
Income tax expense	6,059	6,828

	Balance sheet 2012	Balance sheet 2011	Statement of comprehensive income 2012	Statement of comprehensive income 2011
	$'000	$'000	$'000	$'000
Deferred income tax				
Deferred income tax for the group comprises:				
Deferred tax assets				
Accrued liabilities	1,691	1,371	320	428
Provisions	876	772	104	116
Lease incentive liability	260	320	(60)	126
Other	12	7	5	(1)
	2,839	2,470	369	669
Deferred tax liabilities				
Lease incentive assets	(145)	(175)	30	(45)
Other	(121)	(727)	533	(588)
	(266)	(902)	563	(633)
Net deferred tax assets	2,573	1,568		
Deferred income tax revenue			932	36

Tax consolidation legislation

Data#3 Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is disclosed in note 1(e). Refer to note 26 in relation to the parent entity's purchase of its subsidiaries' assets and liabilities. At year end the subsidiary companies had not yet been liquidated, therefore the tax-consolidated group remained in existence.

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

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

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

The group has no tax losses available for offset against future taxable profits (2011: nil).

NOTE 8. EARNINGS PER SHARE

	2012 Number	2011 Number
(a) Weighted average number of shares		
Weighted average number of ordinary shares for basic and diluted earnings per share	153,974,950	153,974,950

(b) Other information concerning earnings per share

- The number of ordinary shares for 2011 has been restated for the ten-for-one share split undertaken on 16 November 2011.
- Earnings for the purpose of the calculation of basic earnings per share and also diluted earnings per share is the net profit.
- Rights and options granted are considered to be potential ordinary shares. Details relating to rights and options are set out in note 27. No rights or options were on issue during 2012 or 2011; therefore there was no impact on the calculation of diluted earnings per share.

NOTE 9. DIVIDENDS

	2012 $'000	2011 $'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2011: 3.9c per share (2010: 3.3c)	6,006	5,081
Interim fully franked dividend for 2012: 3.45c per share (2011: 3.8c)	5,312	5,851
	11,318	10,932
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for 2012: 3.55c (2011: 3.9c)	5,466	6,006

The tax rate at which dividends paid have been franked is 30% (2011: 30%). Dividends declared will be franked at the rate of 30% (2011: 30%).

Franking credit balance

	2012 $'000	2011 $'000
Franking credits available for subsequent financial years for the consolidated and parent entity based on a tax rate of 30% (2011: 30%)	15,395	13,396

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 recommended 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 $2,343,000 (2011: $2,574,000).

NOTE 10. CASH AND CASH EQUIVALENTS

	2012 $'000	2011 $'000
Cash at bank and on hand	10,820	17,196
Deposits at call	60,000	39,760
	70,820	56,956

NOTE 11. TRADE AND OTHER RECEIVABLES

	2012 $'000	2011 $'000
Trade receivables	132,756	85,406
Allowance for impairment (a)	(143)	(120)
	132,613	85,286
Other receivables (b)	3,270	5,152
	135,883	90,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Allowance for impairment
An impairment loss of $288,000 (2011: $157,000) has been recognised by the group in the current year. These amounts have been included in other expense in the statements of comprehensive income. Movements in the provision for impairment loss were as follows:

	$'000
Carrying amount at 1 July 2010	97
Provision for impairment recognised during the year	157
Receivables written off during the year	(134)
Carrying amount at 30 June 2011	120
Provision for impairment recognised during the year	288
Receivables written off during the year	(265)
Carrying amount at 30 June 2012	143

The ageing of overdue trade receivables for the group as at 30 June 2012 is as follows:

	2012		2011	
	Considered impaired $'000	Past due but not impaired $'000	Considered impaired $'000	Past due but not impaired $'000
31-60 days	-	11,267	-	11,250
61-90 days	-	1,330	-	3,447
91-120 days	-	538	-	2,081
+120 days	143	2,943	120	521
	143	16,078	120	17,299

There are no trade receivables that would otherwise be past due or impaired whose payment terms have been renegotiated. For trade receivables that are past due but not impaired, each customer's credit has been placed on hold where deemed necessary until full payment is made. Each of these debtors has been contacted, and management is satisfied that payment will be received in full.

