Data#3

ANNUAL REPORT 2014

CREATING CUSTOMER SUCCESS FOR A WORLD IN TRANSITION

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ANNUAL GENERAL MEETING

The Annual General Meeting of Data#3 Limited will be held in Brisbane at 10:30am on Friday 21 November 2014 at the Corporate Head Office, 67 High Street, Toowong, Brisbane.

Returning to revenue growth in a highly competitive market in which sentiment to IT investment remained flat was very gratifying to our team at Data#3. It should also indicate to shareholders that the solutions we offer remain relevant to customers who themselves are undergoing a significant transition in the ways in which they consume technology. This increase in revenue, however, did not translate to increased earnings as it came at reduced margin which, together with a 3.1% increase in expenses due to higher selling costs in our product-related businesses and the decision to maintain competitive scale in services across all locations, saw profit after tax decline 38% to $7.5 million.

Importantly to shareholders, we have continued to manage our balance sheet and generate strong cash flows. Indicative of the reduced market for hardware but also of strong management of our supply chain, inventories finished at $2.5 million, their lowest levels in over a decade. Trade receivables ended the year within all our targets and days sales outstanding averaged at 29 days throughout the year, industry best practice. Based on strong cash flows as a result of this excellent debtor and inventory management, the board has declared full year dividends totalling 4.5 cents per share fully franked representing a 92% payout ratio and a 5.1% yield on the average share price over the year.

Return on equity was 22.4% and Data#3's share price at 30 June 2014 was $0.68, well down from $1.075 at the start of the year and reflecting the general decrease in the sector.

On balance, we see the 2014 result as a reasonable outcome in a particularly difficult market.

We understand shareholders would have hoped for a better result, but in a market in transition, we believe a key responsibility we have is to ensure we're positioned well to secure revenue in the new and emerging service-centric Hybrid IT and 'apps' driven marketplace – on premise, outsourced and in the cloud. This new marketplace has already seen significant declines in transactional investment in on premise hardware and software product and the associated services. We have done particularly well to increase share and revenues in these areas, but we have not been able to protect margins in doing so. Also securing the returns we had targeted from the operational investments we have made over the last three years, particularly in automating our supply chain, has been challenging.

Further investment we have made in improving our service-centric outsourcing and cloud offerings has delivered us some notable successes and repositioned us as a credible provider in this market. But, while customer take up is growing, it is yet to deliver sufficient contracted revenue to offset the decline in margins from our on-premise revenues.

We announced late in the year an investment in Wi-Fi analytics and content management company, Discovery Technology. This investment repositions us clearly into the service-centric 'apps' marketplace and gives us an opportunity to gain returns from both the investment and through Data#3's reselling the CCX (Connected Customer eXperience) application and the associated Wi-Fi infrastructure and managed services.

We see market conditions remaining challenging. The key objective of our plan for 2015 is to increase earnings over 2014. To achieve this, we intend to leverage the access we have to a very large marketplace to drive organic growth through continued investment in Data#3's solutions platform and increased sales capacity. We will also look to introduce new revenue streams through acquisitions and partnerships that position us strongly with increasingly service-centric offerings.

The board acknowledges the excellent contribution of the company's management team and staff in a very challenging environment. They are at the forefront of the demand to transition thinking, solutions and skills, and it's their doing so that provides leadership to our customers as they navigate the transition they are undertaking. Their hard work and dedication underpins Data#3's continued success, and we are grateful for their application to the task.

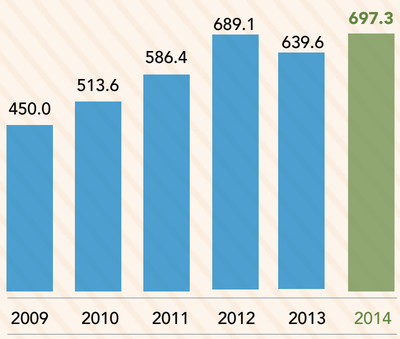
The board also acknowledges the continuing support of shareholders. You can be assured we are applying ourselves diligently to make the most of the market in which we operate.

Richard Anderson
Chairman

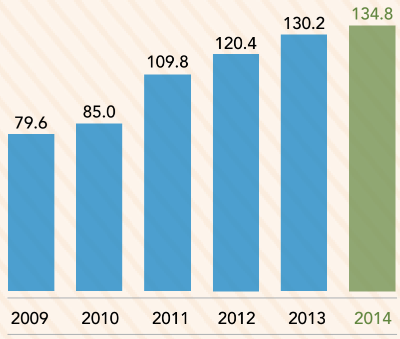
John Grant
Managing Director

FINANCIAL SUMMARY

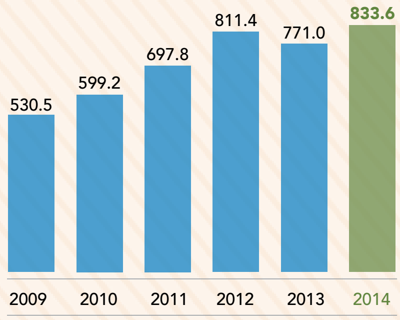
Product revenue ($ million)



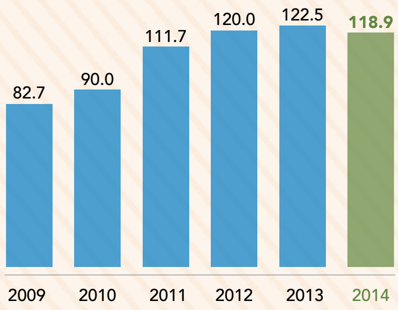
Services revenue ($ million)



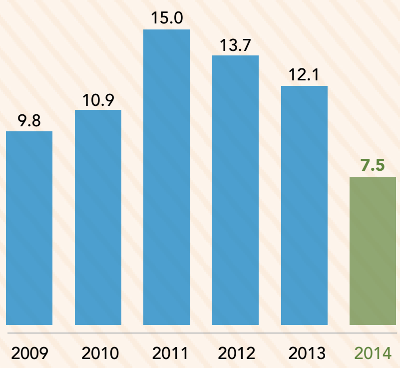
Total revenue ($ million)



