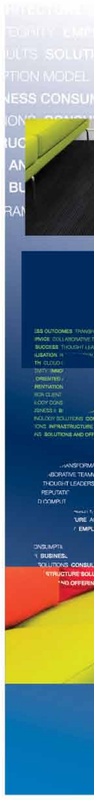
2013

Data#3 ANNUAL REPORT

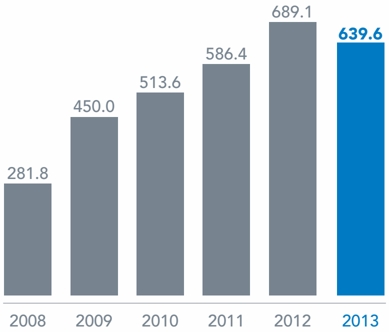
ANNUAL GENERAL MEETING

The Annual General Meeting of Data#3 Limited will be held in Brisbane at 10:30am on Thursday 7 November 2013 at the Corporate Head Office, 67 High Street, Toowong, Brisbane.

FINANCIAL HIGHLIGHTS

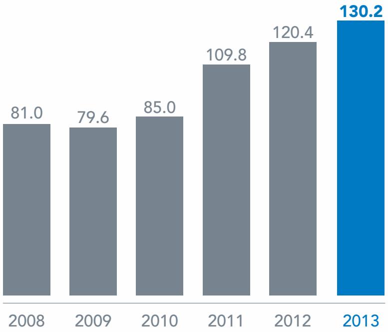


Product revenue ($ million)



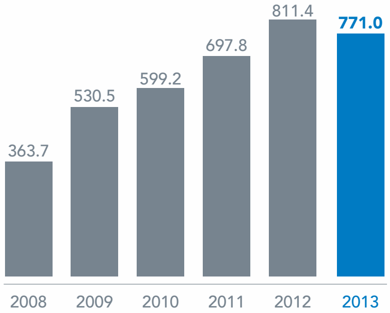
Product revenue decreased by 7.2% to $639.6 million due to software licensing contract changes, both in timing of invoicing and a shift to a commission structure

Services revenue ($ million)



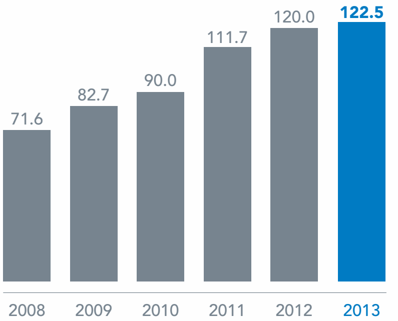
Services revenue increased by 8.1% to $130.2 million following significant growth in contract maintenance services

Total revenue ($ million)



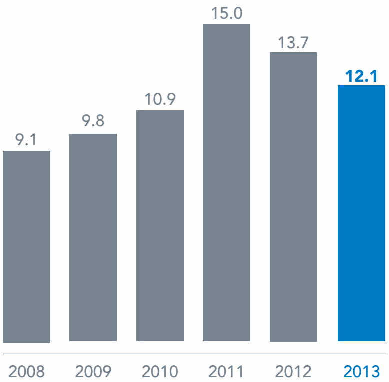
Consequently total revenue decreased by 5.0% to $771.0 million

Total gross profit ($ million)



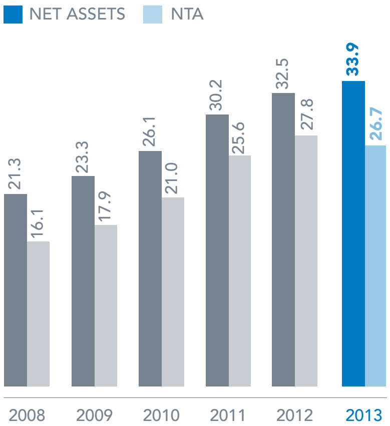
Total gross profit increased by 2.1% to $122.5 million

Net profit after tax ($ million)



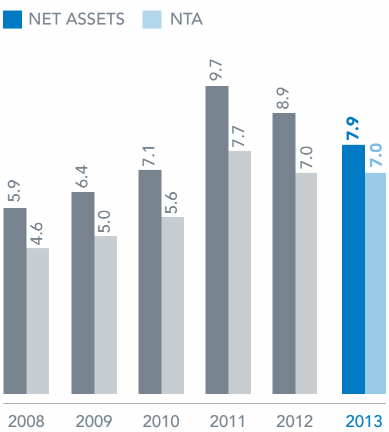
Net profit after tax decreased by 11.3% to $12.1 million

Net assets & net tangible assets ($ million)



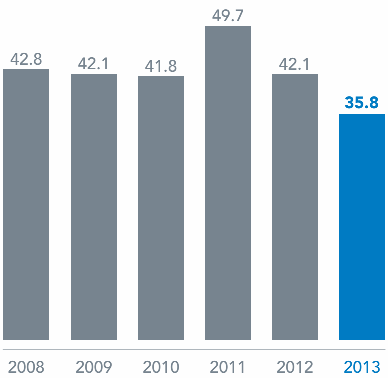
Net assets increased by 4.2% and net tangible assets decreased by 3.9%

Earnings per share & dividends per share (cents)



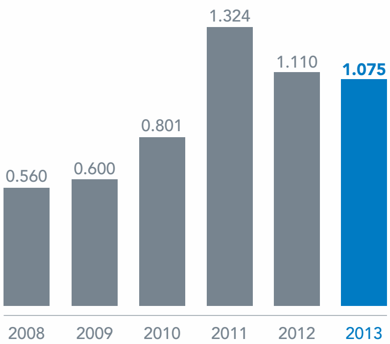
Earnings per share of 7.88 cents Dividends per share of 7.0 cents, representing a payout ratio of 89%

Return on equity (%)



Return on equity of 35.8%, a sector-leading result

Share price ($)



Share price decreased by 3.2% to $1.075 at 30 June 2013

LETTER TO SHAREHOLDERS

"Data#3 delivered a solid financial result in 2013 amidst volatile economic conditions and a highly competitive and relatively flat technology market. It demonstrates the value of Data#3's extensive market coverage and the continuing relevance of its offerings to ever-changing customer needs. As a consequence of this performance, the board has declared a full year dividend of 7.0 cents per share, a 6.4% yield on the average share price over the year."

Richard Anderson - Chairman

On behalf of the board and the company we are pleased to report on the 2013 financial year.

Data#3 delivered a solid financial result in 2013 amidst volatile economic conditions and a highly competitive and relatively flat technology market.

While the profit after tax of $12,138,000 represents an 11.3% decrease from 2012, in the context of a difficult market we see it as a strong result that demonstrates the value of Data#3's extensive market coverage and the continuing relevance of its offerings to ever-changing customer needs.

Data#3's share price at 30 June 2013 was $1.075, slightly down from $1.11 at the start of the year.

The company's balance sheet ended the year in very good shape. Net operating cash inflow of $30.5 million, a year end cash balance of $85.3 million, even given its traditional seasonality, and debtors days outstanding of 31 days constitute industry best practice. Inventory finished at $3.2 million, the lowest level for over a decade, and indicative of lower demand and strong supply chain management. Return on equity, while lower than the previous year, was a sector-leading 35.8%.

As a consequence of this performance, the board has declared a full year dividend of 7.0 cents per share, a 6.4% yield on the average share price over the year.

We delivered this solid result in a market that was difficult to predict accurately. It was buoyed by very strong performance from our Western Australian business, our

RICHARD ANDERSON JOHN GRANT

"We delivered this solid result in a market that was difficult to predict accurately. It was buoyed by very strong performance from our Western and South Australian businesses and our Software Licensing business, and an inordinately strong contribution to profit in the fourth quarter. Our planning for 2014 assumes continuing restraint in investment, a shift in technology consumption to the cloud and features simplification of our business model through a restructure enabling extension and transformation of the solutions we offer."

John Grant - Managing Director

Software Licensing business and our Contract Maintenance business, and an inordinately strong contribution to profit in the fourth quarter.

Overall, our customers continued to be price sensitive and, with the expectation that consumption of technology will increasingly extend to "as a service", a good deal of their time is being spent on developing their roadmaps to the cloud. This in itself has the impact of delaying investment. During the year we investigated several acquisition opportunities but could not see additional value for shareholders. We completed automation of our supply chain to lower operating costs and increase efficiency and extended our Data#3 owned infrastructure as a service cloud into a second data centre in Brisbane. This gave full redundancy and increased capacity. We also completed the national refurbishment with completion of our premises in Melbourne and Adelaide.

Our customer and people surveys confirmed their continued satisfaction with and commitment to Data#3 and the continued relevance of our solutions.

Our planning for 2014 assumes continuing restraint in investment and shift in technology consumption to the cloud. We also see a transformation occurring in our customers' businesses. We see the traditional IT department moving from being primarily technology focused to being primarily business focused. We also see business users needing to adapt to greater integrity and resilience of the systems they use, without loss of the consumer-like experience they have become accustomed to in their private lives.

In response to this our 2014 plan focuses on:

a. Simplification of our business through a restructure from five areas of specialisation to three and the addition of a new consulting business
b. Continued extension and transformation of the solutions we offer
c. Consolidation of our internal service businesses, and
d. Improving sales performance and productivity across our whole team.

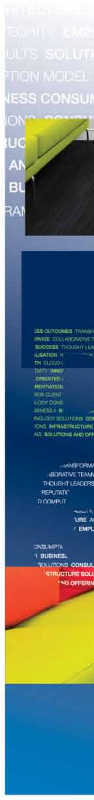
On balance, and presuming no change in the market, our overall financial objective is to at least match the 2013 result.

The board acknowledges the excellent contribution of the company's management team and staff. The hard work and dedication of our people underpins Data#3's continued success, and we are grateful for their commitment to the company.

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

Richard Anderson
Chairman

John Grant
Managing Director



FINANCIAL SUMMARY

The following table sets out our performance in 2013 compared with previous years.

	2008 $'000	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000
Product revenue	281,845	450,049	513,585	586,354	689,060	639,644
% change						-7.2%
Services revenue	81,013	79,616	85,015	109,804	120,427	130,182
% change						+8.1%
Total revenue	363,707	530,481	599,215	697,788	811,390	771,042
% change						-5.0%
Revenue under contract %	57.0%	59.5%	58.6%	59.3%	62.4%	59.2%
Total gross profit	71,599	82,711	90,045	111,745	119,957	122,525
% change						+2.1%
Gross margin %	19.7%	15.6%	15.0%	16.1%	14.8%	15.9%
Internal staff costs	49,360	57,975	63,471	76,983	87,878	90,220
% change						+2.7%
Operating expenses	10,161	11,752	11,589	14,565	14,244	16,049
% change						+12.7%
Internal staff & operating expense as % of total gross margin	83.1%	84.3%	83.4%	81.9%	85.1%	86.7%
Earnings before interest (net), tax, depreciation & amortisation [EBITDA]	12,919	14,469	16,262	21,189	19,430	18,700
% change						-3.8%
Earnings before interest (net) & tax [EBIT]	12,208	13,419	15,247	20,514	18,302	16,664
% change						-8.9%
Net profit before tax	13,033	14,153	15,793	21,827	19,738	17,472
% change						-11.5%
Net profit after tax	9,137	9,832	10,914	14,999	13,679	12,138
% change						-11.3%
Net profit margin %	2.51%	1.85%	1.82%	2.15%	1.69%	1.57%
Return on equity %	42.8%	42.1%	41.8%	49.7%	42.1%	35.8%
Basic earnings per share (See note below)	5.89 cents	6.38 cents	7.09 cents	9.74 cents	8.88 cents	7.88 cents
% change						-11.3%
Dividends per share, fully franked (See note below)	4.6 cents	5.0 cents	5.6 cents	7.7 cents	7.0 cents	7.0 cents
% change						0%
Payout ratio	78%	78%	79%	79%	79%	89%
Share price at 30 June (See note below)	$0.56	$0.60	$0.80	$1.32	$1.11	$1.075
% change						-3.2%
Net assets	21,326	23,333	26,086	30,153	32,514	33,874
% change						+4.2%
Net tangible assets	16,049	17,904	20,948	25,620	27,791	26,708
% change						-3.9%

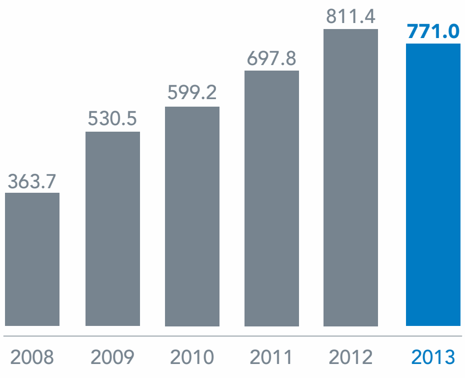
Note: The comparative basic earnings per share, dividends per share and share prices for the 2008 to 2011 financial years have been adjusted for the 10-for-1 share split that occurred in November 2011.