(b) Other receivables
These amounts generally arise from accrued rebates or transactions outside the usual operating activities of the group. 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.

	2012 $'000	2011 $'000
NOTE 12. INVENTORIES		
Goods held for sale – at cost	4,239	5,265

Goods held for sale include $3,480,000 of inventory purchased pursuant to customer orders or letters of intent (2011: $4,742,000).

	2012 $'000	2011 $'000
NOTE 13. OTHER CURRENT ASSETS		
Prepayments	2,075	2,313
Security deposits	147	138
	2,222	2,451

	2012 $'000	2011 $'000

NOTE 14. PROPERTY AND EQUIPMENT

	2012 $'000	2011 $'000
Leasehold improvements – at cost	7,936	5,881
Accumulated amortisation	(1,894)	(1,626)
	6,042	4,255
Equipment – at cost	790	694
Accumulated depreciation	(636)	(534)
	154	160
	6,196	4,415

(a) Assets in the course of construction

The carrying amounts of the assets disclosed above include the following expenditure in relation to leasehold improvements which are currently in the course of construction:

	2012 $'000	2011 $'000
Leasehold improvements	855	619

(b) Leased assets

Leasehold improvements include the following amounts where the group is a lessee under a finance lease:

	2012 $'000	2011 $'000
Cost	3,380	3,380
Accumulated depreciation	(535)	(197)
Carrying amount	2,845	3,183

	Leasehold improvements $'000	Equipment $'000	Total $'000
Carrying amount at 1 July 2010	600	173	773
Additions	4,245	99	4,344
Disposals	(115)	(17)	(132)
Depreciation and amortisation expense	(475)	(95)	(570)
Carrying amount at 30 June 2011	4,255	160	4,415
Additions	2,634	96	2,730
Disposals	(22)	-	(22)
Depreciation and amortisation expense	(825)	(102)	(927)
Carrying amount at 30 June 2012	6,042	154	6,196

NOTE 15. INTANGIBLE ASSETS

	2012 $'000	2011 $'000
Goodwill – at cost	4,919	4,919
Accumulated impairment	(587)	(587)
	4,332	4,332
Software assets – at cost	1,289	898
Accumulated amortisation and impairment	(898)	(697)
	391	201
	4,723	4,533

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15. INTANGIBLE ASSETS (CONTINUED)

	Goodwill $'000	Software assets $'000	Total $'000
Carrying amount at 1 July 2010	4,832	306	5,138
Amortisation expense	-	(105)	(105)
Impairment charge	(383)	-	(383)
Recovery of stamp duty	(117)	-	(117)
Carrying amount at 30 June 2011	4,332	201	4,533
Additions	-	391	391
Amortisation expense	-	(201)	(201)
Carrying amount at 30 June 2012	4,332	391	4,723

Intangibles – software assets
Software assets have been externally acquired, capitalised at cost and are amortised on a straight-line basis over the assets' useful economic lives which are generally two to five years. Their useful lives and potential impairment are reviewed at the end of each financial year.

Goodwill impairment testing
Goodwill has been allocated to the group's cash-generating units (CGUs) according to operating segment, unless the segment did not exist at the time of the business acquisition which generated the goodwill. Management has carried out impairment testing as at each reporting date and recorded an impairment charge of $383,000 within the group's services segment in relation to the year ended 30 June 2011 for goodwill arising from the Fingerprint Consulting Services acquisition in 2008, reducing the carrying value to nil.

The recoverable amount has been determined based on a value-in-use calculation using cash flow projections on the basis of financial projections approved by senior management for financial year 2013. The before-tax discount rate applied to cash flow projections is 12% (2011: 13%). Cash flows beyond the 2013 financial year have been extrapolated using an average growth rate of 7% (2011: 7%).