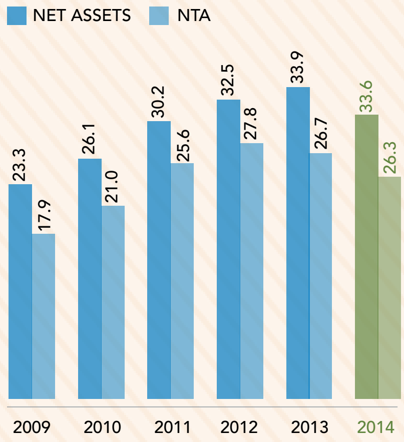
Total gross profit ($ million)



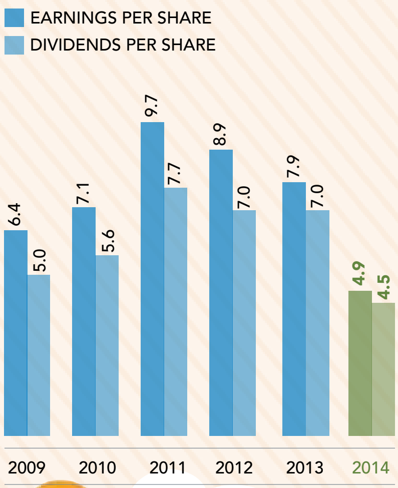
Net profit after tax ($ million)



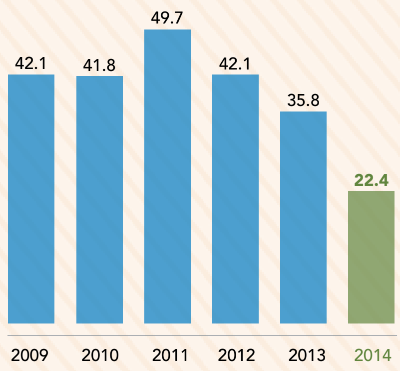
Net assets & net tangible assets ($ million)



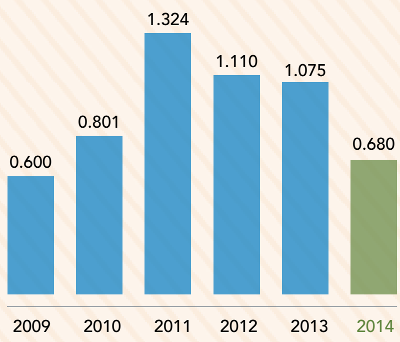
Earnings per share & dividends per share (cents)



Return on equity (%)



Share price ($)



The following table sets out our performance in 2014 compared with previous years.

	2009 $'000	2010 $'000	2011 $'000	2012 $'000	2013 $'000	2014 $'000	% change
Product revenue	450,049	513,585	586,354	689,060	639,644	697,319	+9.0%
Services revenue	79,616	85,015	109,804	120,427	130,182	134,776	+3.5%
Total revenue	530,481	599,215	697,788	811,390	771,042	833,595	+8.1%
Revenue under contract %	59.5%	58.6%	59.3%	62.4%	59.2%	62.2%	
Total gross profit	82,711	90,045	111,745	119,957	122,525	118,869	-3.0%
Gross margin %	15.6%	15.0%	16.1%	14.8%	15.9%	14.3%	
Internal staff costs	57,975	63,471	76,983	87,878	90,220	92,854	+2.9%
Operating expenses	11,752	11,589	14,565	14,244	16,049	16,663	+3.8%
Earnings before interest (net), tax, depreciation & amortisation [EBITDA]	14,469	16,262	21,189	19,430	18,700	12,219	-34.7%
Earnings before interest (net) & tax [EBIT]	13,419	15,247	20,514	18,302	16,664	9,703	-41.8%
Net profit before tax [NPBT]	14,153	15,793	21,827	19,738	17,472	10,852	-37.9%
Net profit after tax [NPAT]	9,832	10,914	14,999	13,679	12,138	7,524	-38.0%
Net profit margin %	1.85%	1.82%	2.15%	1.69%	1.57%	0.90%	
Net operating cash flow	19,550	44,906	4,817	28,891	30,489	29,419	-3.5%
Cash flow conversion [Net operating cash flow / NPAT]	2.0 times	4.1 times	0.3 times	2.1 times	2.5 times	3.9 times	
Return on equity %	42.1%	41.8%	49.7%	42.1%	35.8%	22.4%	
Basic earnings per share *(See note below)*	6.38 cents	7.09 cents	9.74 cents	8.88 cents	7.88 cents	4.89 cents	-38.0%
Dividends per share, fully franked *(See note below)*	5.0 cents	5.6 cents	7.7 cents	7.0 cents	7.0 cents	4.5 cents	-35.7%
Payout ratio	78%	79%	79%	79%	89%	92%	
Share price at 30 June *(See note below)*	$0.60	$0.80	$1.32	$1.11	$1.075	$0.68	-36.7%
Net assets	23,333	26,086	30,153	32,514	33,874	33,622	-0.7%
Net tangible assets	17,904	20,948	25,620	27,791	26,708	26,281	-1.6%

Note:
The comparative basic earnings per share, dividends per share and share prices for the 2009 to 2011 financial years have been adjusted for the 10-for-1 share split that occurred in November 2011.

OPERATING & FINANCIAL REVIEW

Following the difficult year in 2013, market conditions in 2014 in both the public and private sectors remained challenging and profitable growth was difficult to achieve. This was particularly so in our product-related businesses where our customers' ability to create competitive pressure amid continued commoditisation impacted margins, and longer decision cycles together with relatively smaller transactions increased operating costs. Our services businesses showed modest growth but again this came with higher costs as we sought to maintain competitive scale across all locations.

Our original financial objective for 2014 was to at least match the performance of 2013, and the 2014 budget had a significant bias (of approximately 2/3) towards the second half.

Our 2014 plan to achieve this profit objective was underpinned by the company's core purpose to deliver success to our customers by focusing on three key areas – our people, the solutions we offer our customers, and operational excellence. The 2014 plan also included the following key actions:

- simplification of the business through a restructure from five areas of specialisation to three - Software Solutions, Infrastructure Solutions and Managed Solutions – all able to offer end-to-end solutions 'from product to cloud'
- creation of a new Consulting business aimed at engaging with our customers earlier in their IT strategic decision making cycle
- continued investment to extend and transform the solutions Data#3 offers to help customers transition to a Hybrid IT environment encompassing on-premises, outsourced and cloud services
- consolidation of the company's internal service units into one shared services business, and
- a stronger focus on sales performance and productivity across the entire Data#3 team.