OPERATING & FINANCIAL REVIEW

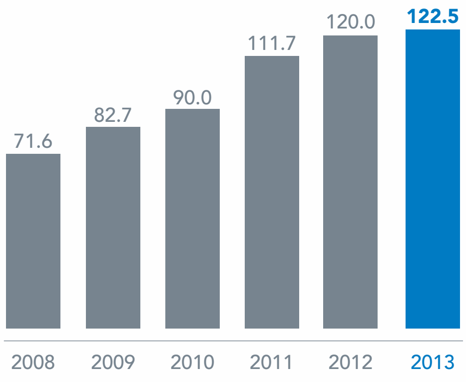
After a difficult year in 2012, market conditions in both the public and private sectors remained weak throughout the year and those areas of our business with revenues primarily dependent on investment decisions (those not contracted) were impacted. This general trend was somewhat disguised in the first half by our largest ever infrastructure sale of Cisco networking equipment and related contract maintenance services to Perth's Fiona Stanley Hospital. This fuelled strong growth in our Western Australian business which somewhat offset the much flatter conditions for our businesses in Queensland, New South Wales and Victoria and for our services businesses other than software asset management, software development and contract maintenance. Given its revenues are predominantly under contract, our Software Licensing business grew solidly in a very competitive and flat market.

The volatility of a moderate first half, a very weak third quarter and an exceptionally strong fourth quarter, particularly June, injected a greater level of unpredictability into our forecasting. However we retained confidence throughout that we could convert a strong pipeline and deliver a solid result.

Total revenue ($M)



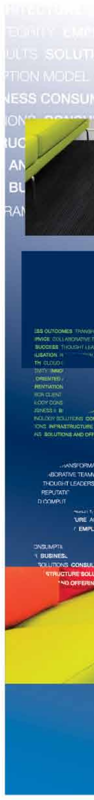
Total gross profit ($M)



WHOLE OF COMPANY PERFORMANCE

Total revenue was $771.0 million, 5.0% lower than last year's $811.4 million, with a decrease in product revenues and an increase in services revenues. The reductions in product revenue and consequently total revenue were primarily due to changes in the way some software licensing contracts were transacted (for more detail please refer to the 'Product revenue and gross profit' and 'Licensing Solutions' sections following).

With these changes in revenue, we see total gross profit (excluding other revenue) as a better indicator of growth, and this increased by 2.1% from $120.0 million to $122.5 million. Total gross margin increased from 14.8% to 15.9% reflecting increased product margins.



Net profit before tax decreased by 11.5% from $19.7 million to $17.5 million due to the increased cost structure of the business generally, and lower interest income compared to the previous year.

Net profit after tax decreased by 11.3% from $13.7 million to $12.1 million. This represented basic earnings per share of 7.88 cents, a decrease of 11.3% from 8.88 cents in the previous year.

The board declared fully franked dividends of 7.0 cents per share for the full year, increasing the payout ratio from 79% to 89% and maintaining the same payment as the previous year.

Return on equity decreased to 35.8% but remained a sector-leading result.

Product revenue and gross profit

Total product revenue (hardware and software) decreased by 7.2% from $689.1 million to $639.6 million, reflecting the combination of a $56.1 million reduction in licensing revenues and a $6.7 million increase in hardware product revenues.

The total product gross profit increased by 4.5% from $63.9 million to $66.8 million, and the combined product gross margin increased from 9.3% to 10.4% reflecting the change in sales mix and increased licensing margin. Please refer to the 'Operating results by area of specialisation' section for further explanation of the changes in product revenue and gross profit.

Services revenue and gross profit

Total services revenue increased by 8.1% from $120.4 million to $130.2 million, reflecting the following changes:

- Project services revenue decreased by 2.2% from $30.7 million to $30.0 million
- Recruitment and contracting revenue decreased by 13.7% from $41.4 million to $35.7 million
- Managed services revenue increased by 33.5% from $45.7 million to $61.0 million
- Other services associated with software licensing increased from $2.6 million to $3.5 million.

Overall services gross profit decreased by 0.5% from $56.1 million to $55.8 million with declines in project services and recruitment and contracting offset by contract maintenance services, and gross margin reduced from 46.6% to 42.8% due to lower margins on contract maintenance.

Please refer to the 'Operating results by area of specialisation' section for further explanation of the changes in services revenue and gross profit.

Other revenue

Other revenue was composed almost entirely of interest income which decreased by $0.6 million to $1.1 million. This reduction was due to the short-term funding requirements for the Fiona Stanley Hospital contract which reduced surplus cash balances during the year and the reduction in bank deposit rates compared to the previous year.

Operating expenses

Internal staff costs increased by 2.7% from $87.9 million to $90.2 million, reflecting stable headcount throughout the year.

Other operating expenses increased by 12.7% from $14.2 million to $16.0 million with an additional $1.9 million in rent, depreciation and amortisation expenses, partly offset by small savings in other areas. This reflects the increased costs from our investments to improve efficiency and productivity (including enhancements to our supply chain system and customer portal), expanded premises in Melbourne and Adelaide, and further investment in infrastructure to support our 'as a service' offerings.

Cash flow

The net cash flow from operating activities was a strong inflow of $30.5 million, higher than the previous year. As usual the operating cash flow and year-end cash balance were temporarily inflated due to the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections pre-30 June that generate temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur. Consequently the 30 June 2013 cash balance of $85.3 million was inflated by this temporary year-end surplus.

Due to the cash flow seasonality it is more meaningful to compare the average daily cash balance throughout the period which was $31.1 million, down from $36.7 million in the previous year. This reduction was mostly due to the short-term funding requirements for the Fiona Stanley Hospital contract.

Performance against whole of company objectives

The plan for 2013 set a number of objectives. The progress we made against these is set out below.

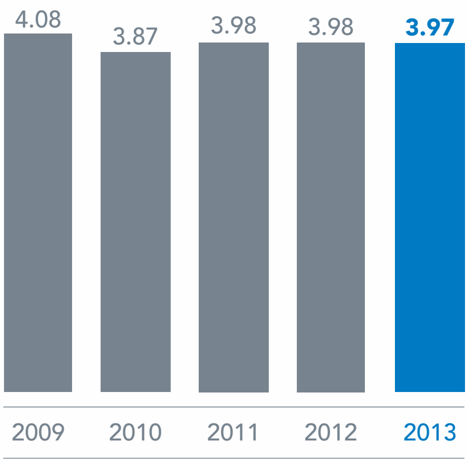
a. Remaining an employer of choice in our industry

We finished the year with 641 permanent and 50 casual employees, virtually unchanged from 2012's 648 permanent and 34 casual employees. Our people continued to be 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 on the previous year and reaching our target.

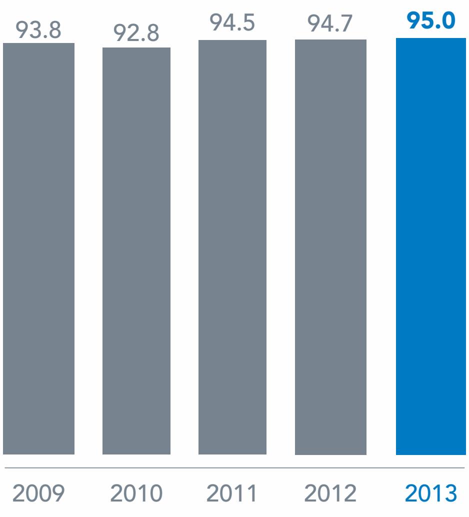
This year our team in Victoria moved into refurbished and expanded premises at Southbank. We also refurbished and expanded our offices in South Australia. The modern design of each office, similar to our Brisbane and Sydney offices, features a fully mobile and flexible workplace. We also extended the range of benefits we provide to our employees with the addition of income protection insurance.

For the sixth time in succession we were voted ARN's Enterprise Reseller of the Year by our peers and in our first nomination, voted runner up by Australian customers and candidates in the medium-sized ICT Recruiter of Choice in SEEK's Annual Recruitment Awards.

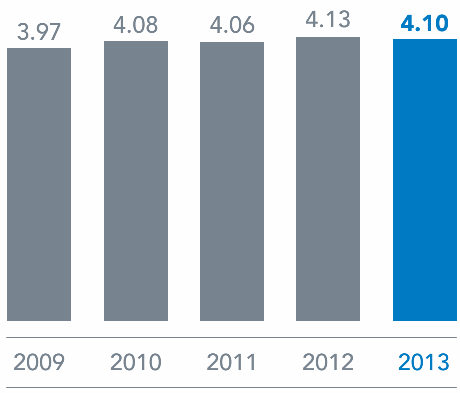
Overall staff satisfaction (out of 5)



% Recommend Data#3 to others



Satisfaction with products and services (out of 5)



b. Solutions that stand out and a sales team enabled for success

Our customers confirmed strong support for the solutions we offer with survey results exceeding our target of 4.

We continued to 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. We increased our sales team's ability to 'connect the dots' between what we offer and our customers' business objectives, developing a 'whiteboard' pitch and providing training in its use as a competitive differentiator.

We achieved significant recognition both nationally and internationally from our partners:

- Microsoft - Devices and Deployment Partner of the Year (Global award)
- Microsoft - Enterprise Partner of the Year
- HP and Microsoft - Frontline Partner for 2013 in Private Cloud and Virtualisation
- HP - Total Highest Revenue Partner in Australia and New Zealand
- Cisco - Services Partner of the Year for Asia Pacific Japan and Greater China
- Cisco - Smart Services Partner of the Year for Asia Pacific Japan and Greater China
- Cisco - Alliance Manager of the Year
- Cisco - Borderless Technologies Partner of the Year
- Sophos - Large Account Reseller Partner of the Year for ANZ
- EMC - New Partner of the Year Award
- Veeam - ANZ ProParter of the Year
- Autodesk - Highest Billings in ANZ for Volume Channel
- Websense - Australian Partner of the Year
- McAfee - Commercial Partner of the Year.

While not a significant level of investment, we were able to apply some funds to further development of intellectual property for resale in a number of areas:

- Enhancement of our Business Productivity Toolkit to include content for Microsoft Lync and SharePoint, Windows 8 and Office 2013
- Templates developed for our implementation of the IT Service Management tool Remedy in our Service Desk
- Enhancement of our Schools Information System (SIS).

c. To be disciplined and productive in the way we work

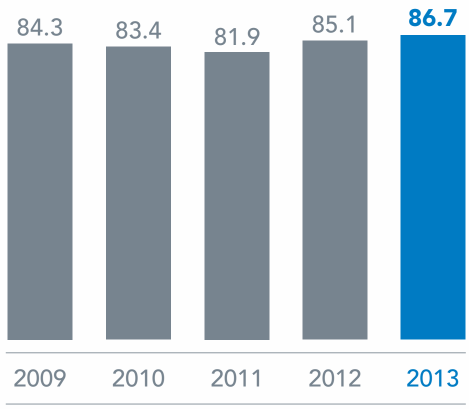
In the continuing pursuit of improvements in execution, discipline and productivity, we implemented enhanced systems for document management, collaboration, video conferencing, sales process, service desk and supply chain automation.

Building on the success we achieved in 2012 through a program run across the business called 'A Million Minutes of Productivity', our people were again encouraged to look for ways we could change and improve to deliver quantifiable productivity improvements. This year the program delivered 3.3 million minutes of productivity improvement.

However, our overall measure of productivity, the cost ratio (=gross profit/expenses), did not improve as gross profit growth of 2.1% was more than eroded by a 2.7% increase in staff expense and a 12.7% increase in operating expense.