Key assumptions used in value-in-use calculations
Budgeted gross margins have been determined based on past performance and management's expectations for the future. The discount rate was estimated based on the company's weighted average cost of capital at the date of impairment test.

	2012 $'000	2011 $'000
NOTE 16. TRADE AND OTHER PAYABLES		
Current		
Trade payables - unsecured	142,269	86,819
Other payables - unsecured	23,333	15,987
	165,602	102,806
NOTE 17. BORROWINGS		
Current		
Finance lease liabilities - secured (note 23)	639	588
Non–current		
Finance lease liabilities - secured (note 23)	1,853	2,492
NOTE 18. PROVISIONS		
Current		
Employee benefits	1,375	1,249
Lease remediation (note 1(f))	58	36
	1,433	1,285
Non–current		
Employee benefits	1,172	951
Lease remediation (note 1(f))	172	158
	1,344	1,109

NOTE 18. PROVISIONS (CONTINUED)

Movements in provisions other than employee benefits are as follows:

	Lease remediation $'000
Balance at 1 July 2010	284
Arising during the year	26
Used during the year	(67)
Unused amount reversed	(59)
Increase to present value	10
Balance at 30 June 2011	194
Arising during the year	23
Increase to present value	13
Balance at 30 June 2012	230

	2012 $'000	2011 $'000

NOTE 19. OTHER LIABILITIES

	2012 $'000	2011 $'000
Current		
Unearned income	20,504	23,828
Lease incentives	197	197
	20,701	24,025
Non–current		
Lease incentives	671	868

Unearned income comprises amounts received in advance of the provision of goods or services.

NOTE 20. SECURED LIABILITIES

	2012 $'000	2011 $'000
Secured liabilities (current and non-current)		
Finance lease liabilities (note 23)	2,492	3,080
Total secured liabilities	2,492	3,080

Assets pledged as security

All the assets of the group are pledged as security for bank facilities (refer to note 4). Leasehold improvements subject to finance lease (refer to note 14) effectively secure lease liabilities as noted above.

NOTE 21. CONTRIBUTED EQUITY

(a) Movements in ordinary share capital

Details	Number of shares	$'000
Balance – 1 July 2010	153,974,950	8,278
Balance – 30 June 2011	153,974,950	8,278
Balance – 30 June 2012	153,974,950	8,278

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the company does not have authorised capital or par value in respect of its issued shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 21. CONTRIBUTED EQUITY (CONTINUED)

(b) Ordinary shares

The number of shares shown above has been restated for the ten-for-one share split undertaken on 16 November 2011. All ordinary shares issued as at 30 June 2012 and 2011 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. The issue of shares in the company, subject to legislative requirements, is under the control of the directors.

(c) Share options

No share options remain outstanding as at 30 June 2012 (refer to note 27).

(d) Capital management

When managing capital (equity), the board's objective is 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 2012, the board paid dividends of $11,318,000 (2011: $10,932,000). The board's intent for dividend payments is to maintain the current dividend payout ratio; however, market conditions will be taken into consideration prior to the declaration of each dividend. The board has no current plans to issue further shares on the market.

The group is not subject to any externally imposed capital requirements.

NOTE 22. CONTINGENT LIABILITIES

At 30 June 2012 bank guarantees totalling $1,854,000 (2011: $1,506,000) were provided to lessors as security for premises leased by the parent entity and the subsidiaries. The guarantees will remain in place for the duration of the operating leases. No bank guarantees were provided to suppliers as security for purchases of product (2011: $747,000). Bank guarantees are secured by charges over all the group's assets.

Cross guarantees have been provided by the parent entity and its Australian wholly-owned subsidiaries as described in note 26.