The planned restructure of the business was completed in the first quarter, with the organisation moving from five areas of specialisation to three and consolidation of the internal services functions which enabled us to take some costs out of the business. This activity impacted more than we expected, particularly on the sales focus, as all business units were repositioned and sales teams reorganised and retargeted. With a poor outlook we also decided not to proceed with formation of the new consulting business as it demanded a level of investment we didn't believe we could sustain at that time. During the second quarter the pipeline of opportunities started to strengthen. Activity levels improved further in the second half, particularly in the fourth quarter, and we succeeded in converting much of the strong pipeline that had developed and delivered a solid, albeit less than targeted, full year result.

Margin pressure detracted from what was a strong selling performance and we ended the year with a 41% tender win rate and a total win rate based on contract value of 60%.

We continued to invest in our Hybrid IT solutions including delivery of a fully managed and integrated Hybrid Cloud incorporating Data#3's as-a-service infrastructure and those of our partners.

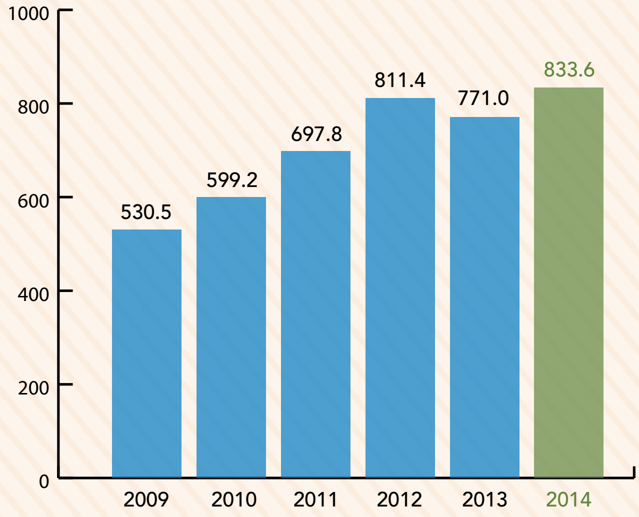
As a result, we secured a number of strategic, multi-year contracts in outsourcing and cloud services. These contracts will improve the returns we generate from the investments we have made over the longer term.

WHOLE OF COMPANY PERFORMANCE

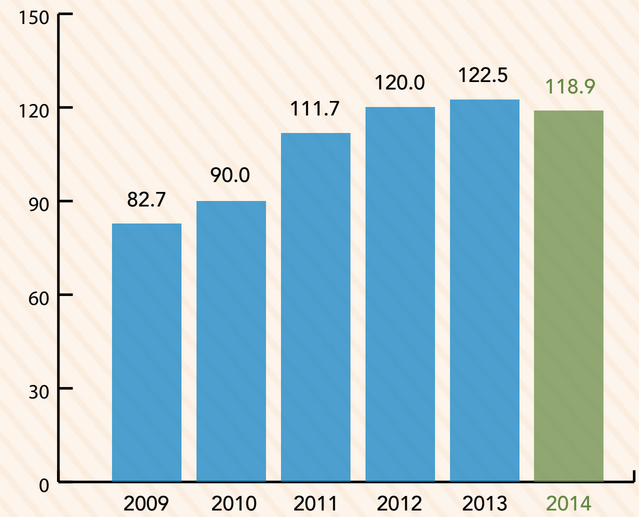
Total revenue was $833.6 million, 8.1% higher than last year's $771.0 million, with increases in both product and services revenues. We think this is a strong result given market conditions and the lack of a contract in 2014 comparable to our largest ever infrastructure contract at the Fiona Stanley Hospital in Perth in 2013.

Total gross profit (excluding other revenue) decreased by 3.0% from $122.5 million to $118.9 million reflecting a decline in product and services gross profit. Total gross margin decreased from 15.9% to 14.3% due to competitive pressure and changes in sales mix within the product and services segments.

Total revenue ($M):

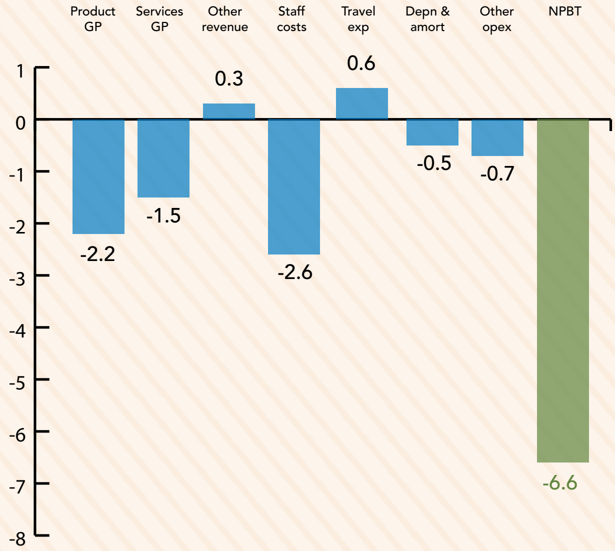


Total gross profit ($M):



Net profit before tax decreased by 37.9% from $17.5 million to $10.9 million as a consequence of the reduced gross profit and higher staff costs and operating costs.

Change in NPBT elements from 2013 to 2014 ($M):



Net profit after tax decreased by 38.0% from $12.1 million to $7.5 million. This represented basic earnings per share of 4.9 cents, a decrease of 38.0% from 7.9 cents in the previous year.

The board declared fully franked dividends of 3.0 cents per share for the full year, representing a payout ratio of 92% compared to 89% in 2013.

Return on equity decreased from 35.8% to 22.4%.