In our products segment, the cost ratio increased from 65.6% to 68.6% and in services from 83.0% to 83.9% as we consciously accepted lower levels of utilisation in return for maintaining capacity and capability.

Cost ratio (%)

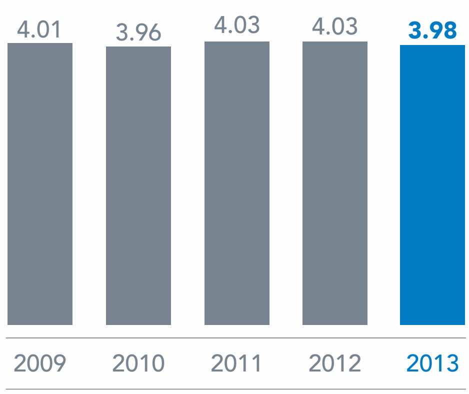


d. To provide an outstanding customer experience

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 effectively what we have to offer aligns with their business objectives. We judge this based on the response they give us in our annual survey against our target of 4.

This year we sought a much broader response from our customers and tripled the number of responses to the survey. On balance we are very pleased with the outcome.

Overall customer satisfaction (out of 5)



e. To deliver significant growth in project and annuity services

Project services declined by 2.2% given their exposure to the weak investment environment. Annuity services include recruitment and contracting, which decreased by 13.7%, and managed services, which increased by 33.5%. Total revenue under contract declined from 62.4% to 59.2%.

REVIEW OF FINANCIAL POSITION

Our balance sheet remains conservative with no material intangible assets and no material debt.

Trade receivables and payables are generally highest at year-end due to the traditional sales peak in May/June. Trade and other receivables at 30 June 2013 were $108.1 million and trade and other payables $164.9 million, reflecting the timing differences in the collections from customers and payments to suppliers around 30 June (referred to in the 'Cash flow' section).

The year-end cash balance increased from $70.8 million to $85.3 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 at 31 days 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 our ongoing focus on collections and credit management.

Total inventory holdings decreased from $4.2 million to $3.2 million, reflecting tighter control over the volume of product held in our warehousing and configuration centres pending shipment to customers, and greater efficiencies achieved through enhancements to our supply chain system.

OPERATING RESULTS BY STATE

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

Queensland

Given the significant annuity contracts and long-term customer relationships, our business in Queensland remained a leader albeit the market continued to be particularly challenging given the ongoing restraint in IT expenditure by the government. While this showed signs of abating toward the end of the year, it particularly impacted contribution to profit from our product and contracting activities. This was offset by stronger performance from software licensing and managed services such that overall, contribution to profit from all businesses in Queensland declined only slightly on 2012.

We were very pleased to be reappointed in May as a panel supplier of computer hardware and associated services to the Queensland Government. We were also rewarded for the investment we've made in 'as a service' with a significant win at Ipswich City Council, where the decision to move all its IT data centre infrastructure into the Data#3 Cloud is a benchmark for cloud adoption in Australia. Both these successes will positively influence performance in 2014.

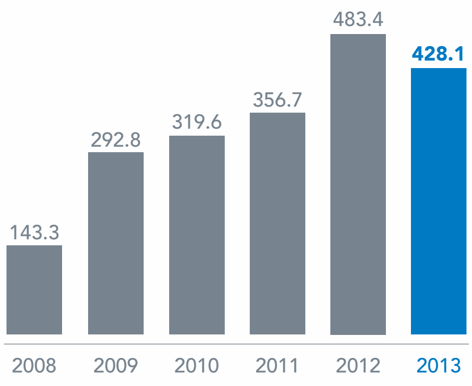
New South Wales/Australian Capital Territory

Having renewed the Federal Government agreement for Microsoft licenced software in 2012, NSW/ACT remained our largest state by revenue in 2013. However, general market conditions remained challenging and the contribution to group profit remained flat on 2012 with declines in project services and contracting offset by solid growth in product, software licensing and managed services.

Victoria

After very strong growth in 2012, our Victorian business echoed the broad decline in investment that occurred across both the government and private sectors as the state's economy slowed. Despite these factors and the deferral or slippage of a number of projects, revenue declined only 10%. However, this decline, combined with higher overheads, caused the contribution to profit to decline more substantially.

Licensing solutions total revenue ($M)



South Australia

Our South Australian business achieved solid top line growth. However, this came with higher costs and the business ended slightly down on 2012 overall. Declines in contribution from our product and project services businesses were offset by a solid increase in software licensing in part due to renewal of the South Australian Government's agreement for Microsoft licensed software. Toward the end of the year we undertook expansion and refurbishment of our office facilities incorporating the new look and mobile operating model.

Western Australia

In relative terms, performance from our Western Australian business was the strongest across the company. Revenue more than doubled and contribution to profit, while off a small base, more than tripled. This result was strongly fuelled by the supply and implementation of Cisco equipment at Perth's new Fiona Stanley Hospital and the sale of related contract maintenance services. Pleasingly, there were other significant successes, notably the design and implementation of a private cloud solution for Toyota WA.

In achieving this result for Western Australia, all businesses performed well. In particular, our Software Licensing business maintained market leadership with another very solid year and our managed services business provided a very strong contribution to state profit. Toward the end of the year we commenced the fit out of new and expanded premises, again incorporating our new look and mobile operating model.

OPERATING RESULTS BY AREAS OF SPECIALISATION

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

Licensing Solutions

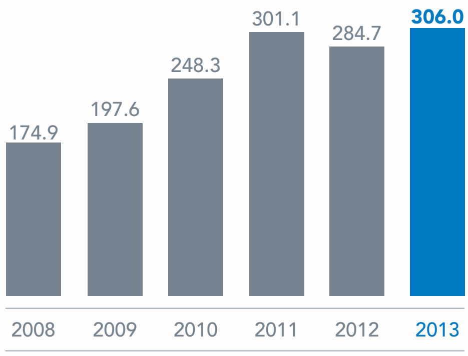
The solutions offered in this area helped our customers optimise and manage the acquisition and use of licensed software. It operated in all our locations. For the eighteenth consecutive year, Licensing Solutions exceeded all its targets, growing gross profit in a market that was flat at best and very competitive. This growth was achieved through a combination of increasing market share, maximising vendor channel incentives and further gains in operational efficiency.

Revenue declined by 12% as a result of changes in the timing and structure of some public sector contract renewals which included a partial shift from annual to monthly invoicing and an increased proportion of revenue from customers replaced by commission from the software vendor at 100% margin. Consequently licensing gross profit increased despite the reduction in revenue. 10% of licensing revenue came from software delivered 'as a service' from Microsoft's and other partners' clouds.

Our asset management services business had its strongest ever year and business productivity services, after a very slow first half, ramped up in the second but ended behind the previous year.

We remained a member of Microsoft's Worldwide Licensing Partner Engagement Board and have contributed strongly to Microsoft's planning for changes to its channel programs. The Licensing Solutions team continued to be the most successful licensing team in Australia, winning major awards with all our key software licensing partners, including a global award from Microsoft.

Infrastructure solutions total revenue ($M)



Infrastructure Solutions

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

The growth in revenue belies the difficulties this area experienced in 2013. Product and contract maintenance revenues were considerably boosted by the sale to Fiona Stanley Hospital which more than offset the underlying decline in product and outsourcing revenues:

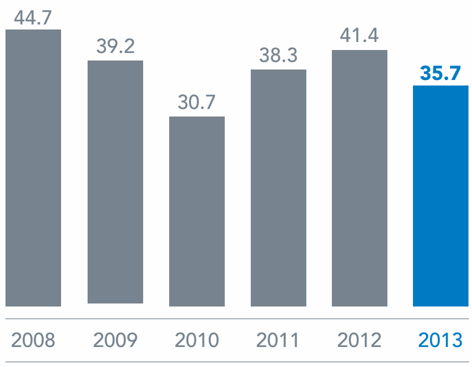
- Product revenues grew 3.2% to $215.0 million
- Project services revenues, which are primarily dependent on investment decisions, decreased by 2.2% from $30.7 million to $30.0 million
- Managed Services revenues increased by 33.5% from $45.7 million to $ 61.0 million with very strong growth in contract maintenance services as customers broadly elected to extend the life of existing equipment in preference to replacement, and the sale to the Fiona Stanley Hospital. This offset a decline in outsourcing revenues and slow take-up of 'as a service'.

Though conditions remained challenging, there were a number of significant achievements in the year:

- Appointment to the Queensland Government's computer hardware and associated services panel contract
- Completion of the next stage of our supply chain automation project with the implementation of one of the world's leading configuration and quotation systems, Big Machines
- Implementation of a new IT Service Management tool to underpin the 24x7 support solutions delivered to our contracted customers
- Success with the Data#3 Cloud in the Ipswich City Council's move from infrastructure on-premise to infrastructure from the cloud.

We remained a member of the Hewlett-Packard Asia Pacific Partner Advisory Board and the Cisco Advisory Board for Asia Pacific.

People solutions total revenue ($M)



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 operates from all locations other than South Australia.

The market for contract and permanent labour cycles with general economic conditions and hence was challenging. This was exacerbated by the bias in our revenues to Queensland Government where the contraction was more marked, and the scale of our businesses outside Queensland where costs remained high relative to revenue. While numbers lifted toward the end of the year, overall contractor placement activity was down 17% and permanent placement activity was in line with 2012. As a consequence, recruitment and contracting revenues decreased by 13.7% from $41.4 million to $35.7 million.

OUR STRATEGY AND PLAN FOR 2014

The strategic planning process for 2014 identified that the ways technology can be consumed are transforming rapidly, and that in order to remain relevant and maintain growth, Data#3 needs to adapt and transform also.

Our customers' transformation

We see our customers' transformation occurring at two levels – the business user and the IT department. We see the catalyst for transformation being the combination of the end user device – the smartphone, tablet and notebook – and applications (apps) drawn from the public cloud.

The business user, prior to this combination of end user devices and apps, participated in delivering company objectives via IT systems that were defined and delivered by the IT department.

With this combination of end user devices and apps, the business user has enjoyed a consumer-like experience using apps and data stored in the cloud and functions more like a consumer in the business.

We believe there will be reconciliation between this consumer-like behaviour within the business and the requirement for enterprise resilience and integrity. We see today's consumer in the business transforming to a **Business Consumer** – a user operating in an integrated information and applications environment with a consumer-like experience that drives productivity, while maintaining the enterprise characteristics of resilience and integrity.

The IT department, prior to this combination of end user devices and apps, was almost exclusively technology focused. They were the tech team.

With this combination of end user devices and apps, the tech team has come under serious cost and relevancy pressure and today has transformed to a more modern IT department, still primarily technology skilled and focused, but with an understanding that business outcomes via technology are increasingly important.

Driven by the need to respond to the transformation from business user to business consumer, we see today's IT department transforming to what could be called Business IT – an integrator, enabler and advisor targeted at strategic business challenges and opportunities, requiring consulting capabilities to have business discussions and transitioning from technology led to business outcome led. And we see their technology systems environment transforming from primarily on-premise to what we believe will be called Hybrid IT – an integrated combination of on-premise, outsourced and cloud.

Data#3's transformation

As our customers transform we see them valuing an engagement that spans Business IT and the Business Consumer; offers thought leadership, consistency and flexibility; and lowers risk through supplier longevity, experience and financial strength. And we see them valuing solutions that deliver business outcomes; transform the user experience to that of a Business Consumer; transform the IT department to Business IT; and deliver and leverage returns from their Hybrid IT assets.

Our transformation and the skills we develop and solutions we offer must align with our customers' transformation.

Our plan

The foundations for our plan are our vision, our core values and our high level strategy. We have assessed that these remain relevant and are essentially unchanged.

Our **vision** is to remain 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.