	2012 $'000	2011 $'000
NOTE 23. COMMITMENTS		
(a) Capital commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Leasehold improvements	665	1,344
(b) Non-cancellable operating leases		
Future minimum lease payments under non-cancelable operating leases are as follows:		
Within one year	3,742	3,121
Later than one year but not later than five years	10,756	8,570
Later than five years	6,973	6,160
	21,471	17,851
Operating leases include leases of premises and office equipment. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. Operating leases are under normal commercial operating lease terms and conditions.		
(c) Finance leases		
Commitments related to finance leases as at 30 June are payable as follows:		
Within one year	824	824
Later than one year but not later than five years	2,060	2,884
	2,884	3,708
Less: future finance charges	(392)	(628)
Recognised as a liability	2,492	3,080
Representing lease liabilities:		
Current	639	588
Non-current	1,853	2,492
	2,492	3,080

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2012 $'000	2011 $'000
NOTE 23. COMMITMENTS (CONTINUED)		
The present value of finance lease liabilities is as follows:		
Within one year	639	588
Later than one year but not later than five years	1,853	2,492
	2,492	3,080

The group leases its head office fitout under a finance lease which expires in December 2015 (refer to note 14(b)). Under the terms of the lease, the fitout becomes the property of the group on expiry of the lease. The lease liability is secured by the fitout assets.

	2012 $	2011 $
NOTE 24. KEY MANAGEMENT PERSONNEL		
Key management personnel compensation is set out below.		
Short-term employee benefits	1,704,690	1,792,533
Long-term employee benefits	28,000	64,128
Post-employment benefits	72,828	65,915
	1,805,518	1,922,576

Equity instrument disclosures relating to key management personnel

Shares under option

Rights or options may be granted to directors and executives under the Data#3 Limited Deferred Share and Incentive Plan or the Data#3 Limited Employee Option Plan, details of which are set out in note 27. No rights or options were granted and no rights or options were outstanding during the 2011 and 2012 financial years.

Number of shares in Data#3 Limited held by key management personnel

Ordinary shares held directly, indirectly or beneficially by each key management person, including their personally-related entities, are shown below. Share figures prior to financial year 2012 have been restated to reflect the ten-for-one share split effected on 16 November 2011.

	Balance 1 July 2010	Other changes*	Balance 30 June 2011	Other changes*	Balance 30 June 2012
Directors:					
Anderson, R.	600,000	-	600,000	-	600,000
Boreham, G.	-	-	-	42,150	42,150
Grant, J.	7,635,200	-	7,635,200	(468,750)	7,166,450
Johnston, I	600,000	-	600,000	-	600,000
Powell, W.T.	4,100,000	(100,000)	4,000,000	(100,000)	3,900,000
Other executives:					
Baynham, L.	516,000	-	516,000	16,650	532,650
Hill, B.	500,000	-	500,000	16,650	516,650
	13,951,200	(100,000)	13,851,200	(493,300)	13,357,900

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

No shares were granted to key management personnel during the year as compensation (2011: nil) nor were any issued on exercise of options (2011: nil). Key management personnel who are not shown in the tables above held no shares or options in Data#3 Limited. There has been no movement in key management personnel shareholdings since year end up to the date of this report.

Other transactions with key management personnel

Mr J E Grant, an executive director, is a director of Wood Grant & Associates Pty Ltd and has the capacity to significantly influence decision making of that entity. Data#3 Limited engages Wood Grant & Associates Pty Ltd to assist with design and production of the annual and half-yearly financial reports. These transactions are made at arms' length on normal commercial terms and conditions and at market rates. There were no other transactions during the year with key management personnel or their personally–related entities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 24. KEY MANAGEMENT PERSONNEL (CONTINUED)

	2012	2011
	$	$
Amounts recognised as expense		
Other expense	19,400	16,125

NOTE 25. REMUNERATION OF AUDITOR

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

	2012	2011
Audit services		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	130,000	120,000
Non-audit services		
Acquisition due diligence services	20,000	30,000
Tax compliance services	8,200	8,500
Total remuneration	158,200	158,500

There was no remuneration paid to related practices of Johnston Rorke. It is the group's policy to employ Johnston Rorke on assignments additional to its statutory audit duties where Johnston Rorke's expertise and experience with the group are important.