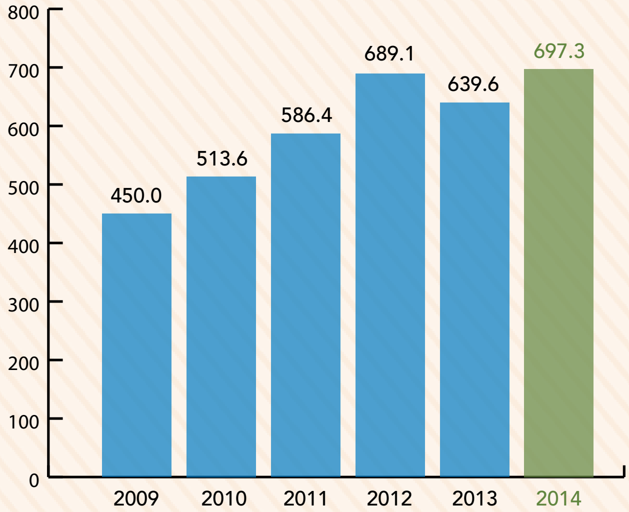
Product revenue and gross profit

Total product revenue (hardware and software) increased by 9.0% from $639.6 million to $697.3 million. This came largely from software licensing.

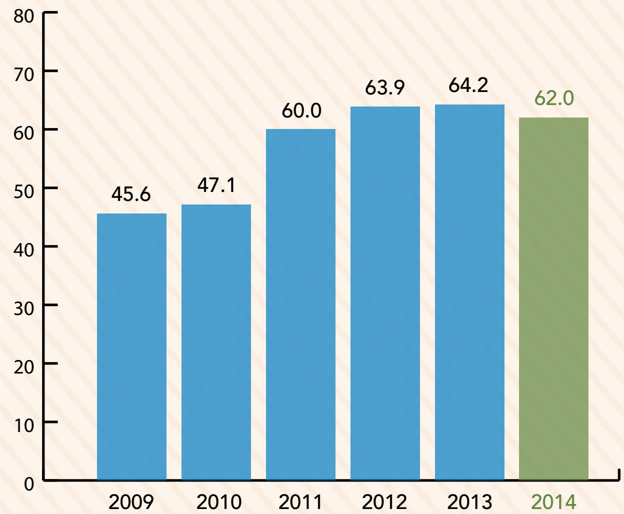
This growth came in a generally more challenging market with commoditisation, longer sales cycles and competitive pressure impacting margin and selling costs compared to 2013.

As a consequence total product gross margin decreased from 10.0% to 8.9%, reducing total product gross profit (excluding other revenue) by 3.4% from $64.2 million to $62.0 million.

Product revenue ($M):



Product gross profit ($M):

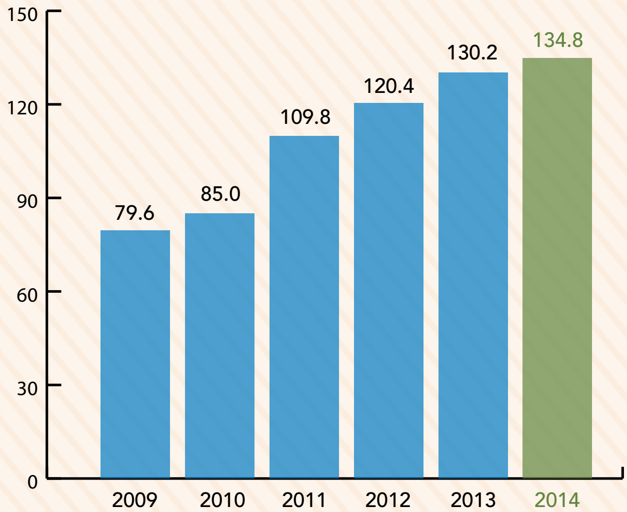


Services revenue and gross profit

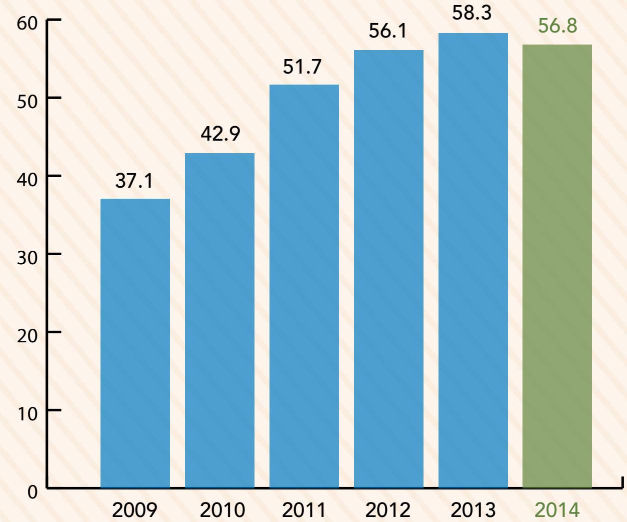
Total services revenue increased by 3.5% from $130.2 million to $134.8 million. Market conditions constrained growth in project services where costs to scale over all locations offset the small gains made. Maintenance revenues, which were boosted in the previous year by the Fiona Stanley Hospital contract, decreased slightly as expected but relatively speaking were very strong and ahead of target as customers continued to extend the life of existing equipment in preference to replacement. Outsourcing revenues grew solidly but at lower levels of profitability. Recruitment and contracting revenues increased, boosted by large multi-year 'augmentation' contracts.

This combination saw a decrease in total services gross margin from 44.8% to 42.2%, and the overall services gross profit decreased by 2.5% from $58.3 million to $56.8 million.

Services revenue ($M):



Services gross profit ($M):



Other revenue

Other revenue was composed almost entirely of interest income which increased from $1.1 million to $1.3 million due to higher daily cash balances in 2014 compared to 2013.

Operating expenses

Internal staff costs increased by 2.9% from $90.2 million to $92.9 million and other operating expenses increased by 3.8% from 16.0 million to $16.7 million.

Overall, staff numbers remained relatively steady and average salaries increased in line with the broader industry trend. This increase was driven by general market pressure, particularly for the best people, higher selling costs in our product-related businesses, particularly software, and the decision to maintain competitive scale in services across all locations.

Additional depreciation and amortisation costs associated with the company's investments in internal infrastructure, systems and premises accounted for $0.5 million of the increase in other operating expenses.

Cash flow

The net cash flow from operating activities was a strong inflow of $29.4 million, slightly lower than the previous year's $30.5 million. As usual the operating cash flow and year-end cash balance were temporarily inflated due to the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections pre-30 June that generate temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur. Consequently the year-end cash balance of $103.4 million was again inflated by this temporary surplus.