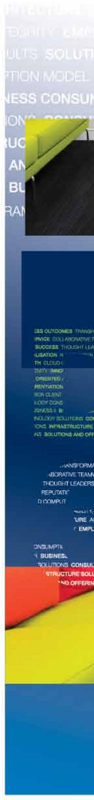
Our **core values** guide how we behave:

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

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

To guide our transformation, our plan for 2014 – 2016 has five strategic priorities which are the clear expression of a complex and carefully crafted plan supported by a number of detailed targets to be achieved by 2016 and a number of milestones to be achieved in 2014. The strategic priorities are:

1. Our plan must respond to our customers' changing circumstances
2. Our solutions must help our customers achieve their business objectives in a changing environment



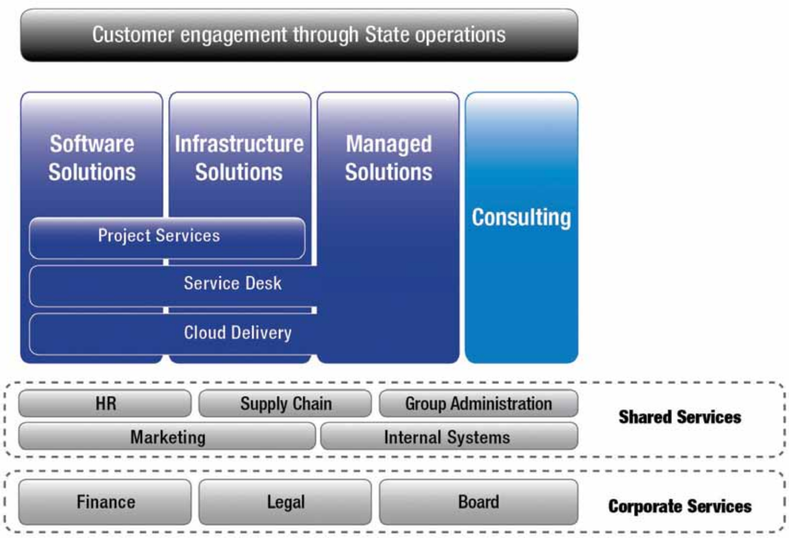
3. Our people must continue to be the best in the industry and Data#3 must be the right organisation for them
4. We must simplify our business, move quickly with change and opportunity and continually improve operational efficiency
5. Performance must maximise returns to shareholders as we invest year on year to build a sustainable, high performance organisation.

The milestones to be achieved in 2014 are built into the business unit plans and our people's performance plans.

In relation to the market in which we operate, we see our fortunes continuing to be largely susceptible to economic cycles which will remain unchanged in 2014, but with the potential to improve thereafter. We see expenditure on business technology solutions increasingly changing from capital to operating expense and we see the environment remaining aggressive for the best IT professionals and competitive on price and hence margin.

Executing our plan in 2014

We have implemented a new organisational model for 2014. It is simplified, efficient and more scalable; better aligned to our customers' needs and transformation; able to sell and deliver solutions across our Technology Consumption Model – product to cloud; and it provides a leveraged cost structure and an integrated and cost-effective 'back-office'.



The new model features three new lines of business, a new consulting business and consolidated shared and corporate services.

Software Solutions

This line of business extends the long success achieved by the Software Licensing business to include project and application development services. Its solutions extend from on-premise to cloud and include the sale and asset management of licensed software; software customisation, deployment and management; and enhancing productivity for the Business Consumer.

Key initiatives intended to underpin performance of this business in 2014 include:

- Improving the internet portal experience for our customers for purchasing, asset registration/ management, and renewals
- Establishing partnering relationships that improve the competitiveness and breadth of our solutions
- Improving the sale process to articulate and sell the value proposition from product to cloud
- Leveraging the skill of our services people to enhance sales success
- Adjusting our business model to optimise returns from partner channel programs
- Simplifying performance measurement and reporting.

The major areas of risk to this business are:

- Continuing changes in partner channel programs and incentives
- Pricing pressure driven by competitive bidding, and services moving off-shore.

We are planning for relatively flat sales of licensed software offset by growth in services.

Infrastructure Solutions

This line of business consolidates hardware procurement with contract maintenance and infrastructure design, deployment and management services. Its solutions extend from on-premise to cloud and include the sale, asset management and contract support of IT hardware products; infrastructure design, deployment and management; unified communication and collaboration for the Business Consumer; and Hybrid IT for Business IT services.

Key initiatives that are intended to underpin performance of this business in 2014 include:

- Improving the sales process to articulate and sell the value proposition from product to cloud
- Optimising returns from partner channel programs
- Capitalising on our automated supply chain to increase sales of hardware under contract
- Including ROI models in all solutions
- Enhancing customer Service Level Agreement reporting
- Simplifying performance measurement and reporting.

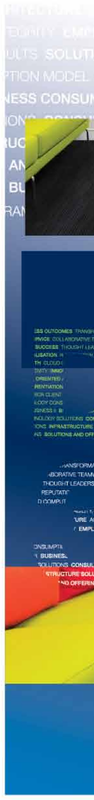
The major areas of risk to this business are:

- Continuing changes in partner channel programs and incentives
- Pricing pressure driven by competitive bidding.

We are planning for some growth in both product and services but at higher cost as market and competitive pressure increases and customers continue to progress slowly into Hybrid IT.

Managed Solutions

The formation of Managed Solutions consolidates the continuum of our 'services delivered by people' into one business. Its solutions extend from on-premise to cloud and include the selective sourcing under contract of permanent and contract labour; labour augmentation; field services for end user computing support; onsite and remote Hybrid IT Service Management including a 24x7 domestic, ITIL based service desk; and full cloud services, brokerage and integration. Managed Solutions is also the delivery arm for service desk and cloud solutions to our Software and Infrastructure businesses.



Key initiatives that are intended to underpin performance in 2014 include:

- Expanding our presence in the Western Australian market
- Extension of the self-service and management portals for 'as a service' to incorporate and integrate other non-Data#3 cloud platforms into our customers' Hybrid IT environments
- Increased investment in sales capability and capacity
- Programs that ensure our existing customers enjoy the transformational benefits arising from the improved efficiencies available from our ITIL based IT service management tools.

The major areas of risk to this business are:

- Loss of any existing major contracts
- Pricing pressure driven by competitive bidding.

With the expectation that customers will continue to be driven to lower their operating costs and minimise capital expenditure and with the addition of our ability to offer labour augmentation services and cloud integration, we see the potential for relatively solid growth in revenue across the Managed Solutions portfolio.

Consulting

This new business builds on the technical focus of our Strategic Consulting practice, adding services that provide roadmaps for our customers' transformation to Business IT and the Business Consumer, and for their transition to Hybrid IT.

This business is expected to enhance our market differentiation and to improve contribution to profit in FY14.

Shared Services and Corporate Services

We have consolidated all back office and sales support processes into these two business units with the aim of reducing cost and integrating internal service delivery.

In summary

2013 saw the challenging market and the cost of investments made over the last three years impact and reduce performance. We see little change in the market in 2014. However, the investments we've made in a competitive range of solutions, strong customer and partner relationships, and broad geographic access to the market position us well as business conditions improve.

In 2014 our plan once again targets the best financial performance possible organically 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 2014 is to at least match the performance of 2013.

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 and Lindsay Australia Limited, 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 board of Villa World Group and 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 five 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, 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. In 2012 Glen was also appointed as Chairman of Advance, a not-for-profit organization 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.

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 a business technology professional with 29 years of 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 (Hons) 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 and member of the Cisco Advisory Board for Asia Pacific. Laurence is also a fellow of the Australian Institute of Company Directors.

Michael Bowser
General Manager – Shared 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 previous responsibilities include Queensland General Manager and General Manager – Business Services. In his current role Michael has responsibility for all business services, internal systems, human resources, supply chain logistics and group administration functions within the company.

Brad Colledge
General Manager – Software Solutions

Brad holds a degree in Business Management from Queensland University of Technology. He has 24 years of experience in the business technology industry and joined Data#3 in 1995. Brad started the Licensing Solutions business and is now responsible for the broader Software Solutions business. He is a Microsoft Certified Professional in Licensing Delivery and Software Asset Management and is a member of the Microsoft World Wide Licensing Partner Engagement Board.

Bruce Crouch
General Manager – Infrastructure Solutions

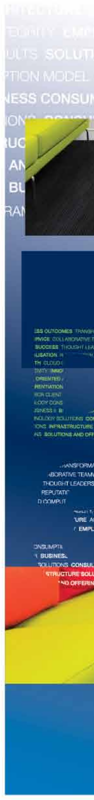
Bruce holds a Bachelor of Applied Science degree from Queensland University of Technology. He has 26 years of experience in the business technology industry holding roles in systems engineering with IBM and in ERP software sales prior to joining Data#3 in 1995. He started the Enterprise Infrastructure Solutions business with responsibility for its leadership for 9 years, and was then appointed as General Manager – Integrated Solutions prior to taking up his current general manager role.

Paul Crouch
General Manager – NSW/ACT

Paul has 29 years of experience in the business technology 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 7 years.

Michael de Broughe
General 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's portfolio of solutions, 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 28 years of experience in the business technology industry, holding roles in administrative, sales and management positions with companies such as IBM, Volante and Commander.



Mark Esler
General Manager – Queensland

Mark was a founding director of Data#3 in 1984. He has been involved in the business technology industry for 37 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 and is a member of both the Asia Pacific and World Wide Hewlett-Packard Partner Advisory Boards. He is actively involved in many IT related forums

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.

Glenn McAtee
General Manager – Western Australia

Glenn joined Data#3 in 2011 and is responsible for managing operations in the Western Australian branch. He has nearly 30 years of business technology experience in the Western Australian marketplace, holding executive management positions for the past 21 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 Solutions

Patrick holds a Bachelor of Business (Commercial Computing and Accounting) degree from Bond University. He has 23 years of experience in the business technology industry holding roles 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 2010 and is responsible for driving continued growth across the company's portfolio of 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 27 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 2013, 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, and volunteering. We also regularly make corporate donations to national and regional charities. We work with our customers to support their corporate citizenship goals by helping them to reduce their energy use with green technology solutions and assisting them to dispose of their IT equipment responsibly.

OUR COMMITMENT TO 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: The Smith Family, Sydney Homeless Connect, World Vision, Down Syndrome WA, Cerebral Palsy League of Queensland, Montrose Access, Make-a-Wish Foundation, MS Society, Camp Quality, Keppel Rural Fire Brigade Group, Clean Up Australia and Guide Dogs Australia
- Generous staff donations have enabled us to support numerous other fundraising efforts for charities including MS Society, Cancer Council NSW, Cancer Council Qld, Queensland Institute of Medical Research, The Salvation Army, Mater Little Miracles Fund, Toowong RSL and Redkite
- 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 each 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 to 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. We 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 we use 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 641 permanent staff, 50 casual and 348 contractors. 28% of our workforce is female, putting us above the current ICT industry average of 18% (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

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 between two people, 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 that we measure each year is the response to the statement that "Data#3 is an excellent company to work for and I would recommend working at Data#3 to others in the industry". In 2013 we received a 95.0% favourable response, higher than the previous year and reaching our target. We think this is an outstanding outcome given the particularly challenging year our people have faced.

Work health and safety

The health and wellbeing of our workers and contractors continues to be a critical aspect of our business operations. Whilst the IT sector may be perceived as being low risk, we recognise that many of our people continue to be exposed to high risk work environments and activities, both domestically and abroad.

The introduction of harmonised safety legislation to most states and territories has had a demonstrably positive effect on Australian industry with a noticeable improvement to the standards and diligence demonstrated by most businesses. Our safety management system continues to evolve to ensure that we meet our commitments to provide work environments that are free from unnecessary risks.

The key work health and safety issues that we faced in over the past year related to adherence to increasingly stringent client requirements for the management of work health and safety issues during project work, particularly the extent and detail of our project safety management plans and safe work method statements.

Although our safety performance remains unblemished we remain vigilant, and we continue to develop our safety management systems to ensure legislative compliance and to reinforce our position as a preferred low-risk partner for Australian businesses.

Data#3 remains committed to minimising the risk of injury and incident to all people affected by our operations, and work towards the continual development of a safety conscious organisational culture.

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 2013 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.

While there were no new directors or senior executives appointed during the year, any new appointments undertake 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 general manager Shared Services and the chief financial officer. 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 36. Details of each individual director's background is set out in the directors' report on page 36, and the directors' profiles on page 20.

Independence

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 2013, 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 twice during the year. Members' attendance at these meetings is set out on page 37 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. This is an internal performance evaluation that uses a detailed assessment questionnaire. The results are 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 company has a formal diversity policy to facilitate a more diverse and representative workforce and management structure, and which sets measurable objectives to be reported against each year.