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) 2012	2011
		%	%
Data#3 Business Systems Pty Ltd	Australia	100	100
Gratesand Pty Ltd	Australia	100	100
Data#3 NC SARL	New Caledonia	-	100

Data#3 NC SARL ceased trading during financial year 2010 and was liquidated with effect from 19 August 2011. Also, the group streamlined its corporate structure effective 31 December 2011. On that date the businesses, including all assets and liabilities, of Data#3 Business Systems Pty Ltd and Gratesand Pty Ltd were transferred to Data#3 Limited at cost and all intercompany loans were forgiven. The impact on consolidated profit and loss resulting from the liquidation and restructure was not material.

Summarised financial information for the parent entity is as follows:

	2012	2011
	$'000	$'000
As at 30 June		
Current assets	213,164	59,034
Total assets	222,324	60,081
Current liabilities	190,274	43,062
Total liabilities	194,142	45,621
Shareholders' equity		
Contributed equity	8,278	8,278
Retained earnings	19,904	6,182
Total equity	28,182	14,460
For the year ended 30 June		
Net profit and total comprehensive income	25,040	11,847

NOTE 26. RELATED PARTIES (CONTINUED)

Entities subject to class order relief

Data#3 Limited, Data#3 Business Systems Pty Ltd, and Gratesand Pty Ltd are parties to a deed of cross guarantee under which each company guaranteed the debts of the others. By entering into the deed, these wholly-owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission. These companies represent a closed group for the purposes of the class order. The financial statements of the closed group approximate the consolidated financial statements.

NOTE 27. SHARE-BASED PAYMENTS

Data#3 Limited Employee Share Ownership Plan

The establishment of the Data#3 Limited Employee Share Ownership Plan (ESOP) was approved by shareholders at the 2007 annual general meeting. The object of the plan is to recognise the contribution of eligible employees by providing them with an opportunity to share in the future growth of the company.

Under the ESOP, all full-time and part-time employees of the group, excluding directors, may be offered fully paid ordinary shares in the company, at no consideration, with a total value in any given financial year not exceeding the exemption requirements of the Tax Act or any limit placed by the board of directors (currently $1,000). Shares are offered under the ESOP at the sole discretion of the board of directors. The market value of shares issued under the ESOP, measured as the weighted average market price at which the company's shares are traded during the one week period up to and including the day of issue, is recognised in the balance sheet as share capital, and compensation expense is recorded as part of employee benefits costs in the period the shares are granted.

Shares issued under the ESOP are subject to a holding lock period which concludes the earlier of three years after issuance of the shares or cessation of employment of the participant. During the holding lock period, the shares are not transferable and no security interests can be held against them. In all other respects the shares rank equally with other fully paid ordinary shares on issue (see note 21(b)).

Where shares are issued to employees of subsidiaries with the group, the subsidiaries compensate Data#3 Limited for the fair value of these shares. To 30 June 2012 no shares have been issued under the ESOP. The ESOP is currently being held in abeyance until such time as the directors determine that the plan should be implemented.

Data#3 Limited Deferred Share and Incentive Plan

The establishment of the Data#3 Limited Deferred Share and Incentive Plan (DSIP) was approved by shareholders at the 2007 annual general meeting. The plan is designed to provide full-time and part-time employees, including directors, with medium and long-term incentives to recognise ongoing contribution to the achievement of company objectives and to encourage them to have a personal interest in the future growth and development of the company. Under the DSIP the board of directors may award selected employees DSIP securities in the form of either a DSIP share or a DSIP incentive, being a right to a future share. The market value of shares issued under the DSIP, measured as the weighted average market price at the date of grant, is recognised in the balance sheet as share capital, and compensation expense is recorded as part of employee benefits costs in the period the shares are granted. DSIP incentives are accounted for as described in note 1(t).