Due to the cash flow seasonality it is more meaningful to compare the average daily cash balance throughout the year which was $36.3 million, up from $31.1 million in 2013.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and better than the previous year, demonstrating the effectiveness of our focus on collections and credit management.

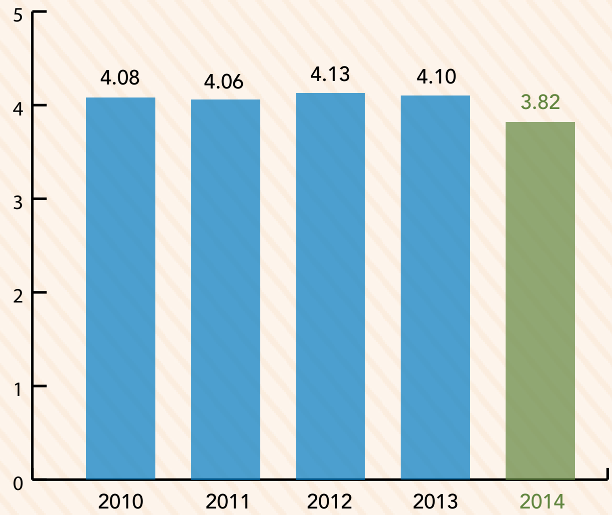
Performance against whole of company objectives

The plan for 2014 set a number of objectives. The progress we made against these is summarised below.

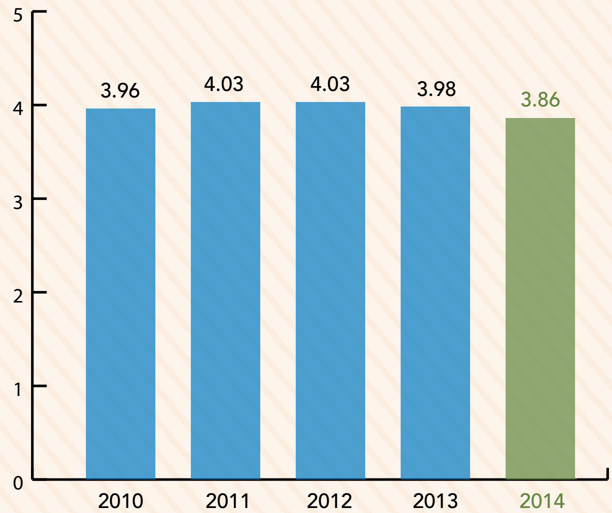
a. Our solutions must help our customers achieve their business objectives in a changing environment

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. However, solutions and how our customers consume them are in transition and customers are confronted with many new primarily cloud-based alternatives from both global and niche suppliers. In this environment, while the investments we have made provide some points of difference, differentiation primarily comes as a result of how we engage with our customers and how effectively we can demonstrate what we offer aligns with their business objectives. This year, both satisfaction with the products and services we offer and overall customer satisfaction decreased. While some comfort can be drawn from this market flux, we are on notice to improve both these in the current year.

Satisfaction with products & services (out of 5):



Overall customer satisfaction (out of 5):



Once again we achieved significant recognition both nationally and internationally from our partners:

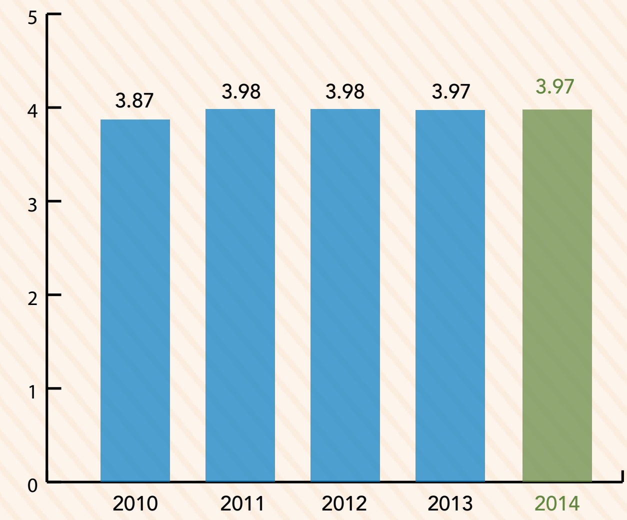
- Microsoft – Devices and Deployment Partner of the Year (Global award)
- Microsoft – Enterprise Partner of the Year
- Sophos – LAR Partner of the Year (for Australia and New Zealand)
- RSA – Growth Partner of the Year
- Eaton – Outstanding Reseller of the Year
- VMware – Solution Provider of the Year (for Asia Pacific Japan)
- VMware – End User Computing Partner of the Year (for Australia and New Zealand)
- Symantec – Partner of the Year (for Australia and New Zealand)
- Lenovo – Innovation Partner of the Year
- Seek Annual Recruitment Awards – Medium-sized ICT Recruiter of Choice (Finalist).

For the seventh year in a row we were voted ARN's Enterprise Reseller of the Year by our peers and we were also recognised as the ARN Channel Choice Award for Reseller of the Year for the second consecutive year.

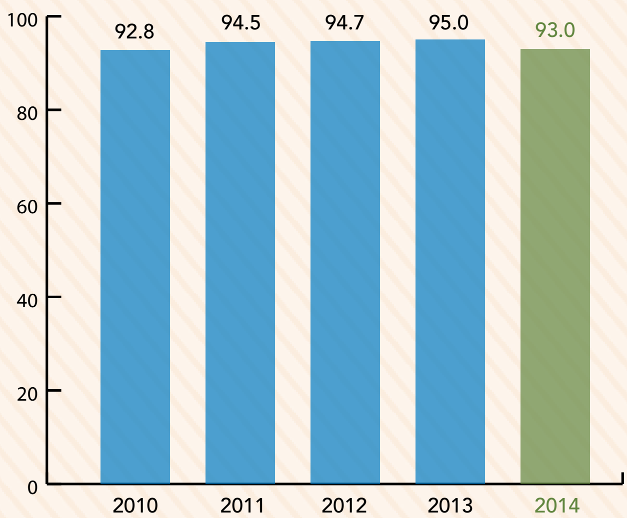
b. Our people must continue to be the best in the industry and we must remain an employer of choice

We finished the year with 667 permanent and 23 casual employees, compared to 2013's 641 permanent and 50 casual employees. Our people continued to be committed and engaged through a difficult time, compounded by the disruption of restructuring the business. Overall satisfaction was at our target level, with the willingness to recommend Data#3 as an employer to others remaining high at 93%.