The diversity policy seeks to provide a workplace where:

- Everyone is valued and respected for their distinctive skills, experiences and perspectives
- Structures, policies and procedures are in place to assist employees to balance their work, family and other responsibilities effectively
- Recruitment processes embrace diversity
- Employees have access to opportunities based on merit
- The culture is free from discrimination, harassment and bullying
- Employment decisions are transparent, equitable and procedurally fair.

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

ACHIEVED. The proportion remained steady at 28%.

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

ACHIEVED. The proportion remained steady at 33%.

OBJECTIVE: To maintain or increase the proportion of women in the senior leadership team.

PARTLY ACHIEVED. The proportion remained unchanged at 29% throughout the 2013 year however the restructure of the business for the 2014 financial year will see this proportion change to 17% due to the reduced size of the senior leadership team.

OBJECTIVE: To appoint an appropriately qualified female board member when the next board appointment is made.

The appointment of another director was not considered necessary during the 2013 financial year. This objective will be carried forward and pursued at the appropriate time.

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

The measurable objectives adopted for the 2013 financial year and an update on the company's progress towards achieving those objectives is set out in the table on the left.

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

	2013		2012	
	Female	Male	Female	Male
All employees	28%	72%	28%	72%
National management team	33%	67%	33%	67%
Senior leadership team	29%	71%	29%	71%
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 page 24.

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, Mr Anderson and Mr Johnston; their profiles are set out on page 20. Mr Powell served as the chairman of the committee until 29 May 2013, and

Mr Johnston was appointed as chairman on 30 May 2013. 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 37 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 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
- 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 38 to 41. 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.

DIRECTOR'S REPORT

Your directors present their report on Data#3 Limited and its subsidiaries (together referred to as "the company", or "we, our, or us") for the year ended 30 June 2013.

1. PRINCIPAL ACTIVITIES

We provide information technology solutions which draw on our broad range of products and services and our 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 contract and permanent recruitment services.

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

2. DIVIDENDS

	Cents	$'000
Final dividend recommended for the year ended 30 June 2013	3.55	5,466
Dividends paid in the year:		
Interim for the year ended 30 June 2013	3.45	5,312
Final for the year ended 30 June 2012	3.55	5,466
		10,778

3. OPERATING AND FINANCIAL REVIEW

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

4. BUSINESS STRATEGY

Our vision is to remain 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.

For more information on our business strategy please refer to page 16 of the attached Operating and Financial Review.

5. EARNINGS PER SHARE

	2013	2012
	Cents	Cents
Basic and diluted earnings per share	7.88	8.88

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The company's state of affairs did not change significantly during the year.

DIRECTORS' REPORT (CONTINUED)

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matter or circumstance has arisen since 30 June 2013 that has significantly affected, or may significantly affect:

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

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information on likely developments and expected results is included in the attached Operating and Financial Review on pages 15-19.

9. DIRECTORS

The names and details of the company's directors are set out below. Directors were in office for the entire financial year and remain in office at the date of this report.

Names, qualifications, experience and special responsibilities

R A Anderson, OAM, BCom, FCA, FCPA (*Chairman, non-executive director)*
Independent non-executive director since 1997 and Chairman since 2000. 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 from 2002 to 2012). Mr Anderson is also 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 November 2011. 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:
Chairman of audit and risk committee (from 30 May 2013, the date of his appointment)
Member of audit and risk committee (prior to his appointment as Chairman)
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 (until 29 May 2013, the date of his resignation as Chairman)
Member of audit and risk committee (from 30 May 2013)
Member of remuneration and nomination committee

Interests in shares
At the date of this report, the directors owned shares of Data#3 Limited as follows:

	Number of ordinary shares
R A Anderson	600,000
G F Boreham	83,150
J E Grant	4,666,450
I J Johnston	600,000
W T Powell	3,800,000

Meetings of directors
The number of meetings of our board of directors (including meetings of the board committees) held during the year, and the numbers of meetings attended by each director 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	14	14	4	4	2	2
G F Boreham	14	14	**	**	**	**
J E Grant	13	14	**	**	**	**
I J Johnston	14	14	4	4	2	2
W T Powell	13	14	3	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 our Financial Controller or Chief Financial Officer 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 2007. He has served as our General Counsel since 2005 and is a member of the Queensland Law Society and Chartered Secretaries Australia.

DIRECTORS' REPORT (CONTINUED)

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.

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 our senior executives. Each year the board reviews executive remuneration and other terms of employment 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 our operations, achieving our strategic objectives, and increasing shareholder wealth.

The executive pay and reward framework has three components:

- Base pay and benefits, including superannuation,
- Short-term performance-related bonuses, and
- Long-term incentives (applicable to the managing director only).

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.

Short-term 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 2013 the proportion of the planned total executive remuneration for key management personnel that was performance-related was 30% (2012: 30%).

A major part of the bonus entitlement is determined by the actual performance against planned company 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 2013 the planned profit-related component represented 70% of the total executive bonuses (2012: 70%). Profit targets for some areas of the business were not met in 2013, 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.

DIRECTORS' REPORT (CONTINUED)

11. REMUNERATION REPORT (CONTINUED)

Long-term incentives
Our managing director is eligible to earn a long-term incentive in the form of a cash payment. Details of the incentive are set out in Section C "Service agreements" below.

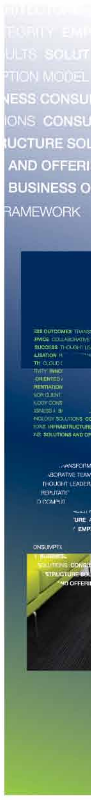
Non-executive directors
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The board determines remuneration of non-executive directors within the maximum amount approved by the shareholders from time to time. This maximum currently 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. Members of the board (non-executive directors) are paid a fixed remuneration comprising base fees, superannuation, and additional fees for those in the role of chair for the full board and chair of the audit and risk committee. 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.

B Details of remuneration

Compensation paid, payable, or provided by the company or on behalf of the company, 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 company's activities directly or indirectly. Comparative information is not shown for individuals who were not considered to be key management personnel in the previous year.

		Short-term		Long-term		Post-employment		
		Cash salary and fees $	Cash bonus $	Long service leave $	LTI $	Super-annuation $	Total $	% perfor-mance related
Non-executive directors								
Anderson, R.	2013	103,500	-	-	-	9,315	112,815	-
Chairman	2012	103,500	-	-	-	9,315	112,815	-
Boreham, G.	2013	65,000	-	-	-	5,850	70,850	-
(appointed 9 November 2011)	2012	41,856	-	-	-	3,767	45,623	-
Johnston, I.	2013	63,250	-	-	-	5,693	68,943	-
	2012	63,250	-	-	-	5,693	68,943	-
Powell, W.T.	2013	74,750	-	-	-	6,728	81,478	-
	2012	74,750	-	-	-	6,728	81,478	-
Subtotals – non-executive directors	2013	306,500	-	-	-	27,586	334,086	-
	2012	283,356	-	-	-	25,503	308,859	-
Executive director								
Grant, J.	2013	530,801	132,896	8,842	107,875	16,470	796,884	30.2
Managing Director	2012	530,801	133,679	8,861	-	15,775	689,116	19.4
Other key management personnel								
Baynham, L.	2013	300,000	172,593	12,536	-	16,470	501,599	34.4
Group General Manager	2012	274,722	164,969	10,771	-	15,775	466,237	35.4
Hill, B. – Chief Financial	2013	234,000	97,516	7,004	-	16,470	354,990	27.5
Officer and Company Secretary	2012	222,815	94,348	8,368	-	15,775	341,306	27.6
Totals – key management personnel	2013	1,371,301	403,005	28,382	107,875	76,996	1,987,559	20.3
	2012	1,311,694	392,996	28,000	-	72,828	1,805,518	21.8

No director or executive received compensation in the form of share-based payments during the year ended 30 June 2013 (2012: nil).



DIRECTORS' REPORT (CONTINUED)

11. REMUNERATION REPORT (CONTINUED)

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.
- A long-term incentive (LTI) is payable at the discretion of the board of directors based on Mr Grant's performance over the term of the agreement assessed against agreed financial and non-financial targets. The board must consider whether and how much to accrue by way of LTI at least once each financial year. In 2013 the board approved an entitlement of $107,875 in relation to performance in the 2012 financial year. The total amount accrued over the term of the agreement may not exceed Mr Grant's base salary (including statutory superannuation but excluding short-term performance-related bonuses) for the 2015 calendar year and is payable after 31 December 2015 or on the earlier termination 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 2013 (2012: nil), no rights or options vested or lapsed during the year (2012: nil), and no rights or options were exercised during the year (2012: nil).

E Additional information

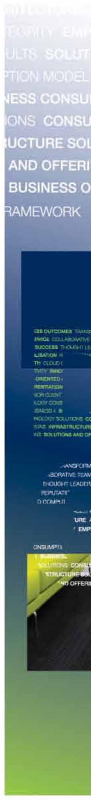
Relationship between remuneration and company performance

The overall level of executive reward takes into account the company's performance over a number of years, with greater emphasis given to improving performance over the prior year. Since 2008, the our net profit has grown at a compounded average rate of 6.0% per annum, average executive remuneration has increased by a compounded average rate of 5.2% per annum, and total shareholder return has increased by an average rate of 26% 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.

DIRECTORS' REPORT (CONTINUED)



11. REMUNERATION REPORT (CONTINUED)

Name	Earned %	Forfeited %
Baynham, L.	85%	15%
Grant, J.	85%	15%
Hill, B.	85%	15%

2012 Annual General Meeting
We received 89% "yes" proxy votes on our Remuneration Report for the 2012 financial year, and the vote at the AGM was a unanimous "yes".

12. SHARES UNDER OPTION

We have no unissued ordinary shares under option at the date of this report. No share options were granted or exercised during the financial year and up to the date of this report.

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, we paid a premium of $32,278 to insure the directors and members of the executive management team against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. Our executive officers are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings involving them as such officers if judgement is given in their favour or if they are acquitted or granted relief.

14. ENVIRONMENTAL REGULATION AND PERFORMANCE

Our company 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. We have rounded off amounts in the directors' report and financial report to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that class order.

16. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Pitcher Partners (formerly known as Johnston Rorke) continued as our auditor in 2013. We employ Pitcher Partners on assignments additional to its statutory duties where the firm's expertise and experience with our company are important. Fees we paid or owed to the auditor for these non-audit services during the year are set out in Note 25 of the financial statements.

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*.

DIRECTORS' REPORT (CONTINUED)

16. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES (CONTINUED)

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

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

R A Anderson
Director

Brisbane
23 August 2013

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Level 30
345 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 1144
Brisbane
Queensland 4001

Tel: 07 3222 8444
Fax: 07 3221 7779

www.pitcher.com.au
info@pitcherpartners.com.au

Pitcher Partners is an association of independent firms
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ROSS WALKER
KEN OGDEN
NIGEL FISCHER
TERESA HOOPER
MARK NICHOLSON
PETER CAMENZULI
JASON EVANS
CHRIS BALL
IAN JONES
KYLIE LAMPRECHT
NORMAN THURECHT
BRETT HEADRICK
WARWICK FACE
NIGEL BATTERS

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 2013, 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.