DSIP securities remain in the DSIP until performance conditions (in the case of DSIP incentives) or disposal conditions (in the case of DSIP shares) are met. The performance conditions are designed from time to time having regard to various hurdles approved by the board of directors, such as the individual's key performance indicators and the company's performance, by reference to commonly employed external measures such as Total Shareholder Return or Earnings Per Share Growth, as well as pertinent internal measures, such as the successful execution of a business plan over a three-year period. Several performance conditions may apply to the one invitation. To this extent, the performance conditions will be commensurate with the company's remuneration philosophy, aligning the interests of participants with shareholders. Generally, shares are not issued under the DSIP unless the related performance conditions are met.

Where shares or incentives are issued to employees of subsidiaries with the group, the subsidiaries compensate Data#3 Limited for the fair value of these shares. To 30 June 2012 no shares or incentives have been issued under the DSIP. The DSIP is currently being held in abeyance until such time as the directors determine that the plan should be implemented.

Data#3 Limited Employee Option Plan

The Data#3 Limited Employee Option Plan (the Plan) was approved at an extraordinary general meeting of the company held on 5 November 1997. All full-time and part-time employees of the group, including directors, are eligible to participate in the plan.

No options were granted, exercised or outstanding under the plan during the year ended 30 June 2012 (2011: nil).

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) the financial statements and notes set out on pages 38 to 61 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 2012 and of its performance for the financial year ended on that date;

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

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the closed group identified in note 26 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 26.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

R A Anderson
Director

Brisbane
24 August 2012

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

Report on the financial report

We have audited the accompanying financial report of Data#3 Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility 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 Note 1, the directors also state, in accordance with Accounting Standard AASB101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report gives a true and fair view 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Opinion

In our opinion:

(a) the financial report of Data#3 Limited is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

JOHNSTON RORKE JR

Report on the Remuneration Report

We have audited the Remuneration Report comprising section 11 of the directors' report for the year ended 30 June 2012. 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.

Opinion

In our opinion the Remuneration Report of Data#3 Limited for the year ended 30 June 2012 complies with Section 300A of the *Corporations Act 2001.*

JOHNSTON RORKE
Chartered Accountants

R C N Walker
Partner

Brisbane, Queensland
24 August 2012

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 20 August 2012.

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	162,297	0.11	269
1,001 to 5,000	3,061,374	1.99	919
5,001 to 10,000	6,883,979	4.47	828
10,001 to 100,000	60,131,385	39.05	1,895
100,001 and over	83,735,915	54.38	185
	153,974,950	100.00	4,096

(b) There were 79 holders of less than a marketable parcel of ordinary shares.

2. TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

Name	Ordinary shares	
	Number held	Percentage of issued shares %
Citicorp Nominees Pty Limited	6,072,862	3.94
Oakport Pty Ltd	4,925,990	3.20
J P Morgan Nominees Australia Limited	4,347,693	2.82
Citicorp Nominees Pty Limited	3,953,458	2.57
Powell Clark Trading Pty Ltd	3,460,000	2.25
J P Morgan Nominees Australia Limited	3,431,176	2.23
Wood Grant & Associates Pty Ltd	3,302,410	2.14
HSBC Custody Nominees (Australia) Limited	2,856,944	1.86
Elterry Pty Ltd	2,050,000	1.33
Thomson Associates Pty Ltd	2,000,000	1.30
Bond Street Custodians Limited	2,000,000	1.30
M R Esler	1,791,000	1.16
J E Grant	1,791,000	1.16
J T Populin	1,690,140	1.10
JHG Super Pty Ltd	1,441,400	0.94
A J & L D O'Rourke	1,150,700	0.75
R B & S J Baxter Pty Ltd	1,100,000	0.71
W T & E M Powell	1,000,000	0.65
Rubi Holdings Pty Ltd	991,507	0.64
Bond Street Custodians Limited	860,000	0.56
	50,216,280	32.61