Overall staff satisfaction (out of 5):



% Recommend Data#3 to others:



This year we completed the expansion and refurbishment of our offices in Adelaide and Perth. The modern design of each office features a fully mobile and flexible workplace, similar to our Brisbane, Sydney and Melbourne offices.

c. Simplify our business, move quickly with change and opportunity and continually improve operational efficiency

While the restructure from five to three lines of business created some dislocation, overall it has simplified and focused the way we approach our customers. Consolidation of our internal services functions enabled us to reduce headcount and deliver some costs savings. Also, a focus on getting additional returns from investments we'd made in previous years drove further operational improvements particularly in our supply chain, and extension of our videoconferencing systems improved collaboration across all locations and lowered travel costs.

However - with the decline in gross profit across the business and higher costs - our overall measure of productivity, the cost ratio (= gross profit/ expenses), did not improve. We are very cognisant of the increasing costs but were reluctant to make substantial changes that we believed would be more damaging than beneficial particularly with the knowledge that small gains in revenue can deliver substantial increases in earnings. As a result we consciously accepted lower levels of utilisation in some areas in return for maintaining capacity and capability, and we firmly believe this to be the right decision in the midterm.

d. Performance must maximise returns to shareholders as we invest year on year to build a sustainable, high-performance organisation

In a market in which commoditisation is central to the product-centric areas of our business, and the need to invest to capture new revenues is central to the services-centric parts of our business, we were unable to achieve our earnings targets. It is small comfort that this is largely an industry-wide characteristic and we are looking at new sources of revenue to add gross profit to the business.

We extended our as-a-service platform into a data centre in Melbourne, which is connected to our Sydney and Brisbane data centre facilities. This allows us to offer our customers a fully supported national platform for our as-a-service offerings, with increased capacity and redundancy.

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 2014 were $146.9 million and trade and other payables $216.9 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 $85.3 million to $103.4 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 decreased and remained well ahead of target at 29 days, 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 $3.2 million to $2.5 million, reflecting the general reduced volume of product held in our warehousing and configuration centres pending sale 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

As the largest part of our business in gross profit and headcount terms, performance in Queensland embodied most of the broader market's characteristics. Government investment in technology remains well below its peak and while we have been successful in being appointed to two services panels and are in the final stages of negotiation to be included as a cloud panel provider, significant revenues are yet to flow. We continued to redirect our sales effort to the private sector, but this too remained investment constrained and as a consequence, revenue growth was lower than across the whole business at 4%, and gross profit declined by 5%.

New South Wales/Australian Capital Territory

Underpinned by significant growth in software licensing revenues and generally improved operating conditions across most of the sectors in which we operate, New South Wales performed strongly compared to 2013. Revenue grew 19% and while at lower margin due to the nature of the revenue mix, gross profit improved by 7%.

Victoria

Following on from a difficult 2013 and with significant wins in Infrastructure Solutions, Victoria was the best performing of our locations compared to 2013. Revenue increased 22% with solid growth in infrastructure product, services and maintenance contracts and in outsourcing. These came again at lower margin but drove gross profit up 10%. This growth was offset to some degree by a more difficult and competitive environment for our software licensing and software services businesses.

South Australia

Following a flat 2013 compared to the previous year, revenues again remained flat in what was our most challenged location. Software licensing achieved growth fuelled by the whole of government contract we manage for the South Australian Government, but this was more than offset by relatively significant declines in infrastructure product and related services revenues. This combination saw gross profit decrease by 6%.

Western Australia

After a very strong 2013 underpinned by the contract with Fiona Stanley Hospital, the business in Western Australia was expected to decline in 2014 and we planned to offset this to some degree through growth in services capability and capacity. We achieved this and the location has now a considerably more powerful market position as a result. However, even given some growth in software licensing revenue and gross profit, on a year to year basis overall revenues declined 32% and gross profit decreased by 18%.

OPERATING RESULTS BY AREA OF SPECIALISATION

During the year we restructured our organisation, moving from five areas of specialisation to three - Software Solutions, Infrastructure Solutions and Managed Solutions. These specialist businesses are all able to offer end-to-end solutions 'from product to cloud'. As a consequence of the restructure comparisons to past years in most areas of the business are difficult. The following commentary provides quantitative comparisons where they are still relevant and qualitative comparisons where they are not.

Software Solutions

Software Solutions helps our customers maximise business value from their software investments through effective procurement, deployment, management and use. Working with customers that span federal, state and local governments, education, health and the general commercial sector, the business offers a complete software solution from on premise to outsourced to cloud, to supply and manage the license, deploy and manage the software, and customise and improve user adoption of the software.

For the nineteenth consecutive year Software Licensing exceeded all targets growing revenue and gross profit in a market that at best was flat. This growth was achieved as it has in previous years, through a combination of increasing market share, navigating our way through continually changing vendor channel programs to maximise incentives, and further gains in operational efficiency. It also continued to transition more of its customers to licensed software in the public cloud provided by partners such as Microsoft, Symantec, VMWare and Adobe.

While small contributors in a relative sense, our asset management services business declined on the 2013 year as major engagements came to an end, and business productivity services improved on the previous year.

The slow start to the sales year that came as a consequence of the restructure impacted most significantly on Software Solutions project services which declined on the prior 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 Software Licensing team continued to be the most successful team in Australia, winning major awards with all our key software licensing partners including a global Microsoft award.

Infrastructure Solutions

Infrastructure Solutions helps our government and commercial customers maximise return from their infrastructure investments through cost-effective lifecycle hardware asset management services including procurement, quality control, deployment, tracking, and disposal; simplified multi-vendor maintenance services; unified communication and collaboration for mobile business users; and Hybrid IT infrastructure for delivery of IT services, on premises, outsourced and in the cloud.