PITCHER PARTNERS

R C N Walker
Partner
Pitcher Partners

Brisbane
23 August 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2013

	Notes	2013 $'000	2012 $'000
Revenue			
Sale of goods	2	639,644	689,060
Services	2	130,182	120,427
Other	5	1,216	1,903
		771,042	811,390
Expenses			
Changes in inventories of finished goods		(1,076)	(971)
Purchase of goods		(571,812)	(624,204)
Employee and contractor costs directly on-charged (cost of sales on services)		(38,286)	(43,379)
Other cost of sales on services		(36,127)	(20,976)
Other employee and contractor costs		(90,220)	(87,878)
Telecommunications		(1,522)	(1,420)
Rent	6	(5,964)	(4,968)
Travel		(2,199)	(2,225)
Professional fees		(457)	(573)
Depreciation and amortisation	6	(2,036)	(1,128)
Finance costs	6	(282)	(249)
Other		(3,589)	(3,681)
		(753,570)	(791,652)
Profit before income tax expense		17,472	19,738
Income tax expense	7	(5,334)	(6,059)
Profit for the year		12,138	13,679
Other comprehensive income, net of tax		-	-
Total comprehensive income		12,138	13,679
		Cents	**Cents**
Basic earnings per share	8	7.88	8.88
Diluted earnings per share	8	7.88	8.88

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2013

	Notes	2013 $'000	2012 $'000
Current assets			
Cash and cash equivalents	10	85,322	70,820
Trade and other receivables	11	108,084	135,883
Inventories	12	3,232	4,239
Other	13	2,603	2,222
Total current assets		199,241	213,164
Non-current assets			
Property and equipment	14	6,249	6,196
Deferred tax assets	7	2,186	2,573
Intangible assets	15	7,166	4,723
Total non-current assets		15,601	13,492
Total assets		214,842	226,656
Current liabilities			
Trade and other payables	16	164,919	165,602
Borrowings	17	695	639
Current tax liabilities		218	1,899
Provisions	18	1,734	1,433
Other	19	9,845	20,701
Total current liabilities		177,411	190,274
Non-current liabilities			
Borrowings	17	1,158	1,853
Provisions	18	1,783	1,344
Other	19	616	671
Total non-current liabilities		3,557	3,868
Total liabilities		180,968	194,142
Net assets		33,874	32,514
Equity			
Contributed equity	21	8,278	8,278
Retained earnings		25,596	24,236
Total equity		33,874	32,514

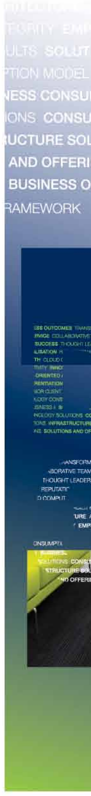
The above consolidated balance sheet should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2013

	Number of Ordinary Shares	Contributed Equity	Retained Earnings	Total Shareholders' Equity
	'000	$'000	$'000	$'000
Consolidated				
Balance at 1 July 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
Profit for the year	-	-	12,138	12,138
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	12,138	12,138
Payment of dividends	-	-	(10,778)	(10,778)
Balance at 30 June 2013	153,975	8,278	25,596	33,874

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 2013

	Notes	2013 $'000	2012 $'000
Cash flows from operating activities			
Profit for the year		12,138	13,679
Depreciation and amortisation		2,036	1,128
Impairment of inventory		-	55
Bad and doubtful debts		-	288
Reversal of unused doubtful debts provision		(96)	-
Loss on disposal of property and equipment		38	22
Other		-	13
Change in operating assets and liabilities			
(Increase)/decrease in trade receivables		32,009	(47,615)
Decrease in inventories		1,007	971
(Increase)/decrease in other operating assets		(4,495)	2,111
(Increase)/decrease in net deferred tax assets		387	(1,005)
Increase/(decrease) in trade payables		(1,968)	55,450
(Decrease) in unearned income		(10,885)	(3,324)
Increase in other operating liabilities		1,260	7,172
(Decrease) in current tax liabilities		(1,681)	(401)
Increase in provision for employee benefits		739	347
Net cash inflow from operating activities		30,489	28,891
Cash flows from investing activities			
Payments for property and equipment	14	(1,604)	(2,730)
Payments for software assets	15	(2,966)	(391)
Net cash outflow from investing activities		(4,570)	(3,121)
Cash flows from financing activities			
Payment of dividends	9	(10,778)	(11,318)
Finance lease payments	23	(639)	(588)
Net cash outflow from financing activities		(11,417)	(11,906)
Net increase / (decrease) in cash and cash equivalents held		14,502	13,864
Cash and cash equivalents, beginning of financial year		70,820	56,956
Cash and cash equivalents, end of financial year	10	85,322	70,820

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 we've adopted in the preparation of our financial report are set out below. These policies have been consistently applied to all the periods presented and have been applied consistently by all our entities, 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

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

Our financial statements are presented in Australian dollars and we have rounded all values to the nearest thousand dollars ($'000), unless otherwise stated.

Compliance with IFRS

Our 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 2012. We have adopted all the mandatory new and amended accounting standards issued that are relevant to our 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

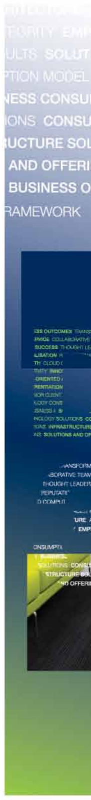
These consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Data#3 Limited ("company" or "parent entity") as at 30 June 2013 and the results of all our subsidiaries for the year then ended. Our subsidiaries had no activity during the 2013 financial year and have no assets or liabilities, due to the corporate restructure carried out in the 2012 financial year. Therefore, Data#3 Limited and its subsidiaries together are referred to in this financial report simply as "the company" or "we, us or our".

Subsidiaries are all entities over which we have 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 we control another entity. Subsidiaries are consolidated from the date on which control is transferred to us and are deconsolidated from the date on which control is transferred from us. Investments in subsidiaries are accounted for at cost in the financial statements of Data#3 Limited. Intercompany transactions, balances and unrealised gains on transactions between companies we control are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of the subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the company.

(c) Foreign currency translation

We measure items included in our financial statements using the currency of the primary economic environment in which the entity operates ("the functional currency"). Our functional and presentation currency is Australian dollars.

We translate foreign currency transactions 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 we have not entered any hedge transactions, as our risk from foreign-denominated transactions is not material.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition
We recognise and measure revenue 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. We recognise revenue for major business activities as follows:

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

(ii) Rendering of services
We recognise revenue from services 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, we immediately recognise the excess of total costs over revenue as an expense.

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

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

(v) Dividends
We recognise dividend income 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.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Income tax (continued)

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

Tax consolidation legislation

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

(f) Leases

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

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

(g) Cash and cash equivalents

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

We record as goodwill the excess of the consideration of the acquisition and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired (refer to note 1(o)). If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, we recognise the difference directly in profit or loss as a bargain purchase.

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

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

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

(l) Non-current assets held for sale
We classify non-current assets or disposal groups 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Non-current assets held for sale (continued)
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. We present results of discontinued operations separately on the face of the statement of comprehensive income and the net cash flows attributable to discontinued operations separately on the cash flow statement.

(m) Investments and other financial assets
Our 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. We determine the classification of our investments at initial recognition and reevaluate this designation at each reporting date where appropriate. As at balance sheet date we have no financial assets at fair value through profit or loss or held-to-maturity investments or available for sale financial assets and have not entered any significant derivative contracts.

Recognition and derecognition
We recognise purchases and sales of investments on trade date. We initially recognise investments 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, we establish 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. We derecognise financial assets 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. We include 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 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.

We carry loans and receivables and held-to-maturity investments at amortised cost using the effective interest method. We calculate amortised cost by taking into account any discount or premium on acquisition over the period of maturity. 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), we reverse the previously recognised impairment loss and recognise it in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Property and equipment
Property and equipment is stated at cost, less accumulated depreciation and amortisation. We depreciate our equipment 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. We calculate amortisation on leasehold improvements using the straight-line method over two to ten years.

If an asset is impaired, we immediately write down its carrying amount to its recoverable amount (refer to note 1(k)).

(o) Intangible assets
Goodwill
We initially measure goodwill on acquisition at cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequently goodwill is carried at cost less any accumulated impairment losses. We test goodwill for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and we write its value down when impaired (refer to note 1(k)).

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

(p) Trade and other payables
Trade and other payables represent liabilities for goods and services provided to us 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 we have an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Financial guarantee contracts
We recognise financial guarantee contracts 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, we account for the fair values as contributions and recognise them as part of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Provisions

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

If we are virtually certain that some or all of a provision will be reimbursed, such as under an insurance contract, we recognise the reimbursement as a separate asset. We present the expense relating to any provision in the 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. We consider expected future wage and salary levels, experience of employee departures and periods of service when estimating the liability. We discount expected future payments using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

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

Post-employment benefits

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

Bonus plans

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

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). As at balance sheet date we have not provided any share-based compensation benefits to our employees under these plans.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Employee benefits (continued)
At each balance sheet date, we revise our 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
We classify ordinary shares as equity. Issued and paid up capital is recognised at the fair value of the consideration received. We recognise any transaction costs arising on the issue of ordinary shares 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
We report operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

(x) Comparatives
We have reclassified comparative figures 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 23 August 2013. 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 2013, are as follows:

Standard/Interpretation	Application date of Standard(i)	Application date for the group(i)
AASB 9 *Financial Instruments - revised* and consequential amendments to other accounting standards *arising from its issue* AASB 9 addresses the classification and measurement of financial assets and liabilities. We 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; we do not expect to adopt the new standard before its operative date.	1 January 2015	1 July 2015
AASB 10 Consolidated Financial Statements (including AASB 2012-10 amendments), 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 consequential amendments to other accounting standards resulting from the revision/issuance of these accounting standards This suite of new and amended standards addresses the accounting for joint arrangements, consolidated financial statements and associated disclosures. We anticipate these standards will have no material impact on the financial statements as we currently have no joint arrangements. The standards are available for early adoption; we do not expect to adopt the new standards before their operative date.	1 January 2013	1 July 2013
AASB 13 *Fair Value Measurement* and consequential amendments to other accounting standards *arising from its issue* 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. We anticipate this standard will have no material impact on the financial statements, as the process we use to apply fair value measurement is confirmed by the new standard. Disclosures in our financial statements may increase, however.	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. We anticipate there will be no significant impact on the amounts recognised in our financial statements because our company policy requires accrued annual leave to be taken each year (and historically this has occurred), and we do not have a defined benefit plan or any foreseeable, material termination benefits payable.	1 January 2013	1 July 2013

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 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 AASB 124 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 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. We anticipate there will be no impact on our financial statements, as we currently do not offset any financial assets and liabilities.	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. We anticipate there will be no impact on our financial statements, as we currently do not offset any financial assets and liabilities.	1 January 2014	1 July 2014
AASB 2012-5 ***Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*** These amendments introduce various changes to AASBs. We anticipate these changes will have no impact on our financial statements as they are not applicable to our circumstances.	1 January 2013	1 July 2013
AASB 2013-3 ***Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*** These amendments introduce additional disclosure requirements where the recoverable amount of impaired assets is based on fair value less cost of disposal. There will be no impact on our disclosures as we do not determine the recoverable amounts of impaired assets using fair value less cost of disposal.	1 January 2014	1 July 2014
Interpretation 21 ***Levies*** This interpretation clarifies the accounting recognition of levies imposed by the government aside from income taxes and fines/breaches. We anticipate this interpretation will have no significant impact on our financial statements as it is not applicable to our current or foreseeable circumstances.	1 January 2014	1 July 2014

(i) Application date is for annual reporting periods beginning on or after the date shown in the above table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. SEGMENT INFORMATION

Our business is conducted primarily in Australia. Our management team makes financial decisions and allocates resources based on the information it receives from our internal management system. We attribute sales to an operating segment based on the type of product or service provided to the customer. Revenue from customers domiciled in Australia comprised 99% of external sales for the year ended 30 June 2013 (2012: 99%).

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

We have identified two reportable segments, as follows:

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

The following table shows summarised financial information by segment for the financial years ended 30 June 2013 and 2012.

	Product		Services		Total	
	2013	2012	2013	2012	2013	2012
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue						
Total revenue	639,644	689,586	142,155	131,286	781,799	820,872
Inter-segment revenue	-	(526)	(11,973)	(10,859)	(11,973)	(11,385)
External revenue	639,644	689,060	130,182	120,427	769,826	809,487
Costs of sale						
Cost of goods sold	(572,888)	(625,175)			(572,888)	(625,175)
Employee and contractor costs directly on-charged			(38,286)	(43,379)	(38,286)	(43,379)
Other costs of sales on services			(36,127)	(20,976)	(36,127)	(20,976)
Gross profit	66,756	63,885	55,769	56,072	122,525	119,957
Other expenses	(45,770)	(41,913)	(46,796)	(46,554)	(92,566)	(88,467)
Segment profit	20,986	21,972	8,973	9,518	29,959	31,490
Unallocated corporate items						
Interest and other revenue					1,216	1,903
Other employee and contractor costs					(8,152)	(8,761)
Rent					(1,680)	(1,517)
Depreciation and amortisation					(1,769)	(984)
Other					(2,102)	(2,393)
					(12,487)	(11,752)
Profit before income tax					17,472	19,738
Reconciliation of revenue:						
External revenue					769,826	809,487
Unallocated corporate revenue:						
Interest and other revenue					1,216	1,903
Consolidated revenue					771,042	811,390

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 we believe to be reasonable under the circumstances.