SHAREHOLDER INFORMATION (CONTINUED)

3. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the company are set out below:

Name	Number held	Percentage
Celeste Funds Management Limited	13,249,984	8.62
Commonwealth Bank of Australia	9,623,670	6.25

4. UNQUOTED EQUITY SECURITIES

	Number held	Number of holders
Options issued under Data#3 Limited Employee Option Plan to take up ordinary shares	-	-

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

2012

aug 24	Full year results announcement
sept 14	Record date for final dividend
sep 28	Final dividend payment
nov 08	Annual General Meeting

2013

feb 20	Half year results announcement
mar 15	Record date for interim dividend
mar 29	Interim dividend payment
jun 30	Year end

OUR VENDOR AND INDUSTRY AWARDS FOR FY12

2012	Sophos LAR Partner of the Year for ANZ
2012	Adobe Creative Suite Partner of the Year
2012	Veeam Growth ProPartner of the Year Award
2012	Websense APAC Partner of the Year Award
2012	Microsoft Finalist for the Worldwide Partner of the Year Award
2012	Symantec FY12 Specialised Partner of the Year
2012	Trend Micro Southern Region Partner of the Year Award
2012	VMware Cloud Infrastructure Partner of the Year Award
2012	HP Highest Growth Services Contract Award
2012	HP Highest Total Revenue Partner in Australia and New Zealand Award
2012	IBM Maintenance Partner of the Year Award
2012	IBM Technology Growth Partner of the Year Award
2012	IBM Smarter Planet Award
2011	Microsoft Desktop Partner of the Year Award
2011	Microsoft Large Account Reseller Partner of the Year Award
2011	Microsoft Server Platform of the Year Award
2011	ARN Enterprise Reseller of the Year Award

CORPORATE DIRECTORY

CORPORATE HEAD OFFICE

Brisbane
67 High Street
TOOWONG QLD 4066

P.O. Box 551
INDOOROOPILLY QLD 4068

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

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

REGISTERED OFFICE

67 High Street
TOOWONG QLD 4066

BRANCH OFFICES

Sydney
Level 2, 107 Mount Street
NORTH SYDNEY NSW 2060

P.O. Box 426
NORTH SYDNEY NSW 2059

Melbourne
Level 4, 55 Southbank Boulevard
SOUTHBANK VIC 3006

Canberra
Level 1, 18 National Circuit
BARTON ACT 2600

Adelaide
Level 1, 84 North Terrace
KENT TOWN SA 5067

Perth
Level 2, 76 Kings Park Road
WEST PERTH WA 6005

CONFIGURATION AND INTEGRATION CENTRES

Brisbane
59 Clinker Street
DARRA QLD 4076

Sydney
Unit 5, 40 Brodie Street
RYDALMERE NSW 2116

Melbourne
Lot 10, Unit 5
Helen Kob Drive
BRAESIDE VIC 3195

AUDITORS

Johnston Rorke
Central Plaza One
Level 30, 345 Queen Street
BRISBANE QLD 4000

BANKERS

Commonwealth Bank of Australia
Corporate Banking
Level 9, 240 Queen Street
BRISBANE QLD 4000