We had anticipated that the constrained market conditions would most impact hardware procurement and our plan was to offset any decline with lower costs. However, the decline in product revenues of 5% and in gross profit of 13% over 2013 was greater than we could offset with an 11% decrease in costs.

We had also anticipated a decline in contract maintenance services, given the stellar 2013 underpinned by the Fiona Stanley Hospital contract. However, the business finished the year very strongly with revenue decreasing 8% but gross profit remaining steady on higher sales margins.

After a poor year in project services in 2013, we planned and resourced for growth and the business delivered a 4% growth in gross profit.

On a consolidated basis, Infrastructure Solutions revenues declined 10% and gross profit declined 8%.

Data#3 was appointed a member of the Hewlett-Packard Global Partner Advisory Board and remained a member of the Cisco Advisory Board for Asia Pacific.

Managed Solutions

Managed Solutions helps our customers' IT groups deliver services to their business users ranging from workforce recruitment, contracting, resource augmentation and operational support to full operational infrastructure outsourcing. This business also takes responsibility for development and delivery of our Hybrid cloud infrastructure-as-a-service to both our Software Solutions and Infrastructure Solutions customers and to contracted outsourcing customers.

Recruitment, contracting and augmentation had a strong year in a challenging market. Revenue increased by 9%, boosted by augmentation contracts, and gross profit increased by 5%.

Outsourcing ramped up considerably as revenues increased 3%, but significant onboarding and transition projects associated with new contracts drove gross profit down by 3%. Contracts are structured to provide increasing returns over their term.

The responsibility for developing and delivering our hybrid as-a-service infrastructure, as with all providers in the market, represents an upfront investment for future cloud-based revenues. We secured some strategic customers and have an increasing pipeline, but with continuing investment, returns did not exceed investment in the year.

OUR STRATEGY AND PLAN FOR 2015

The strategic planning process for 2015 identified the following key external factors that will influence performance over the coming year:

a. No significant change in levels of total IT investment but a transition from on-premises commoditised software, hardware and related services to both outsourced and cloud-based IT service delivery, and revenue generating investment in areas such as mobility, mobile 'apps' and analytics
b. A transition to operating expenditure rather than investment related to capital expenditure
c. Continuing low industry returns on cloud investment
d. Our emerging strategic transition to a leading Hybrid IT solution provider in an increasingly service-centric business model
e. Leveraging our market power to partner with new organisations in new business opportunities.

Internally we see a number of opportunities to improve performance and profitability:

a. Improving win rates through the simpler go-to-market approach offered by the three areas of specialisation and no disruption at the start of the year
b. Improving returns from our services businesses through automation and consistent systems and management
c. Changing the business models and cost structures that underpin our product-centric businesses to maximise returns.

Our plan

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

Acknowledging the transition that is occurring within our customers and in technology, our vision has been extended and is now to be an exceptional company in a world in transition.

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

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

Our **core purpose** remains to make our customers successful through what we do.

Our **strategy** is the pathway to enable our customers' success. It unites Outstanding Solutions (which will increasingly transition from product centric to service centric), Remarkable People and Organisational Excellence through our Solutions Framework. We believe that making our customers more successful consistently over time will deliver exceptional performance.

To guide our transition, our plan for 2015 has five strategic priorities with specific targets and actions for each part of the business that map to each staff member's annual work plan. The strategic priorities are:

1. Outstanding Solutions transitioning from primarily product centric to increasingly service centric in a Hybrid IT world
2. Remarkable People who are high performing, innovative, skilful and confident of their future
3. Organisational Excellence through optimisation, alignment and continuous improvement
4. Customer Success for Business IT and the Business Consumer
5. Exceptional Performance that consistently improves returns to shareholders.

Executing our plan in 2015

We have implemented a refined organisation model for 2015. It retains the three core areas of Software, Infrastructure and Managed Solutions and an integrated and cost-effective 'back office', and adds a new business targeted at business applications.

The key objective of the plan is to increase earnings over 2014. With little change in market conditions, but with access to a very large marketplace, the plan's key platform for organic growth is increases in sales capacity to drive market share. The plan anticipates relatively small growth in product revenues and strong growth in services – on premise, outsourced and cloud. There is clearly additional cost associated with this strategy, but the simple rationale is that if win rates are maintained, profitable growth will follow. It is also in contradiction to the previous two years where we have contracted early in the year. This does not mean that we won't continue to drive cost out where we can, and we have identified our current product supply chain, enhanced automation of processes within our outsourcing business and cross business administration as areas we will pursue.

In addition the Application Solutions area of specialisation will drive new market opportunity via its reselling activities with Discovery Technology's CCX Wi-Fi location tracking and content management system, and Data#3's Schools Suite, modules of which are currently installed in a growing number of schools around Australia. Both applications will also drive related Infrastructure Solutions and Managed Solutions revenues.

We are also actively seeking strategically sensible acquisitions and new partnership opportunities to introduce new revenue streams.

Across all our businesses, the major risks are:

- Continuing changes in partner channel programs and incentives
- Inability to recruit the sales team at a rate the plan assumes and that delivers the targeted revenues
- Pricing pressure beyond that which our plan assumes.

In summary

The trends in margin pressure and increased costs that developed in 2012 and the need to keep investing to remain competitively relevant combined to make 2014 our most challenging year for a very long time. Having taken costs and capacity out in the previous two years, the 2015 plan targets growth through market share gain and the introduction of additional complementary revenues. Our financial objective is to improve on the 2014 result.

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 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 and over six years in Europe. Glen served as the inaugural Chair of Screen Australia from 2008 to 2014. He is Chairman of the Industry Advisory Board at the University of Technology, Sydney, and in 2012 was appointed as Chairman of Advance, a not-for-profit organisation that supports Australia's global community. On Australia Day 2012, Glen was appointed a Member of the Order of Australia for his service to business and the arts.

IAN JOHNSTON

Non-executive Director

Ian Johnston became a Non-executive Director of Data#3 Limited in November 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 Morgans Stockbroking Limited (now Morgans Financial Limited) in 1988 as an Executive Director and Head of Corporate Finance. He was Chairman Corporate Finance until his retirement in October 2013. He remains a member of its Advisory Board. Ian has served as a director of ASX listed companies, private companies, government owned corporations and not-for-profit organisations. He is currently an independent non-executive Director of Cardno Limited and Morgans Foundation Limited. Ian is a fellow of the Australian Institute of Company Directors.