Significant accounting estimates and assumptions
We are often required to determine the carrying amounts of certain assets and liabilities 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
We determine whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated. 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

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

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

(a) Market risk
(i) Foreign exchange risk
Foreign exchange risk arises for us when future commercial transactions and recognised assets and liabilities are denominated in a currency other than the Australian dollar. From time to time we make sales to customers who require the currency of settlement to be a foreign currency. At 30 June 2013 and 2012 our exposure to foreign currency risk was immaterial.

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

(iii) Cash flow and fair value interest rate risk
Our exposure to cash flow interest rate risk arises predominantly from cash and cash equivalents bearing variable interest rates. Our borrowings bear a fixed interest rate and are carried at amortised cost, so we are not exposed to fair value interest rate risk. At balance date we maintained the following variable rate accounts:

	30 June 2013		30 June 2012	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on hand	0.3%	6,322	0.3%	10,820
Deposits at call	3.3%	79,000	5.1%	60,000
Cash and cash equivalents	3.0%	85,322	4.5%	70,820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Market risk

(iii) Cash flow and fair value interest rate risk (continued)

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

	After-tax profit Higher/(lower)		Equity Higher/(lower)	
	2013	2012	2013	2012
	$000	$000	$000	$000
–0.25% (25 basis points) (2012: +0.25%)	(149)	124	(149)	124
–1.00% (100 basis points) (2012: –.75%)	(597)	(372)	(597)	(372)

(b) Credit risk

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

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

- Cash and cash equivalents are maintained at one large financial institution.
- During the 2013 year, sales to one government customer comprised 3% of revenue (2012: 8%).
- There are a number of individually significant debtors. At 30 June 2013, one government debtor comprised 7% of total debtors, (2012: 25%) and the ten largest debtors comprised approximately 34% of total debtors (2012: 47%), of which 74% were accounts receivable from a number of government customers (2012: 82%).
- Generally our customers do not have independent credit ratings. Our risk control procedures assess the credit quality of the customer taking into account its financial position, past experience and other factors. We set individual risk limits based on internal or external ratings in accordance with limits set by the board. Our credit management department regularly monitors compliance with credit limits. Management believes the credit quality of our customers is high based on the very low level of bad debt write-offs experienced historically. There were no bad debt write-offs in 2013, and in 2012 bad debt write-offs as a percent of the trade receivables carrying amount was 0.2%.

(c) Liquidity risk

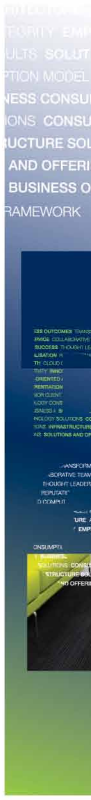
Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. We aim to maintain flexibility in funding by keeping committed credit lines available. We manage liquidity risk by monitoring cash flows and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

At reporting date we had used $2,578,000 (2012: 1,854,000) of the multi-option financing facility for bank guarantees and our corporate credit card facility and had access to the following undrawn borrowing facilities at the reporting date:

	2013	2012
	$'000	$'000
Multi-option bank facility	8,422	9,146

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 2013 was 6.7% (2012: 8.0%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



NOTE 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Liquidity risk (continued)

Maturity of financial liabilities

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

	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 and 5 years	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2013						
Trade and other payables	164,919	-	-	-	164,919	164,919
Finance lease liabilities	412	412	824	412	2,060	1,853
	165,331	412	824	412	166,979	166,772
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

(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.

	2013	2012
	$'000	$'000
NOTE 5. OTHER REVENUE		
Interest	1,090	1,685
Other recoveries	126	218
	1,216	1,903
NOTE 6. EXPENSES		
Cost of goods sold	572,888	625,175
Depreciation and amortisation of property and equipment (note 14)	1,513	927
Amortisation of intangibles (note 15)	523	201
	2,036	1,128
Employee benefits expense	82,426	79,067
Termination benefits expense	414	663
Defined contribution superannuation expense	6,219	6,024
Other charges against assets		
Impairment of trade receivables (note 11)	-	288
Impairment of inventory	-	55

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2013 $'000	2012 $'000
NOTE 6. EXPENSES (CONTINUED)		
Rental expenses on operating leases		
Minimum lease payments	4,162	3,528
Straight lining lease rentals	413	389
Rental expenses – other	1,389	1,051
	5,964	4,968
Finance costs		
Interest and finance charges paid/payable	268	236
Unwinding of discount on provisions and other payables	14	13
	282	249
Loss on disposal of property and equipment	38	22

NOTE 7. INCOME TAX

Income tax expense

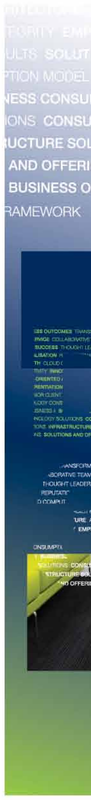
The major components of income tax expense are:

	2013 $'000	2012 $'000
Current income tax expense	4,947	6,965
Deferred income tax relating to the origination and reversal of temporary differences	387	(932)
Adjustments for current tax of prior years	-	(38)
Foreign dividends tax	-	64
Income tax expense	5,334	6,059

A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:

	2013 $'000	2012 $'000
Accounting profit before income tax	17,472	19,738
Income tax calculated at the Australian tax rate: 30% (2012: 30%)	5,242	5,921
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible items	92	112
Other	-	64
	5,334	6,097
Under (over) provision in prior year	-	(38)
Income tax expense	5,334	6,059

We paid income taxes of $6,500,000 during financial year 2013 (2012: $7,257,000).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7. INCOME TAX (CONTINUED)

	Balance sheet		Statement of comprehensive income	
	2013	2012	2013	2012
	$'000	$'000	$'000	$'000
Deferred income tax				
Deferred income tax for the group comprises:				
Deferred tax assets				
Accrued liabilities	1,928	1,691	237	320
Provisions	1,055	876	179	104
Lease incentive liability	253	260	(7)	(60)
Other	11	12	(1)	5
	3,247	2,839	408	369
Deferred tax liabilities				
Lease incentive assets	(138)	(145)	7	30
Other	(923)	(121)	(802)	533
	(1,061)	(266)	(795)	563
Net deferred tax assets	2,186	2,573		
Deferred income tax revenue			(387)	932

No tax losses are available for offset against future taxable profits (2012: nil).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2013 Number	2012 Number
NOTE 8. EARNINGS PER SHARE		
(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

- 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 2013 or 2012; therefore there was no impact on the calculation of diluted earnings per share.

	2013 $'000	2012 $'000
NOTE 9. DIVIDENDS		
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2012: 3.55c per share (2011: 3.9c)	5,466	6,006
Interim fully franked dividend for 2013: 3.45c per share (2012: 3.45c)	5,312	5,312
	10,778	11,318
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for 2013: 3.55c (2012: 3.55c)	5,466	5,466

The tax rate at which dividends paid have been franked is 30% (2012: 30%).
Dividends declared will be franked at the rate of 30% (2012: 30%).

	2013 $'000	2012 $'000
Franking credit balance		
Franking credits available for subsequent financial years for the consolidated and parent entity based on a tax rate of 30% (2012: 30%)	17,550	15,395

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 (2012: $2,343,000).

	2013 $'000	2012 $'000
NOTE 10. CASH AND CASH EQUIVALENTS		
Cash at bank and on hand	6,322	10,820
Deposits at call	79,000	60,000
	85,322	70,820

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. TRADE AND OTHER RECEIVABLES

	2013 $'000	2012 $'000
Trade receivables	100,700	132,756
Allowance for impairment (a)	-	(143)
	100,700	132,613
Other receivables (b)	7,384	3,270
	108,084	135,883

(a) Allowance for impairment
We did not recognise any impairment loss in the current year (2012: $288,000). Impairment amounts are 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 2011	120
Provision for impairment recognised during the year	288
Receivables written off during the year	(265)
Carrying amount at 30 June 2012	143
Unused provision reversed during the year	(96)
Receivables written off during the year	(47)
Carrying amount at 30 June 2013	-

Our ageing of overdue trade receivables as at 30 June 2013 is as follows:

	2013		2012	
	Considered impaired $'000	Past due but not impaired $'000	Considered impaired $'000	Past due but not impaired $'000
31-60 days	-	8,037	-	11,267
61-90 days	-	2,775	-	1,330
91-120 days	-	578	-	538
+120 days	-	1,113	143	2,943
	-	12,503	143	16,078

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 account has been placed on hold where deemed necessary until full payment is made. Each of these debtors has been contacted, and we are satisfied that payment will be received in full.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2013 $'000	2012 $'000

NOTE 12. INVENTORIES

	2013 $'000	2012 $'000
Goods held for sale – at cost	3,232	4,239

Inventories recognised as expense in cost of goods sold during the year ended 30 June 2013 amounted to $572,888,000 (2012: $625,175,000).

NOTE 13. OTHER CURRENT ASSETS

	2013 $'000	2012 $'000
Prepayments	2,509	2,075
Security deposits	94	147
	2,603	2,222

NOTE 14. PROPERTY AND EQUIPMENT

	2013 $'000	2012 $'000
Leasehold improvements – at cost	8,661	7,936
Accumulated amortisation	(2,622)	(1,894)
	6,039	6,042
Equipment – at cost	602	790
Accumulated depreciation	(392)	(636)
	210	154
	6,249	6,196

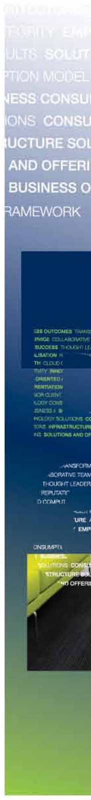
(a) Assets in the course of construction
The carrying amounts of the assets disclosed above include the following expenditure in relation to leasehold improvements which are currently in the course of construction:

	2013 $'000	2012 $'000
Leasehold improvements	535	855

(b) Leased assets
Leasehold improvements include the following amounts where we are a lessee under a finance lease:

	2013 $'000	2012 $'000
Cost	3,380	3,380
Accumulated depreciation	(873)	(535)
Carrying amount	2,507	2,845

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)



NOTE 14. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold improvements $'000	Equipment $'000	Total $'000
Carrying amount at 1 July 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
Additions	1,463	141	1,604
Disposals	(38)	-	(38)
Depreciation and amortisation expense	(1,428)	(85)	(1,513)
Carrying amount at 30 June 2013	6,039	210	6,249

NOTE 15. INTANGIBLE ASSETS

	2013 $'000	2012 $'000
Goodwill – at cost	4,919	4,919
Accumulated impairment	(587)	(587)
	4,332	4,332
Software assets – at cost	1,996	1,289
Accumulated amortisation and impairment	(1,184)	(898)
	812	391
Internally generated software assets – at cost	2,259	-
Accumulated amortisation and impairment	(237)	-
	2,022	-
	7,166	4,723

(a) Software under development
The carrying amounts of the assets disclosed above include the following expenditure in relation to internally generated software assets which are currently being developed:

	2013 $'000	2012 $'000
Internally generated software assets	762	-

	Goodwill $'000	Software assets $'000	Internally generated software $'000	Total $'000
Carrying amount at 1 July 2011	4,332	201	-	4,533
Additions	-	391	-	391
Amortisation expense	-	(201)	-	(201)
Carrying amount at 30 June 2012	4,332	391	-	4,723
Additions	-	707	2,259	2,966
Amortisation expense	-	(286)	(237)	(523)
Carrying amount at 30 June 2013	4,332	812	2,022	7,166

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15. INTANGIBLE ASSETS (CONTINUED)

Intangibles – software assets
Software assets include those we have developed ourselves and those we have purchased. Our software accounting policy is set out in note 1(o). We review the useful lives and potential impairment of all software assets at the end of each financial year.

Goodwill impairment testing
We have allocated goodwill to our cash-generating units (CGUs) according to operating segment, unless the segment did not exist at the time of the business acquisition which generated the goodwill.

We determined the recoverable amount of each operating segment based on a value-in-use calculation using cash flow projections on the basis of financial projections approved by senior management for financial year 2014. We applied a 12% before-tax discount rate to cash flow projections (2012: 12%). We have extrapolated cash flows beyond the 2014 financial year using an average growth rate of 7% (2012: 7%).