SHARE REGISTRY

Link Market Services Limited
Level 19, 324 Queen Street
BRISBANE QLD 4000

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

ABN NUMBER

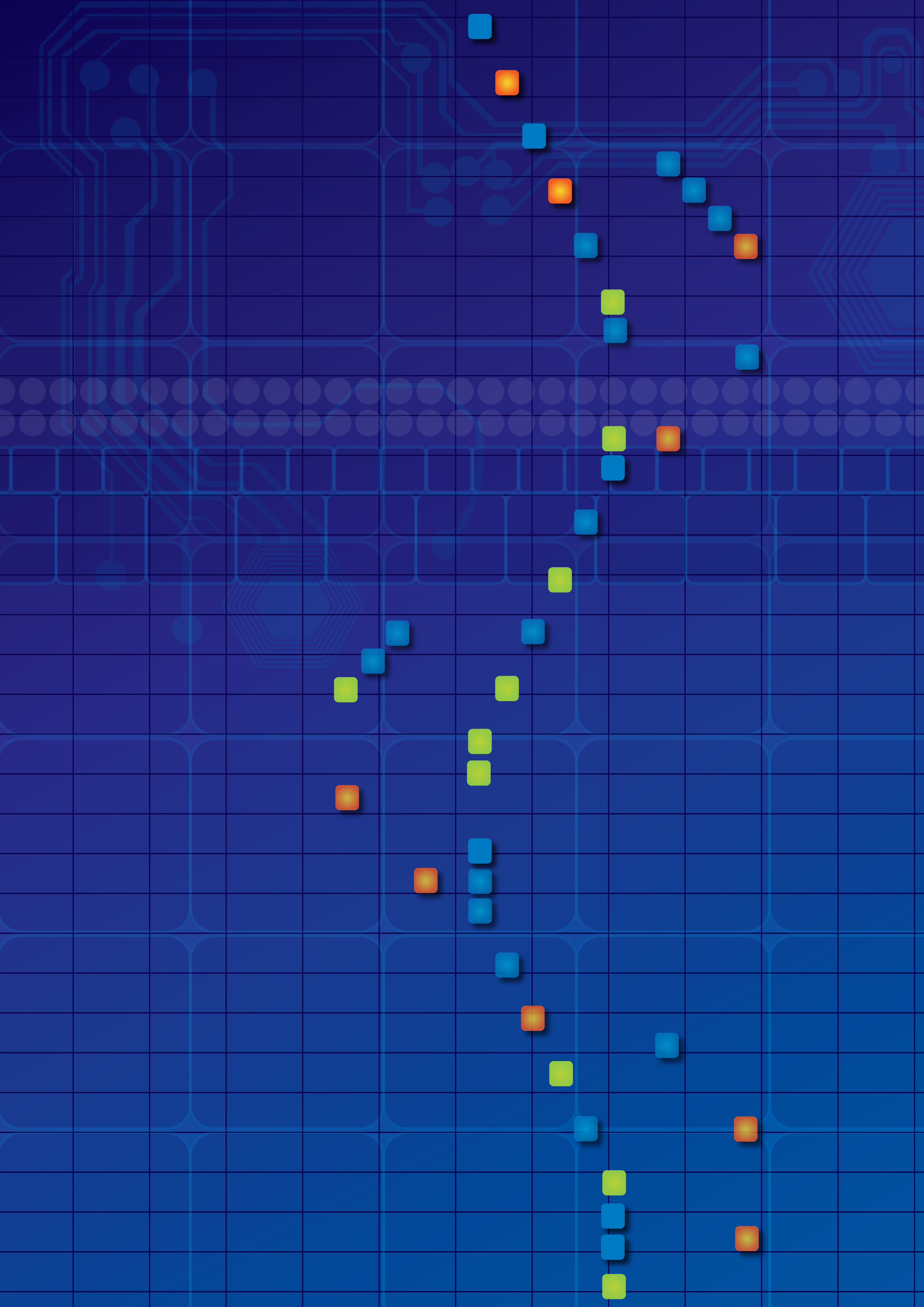
Data#3 Limited
31 010 545 267

ACN NUMBER

Data#3 Limited
010 545 267

ASX CODE

DTL



www.data3.com.au

This Annual Report has been printed using soya based inks on paper that is Australian made, recycled 25% post consumer, 75% sustainable plantation fibre, elemental chlorine free and pH neutral - thus ensuring our commitment to being environmentally responsible.