Key assumptions used in value-in-use calculations
We determined budgeted gross profits based on past performance and our expectations for the future. The discount rate was estimated based on our weighted average cost of capital at the date of impairment test. We believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the goodwill to be materially different from its recoverable amount.

	2013 $'000	2012 $'000
NOTE 16. TRADE AND OTHER PAYABLES		
Current		
Trade payables – unsecured	140,301	142,269
Other payables – unsecured	24,618	23,333
	164,919	165,602
NOTE 17. BORROWINGS		
Current		
Finance lease liabilities – secured (note 23(c))	695	639
Non–current		
Finance lease liabilities – secured (note 23(c))	1,158	1,853

	2013			2012		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
NOTE 18. PROVISIONS						
Employee benefits	1,734	1,552	3,286	1,375	1,172	2,547
Lease remediation (note 1(f))	-	231	231	58	172	230
	1,734	1,783	3,517	1,433	1,344	2,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 18. PROVISIONS (CONTINUED)

Movements in provisions other than employee benefits are as follows:

	Lease remediation $'000
Balance at 1 July 2011	194
Arising during the year	23
Increase to present value	13
Balance at 30 June 2012	230
Arising during the year	7
Used during the year	(20)
Increase to present value	14
Balance at 30 June 2013	231

	2013 $'000	2012 $'000
NOTE 19. OTHER LIABILITIES		
Current		
Unearned income	9,619	20,504
Lease incentives	226	197
	9,845	20,701
Non–current		
Lease incentives	616	671

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

NOTE 20. SECURED LIABILITIES

	2013 $'000	2012 $'000
Secured liabilities (current and non-current)		
Finance lease liabilities (note 23(c))	1,853	2,492
Total secured liabilities	1,853	2,492

Assets pledged as security

All our assets 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 21. CONTRIBUTED EQUITY

(a) Movements in ordinary share capital
There were no movements in ordinary share capital during the years ended 30 June 2012 and 2013.

(b) Ordinary shares
We have restated the number of shares shown on the consolidated statement of changes in equity to reflect the ten-for-one share split undertaken on 16 November 2011. All ordinary shares issued as at 30 June 2013 and 2012 are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company has an unlimited amount of authorised capital. Subject to legislative requirements, the directors control the issue of shares in the company.

(c) Share options
No share options remain outstanding as at 30 June 2013 (refer to note 27).

(d) Capital management
When managing capital (equity), the board's objective is to ensure the company 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 2013, the board paid dividends of $10,778,000 (2012: $11,318,000). The board's intent for dividend payments is to maintain the historical 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.

We are not subject to any externally imposed capital requirements.

NOTE 22. CONTINGENT LIABILITIES

At 30 June 2013 we had provided bank guarantees totalling $1,860,000 (2012: $1,854,000) to lessors as security for premises we lease and $468,000 (2012: nil) to a customer for a contract performance. The guarantees will remain in place for the duration of the relevant contracts. Bank guarantees are secured by charges over all our assets.

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

	2013 $'000	2012 $'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	1,036	665

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

	2013 $'000	2012 $'000

NOTE 23. COMMITMENTS (CONTINUED)

(b) Non-cancellable operating leases
Future minimum lease payments under non-cancelable operating leases are as follows:

	2013 $'000	2012 $'000
Within one year	4,770	3,742
Later than one year but not later than five years	13,910	10,756
Later than five years	5,058	6,973
	23,738	21,471

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:

	2013 $'000	2012 $'000
Within one year	824	824
Later than one year but not later than five years	1,236	2,060
	2,060	2,884
Less: future finance charges	(207)	(392)
Recognised as a liability	1,853	2,492

The present value of finance lease liabilities is as follows:

	2013 $'000	2012 $'000
Within one year	695	639
Later than one year but not later than five years	1,158	1,853
	1,853	2,492

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

	2013 $	2012 $

NOTE 24. KEY MANAGEMENT PERSONNEL

Key management personnel compensation is set out below.

	2013 $	2012 $
Short-term employee benefits	1,774,306	1,704,690
Long-term employee benefits	136,257	28,000
Post-employment benefits	76,996	72,828
	1,987,559	1,805,518

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 2012 and 2013 financial years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 24. KEY MANAGEMENT PERSONNEL (CONTINUED)

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.

	Balance 1 July 2011	Other changes*	Balance 30 June 2012	Other changes*	Balance 30 June 2013
Directors:					
Anderson, R.	600,000	-	600,000	-	600,000
Boreham, G.	-	42,150	42,150	41,000	83,150
Grant, J.	7,635,200	(468,750)	7,166,450	(2,500,000)	4,666,450
Johnston, I.	600,000	-	600,000	-	600,000
Powell, W.T.	4,000,000	(100,000)	3,900,000	(100,000)	3,800,000
Other executives:					
Baynham, L.	516,000	16,650	532,650	-	532,650
Hill, B.	500,000	16,650	516,650	-	516,650
	13,851,200	(493,300)	13,357,900	(2,559,000)	10,798,900

* 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 (2012: nil) nor were any issued on exercise of options (2012: nil). There has been no movement in key management personnel share-holdings 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. We engage Wood Grant & Associates Pty Ltd to assist with design and production of our annual 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.

	2013 $	2012 $
Amounts recognised as expense		
Other expense	19,400	19,400

NOTE 25. REMUNERATION OF AUDITOR

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

	2013 $	2012 $
Audit and other assurance services		
Audit and review of financial statements	138,000	130,000
IT controls review services	26,500	-
	164,500	130,000
Non-audit services		
Acquisition due diligence services	8,900	20,000
Tax compliance services	6,700	8,200
	15,600	28,200
Total remuneration	180,100	158,200

No remuneration was paid to related practices of Pitcher Partners. We employ Pitcher Partners on assignments additional to its statutory duties where the firm's expertise and experience with our company are important.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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) 2013	Equity holding (ordinary shares) 2012
		%	%
Data#3 Business Systems Pty Ltd	Australia	100	100
Gratesand Pty Ltd	Australia	100	100

We streamlined our 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. At 30 June 2013 we were in the process of winding up the two subsidiaries. Summarised financial information for the parent entity is as follows:

	2013	2012
	$'000	$'000
As at 30 June		
Current assets	199,241	213,164
Total assets	210,510	222,324
Current liabilities	177,411	190,274
Total liabilities	180,968	194,142
Shareholders' equity		
Contributed equity	8,278	8,278
Retained earnings	21,264	19,904
Total equity	29,542	28,182
For the year ended 30 June		
Net profit and total comprehensive income	12,138	25,040

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 27. SHARE-BASED PAYMENTS (CONTINUED)

Under the ESOP, all full-time and part-time employees of the company, 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 within the group, the subsidiaries compensate Data#3 Limited for the fair value of these shares. To 30 June 2013 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 within the group, the subsidiaries compensate Data#3 Limited for the fair value of these shares. To 30 June 2013 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 company, 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 2013 (2012: nil).

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) the financial statements and notes set out on pages 44 to 74 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 2013 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

R A Anderson
Director

Brisbane
23 August 2013

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

Level 30
345 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 1144
Brisbane
Queensland 4001

Tel: 07 3222 8444
Fax: 07 3221 7779

www.pitcher.com.au
info@pitcherpartners.com.au

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JASON EVANS
CHRIS BALL
IAN JONES
KYLIE LAMPRECHT
NORMAN THURECHT
BRETT HEADRICK
WARWICK FACE
NIGEL BATTERS

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 2013, 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 2013 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.

Report on the Remuneration Report

We have audited the Remuneration Report comprising section 11 of the directors' report for the year ended 30 June 2013. 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 2013 complies with Section 300A of the *Corporations Act 2001.*

PITCHER PARTNERS

R C N Walker
Partner

Brisbane, Queensland
23 August 2013

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 19 August 2013.

1. DISTRIBUTION OF EQUITY SECURITIES

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

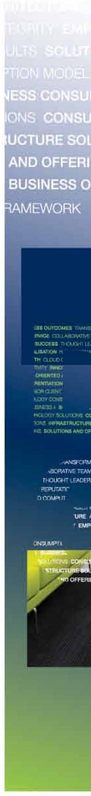
	Number of shares	% of issued capital	Number of holders
1 to 1,000	220,609	0.14	367
1,001 to 5,000	3,589,588	2.33	1,092
5,001 to 10,000	7,674,476	4.98	925
10,001 to 50,000	38,264,459	24.85	1,607
50,001 to 100,000	20,418,544	13.26	268
100,001 and over	83,807,274	54.43	165
	153,974,950	100.00	4,424

(b) There were 94 holders of less than a marketable parcel of ordinary shares.

2. TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

Name	Ordinary shares	
	Number held	% of issued shares
Citicorp Nominees Pty Limited	11,018,336	7.16
HSBC Custody Nominees (Australia) Limited	5,055,415	3.28
J P Morgan Nominees Australia Limited	4,917,019	3.19
Oakport Pty Ltd	4,887,239	3.17
Citicorp Nominees Pty Limited	3,767,458	2.45
J P Morgan Nominees Australia Limited	3,665,482	2.38
Powell Clark Trading Pty Ltd	3,000,000	1.95
Wood Grant & Associates Pty Ltd	2,167,330	1.41
Thomson Associates Pty Ltd	2,000,000	1.30
Elterry Pty Ltd	2,000,000	1.30
National Nominees Limited	1,984,323	1.29
J E Grant	1,791,000	1.16
J T Populin	1,690,140	1.10
M R Esler	1,191,000	0.77
A J & L D O'Rourke	1,030,000	0.67
W T & E M Powell	1,000,000	0.65
Rubi Holdings Pty Ltd	991,507	0.64
W T Powell	800,000	0.52
T R Collin	720,000	0.47
M T Pitt	658,260	0.43
	54,334,509	35.29

SHAREHOLDER INFORMATION (CONTINUED)



3. SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the company are set out below:

Name	Number held	% of issued shares
Celeste Funds Management Limited	13,305,442	8.64
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

2013

aug 23	Full year results announcement
sept 16	Record date for final dividend
sep 30	Final dividend payment
nov 07	Annual General Meeting

2014

feb 20	Half year results announcement
mar 17	Record date for interim dividend
mar 31	Interim dividend payment
jun 30	Year end

CORPORATE DIRECTORY

CORPORATE HEAD OFFICE

Brisbane
67 High Street
TOOWONG QLD 4066

P.O. Box 551
INDOOROOPILLY QLD 4068

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

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

REGISTERED OFFICE

67 High Street
TOOWONG QLD 4066

BRANCH OFFICES

Sydney
Level 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
220 Northbourne Avenue
BRADDON ACT 2612

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

Pitcher Partners
Level 30 Central Plaza One
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 15 324 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

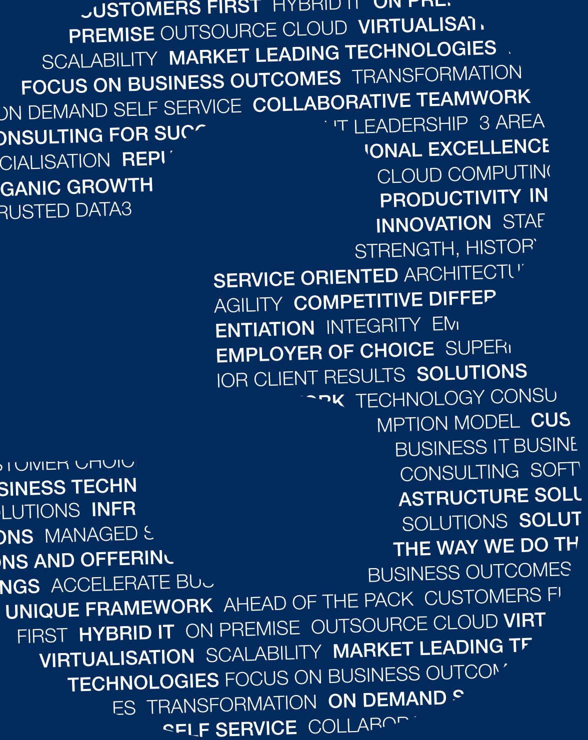
Data#3 Limited
31 010 545 267

ACN NUMBER

Data#3 Limited
010 545 267

ASX CODE

DTL



www.data3.com.au

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