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 30 years' industry experience spanning multi-national hardware, software and services vendors. He is responsible for profit and customer satisfaction across the company's lines of business and geographies. Laurence joined Data#3 in 1994, has a Bachelor of Business (with honours) from East London University, is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy, member of the Hewlett-Packard Global 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 General Manager - Queensland and General Manager - Business Services. In his current role Michael has responsibility for all Shared Services including internal systems, marketing, vendor management, sales process management, organisation development & human resources, supply chain logistics and group administration functions within the company.

SUZANNE CARTER

General Manager - Managed Solutions

Suzanne joined Data#3 in January 2014. Suzanne has held executive leadership roles across the Asia Pacific region for the past 30 years, specialising in application and infrastructure outsourcing as well as systems integration. Suzanne possesses a wealth of knowledge in strategy development/execution, leadership, commercial and financial management of SaaS, hybrid enterprise, managed services, security, data centre migration, application development and systems integration. She is also involved with the development and implementation of sales and solution operation models including sales lifecycle, bid management and skills demand planning.

BRAD COLLEDGE

General Manager - Software Solutions & General Manager - Infrastructure Solutions

Brad holds a degree in Business Management from Queensland University of Technology. He has 25 years' 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 - Application Solutions

Bruce holds a Bachelor of Applied Science degree from Queensland University of Technology. He has 27 years' 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 nine 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 joined Data#3 in 2003, progressing through sales leadership roles to his current position which he has held since 2006. He is responsible for customer satisfaction and driving the growth across the company's lines of business in NSW and the ACT. Paul has over 30 years' experience in the business technology industry, including eight years in the UK and eight years in Asia Pacific. During this time he has held sales leadership and service management roles for technology vendors including Dell and Memorex Telex, as well as indirect and direct sales organisations. Paul is a graduate of the Australian Institute of Company Directors.

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 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 29 years' experience in the business technology industry, holding roles spanning administrative, sales and management positions with companies such as IBM, Volante and Commander.

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 and 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 fellow of CPA Australia and a fellow of the Governance Institute of Australia.

LEONIE KNIGHT

General Manager - People Solutions

Leonie joined Data#3 in 2008 and has been involved in the ICT industry for over 20 years, specialising in ICT recruitment and workforce management for 18 years. She initially managed People Solutions in Queensland through an exciting period of expansion, then also in NSW and Victoria, before being appointed as national manager in 2011 and general manager in 2013. First entering the IT industry in 1993, Leonie specialised at a senior level in IT recruitment with an in-house role at Unisys and at specialist agencies such as Affinity IT and Paxus/CSC Technology, before running her own agency. Leonie is a member of the ITCRA board of directors and has extensive industry connections.

RAY MERLANO

General Manager - Queensland

Ray was appointed in June 2014 as General Manager - Queensland. He has been involved in the ICT industry for 25 years with more than 15 years of sales and sales management experience at Data#3. Ray holds a Bachelor of Science (Biology) from Pennsylvania State University (USA) and a Diploma of Education from Florida Atlantic University (USA). Ray has also held roles in sales at Ferntree Computer Systems, Microsoft Australia and branch management at Computer Associates (CA) Australia. He is a Queensland AIIA Committee member and Chair of the Queensland AIIA Government Engagement Sub-committee.

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 30 years' business technology experience in the Western Australian marketplace, holding executive management positions for the past 22 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.

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 28 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 2014, 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, and regularly make corporate donations to national and regional charities. We also work with our customers to support their corporate citizenship goals by helping them to reduce their energy use with green technology solutions and assisting them 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: Australian Marine Conservation Society, Cerebral Palsy Education Centre, Foodbank SA, Jason Rich Foundation, Juvenile Diabetes Research Fund, Make-A-Wish Foundation, Micah Projects, Ronald McDonald House, RSPCA, Sydney Homeless Connect, The Hunger Project Australia and World Vision
- We have supported the child sponsorship program through World Vision for nearly 12 years through staff donations and we currently sponsor 15 children
- Our sponsorship of the Data#3 Symantec Race 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 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

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

The Data#3 Environment Policy integrates a philosophy of sustainable development into all our business activities and establishes and promotes responsible environmental practices throughout our operations.

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

- Comply with applicable Australian Government, state and local body environmental legislation, regulations, policies, initiatives and other requirements that relate to Data#3
- Minimise our environmental impact and reduce the consumption of natural resources across all activities of the business
- Develop and provide products and services that encourage and facilitate sound environmental strategies and practices
- Establish and maintain partnerships with vendors and suppliers who have clearly demonstrated a commitment to environmental sustainability
- Nurture an environmentally responsible culture throughout Data#3
- Continual improvement through the ongoing enhancement of our management systems in accordance with our Quality Management processes.

OUR COMMITMENT TO OUR PEOPLE

Our commitment to our people is to inspire and support their passion for excellence and desire to do their best every day, 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 people numbers at year-end included 667 permanent and 23 casual employees and 322 contractors.

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 enhance 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 mentors – through their knowledge, experience, passion, innovation or motivation – use a structured process to assist others 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 2014 we received a 93.0% favourable response, slightly down from the previous year but still reaching our target. We think this is an outstanding outcome given the 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 ICT industry may be perceived by some 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. As such, 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 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 record 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 illness to all people involved in our operations, and work towards the continual development of a safety-conscious organisational culture.

CORPORATE GOVERNANCE STATMENT

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 2014 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, one new senior executive was appointed during the year and another joined the senior leadership team through internal promotion. Any new director or senior executive undertakes 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 for 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 pages 26 to 27. Details of each individual director's background is set out in the directors' report on page 26 to 27, and the directors' profiles on page 13.

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 2014, 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 27 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.

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

The measurable objectives adopted for the 2014 financial year and an update on the company's progress towards achieving those objectives are set out below:

OBJECTIVE: To maintain or increase the proportion of female employees working for Data#3.
Achieved. The proportion increased from 28% to 33%.

OBJECTIVE: To maintain or increase the proportion of women in the national management team.
Not achieved. The proportion decreased slightly from 33% to 32%.

OBJECTIVE: To maintain or increase the proportion of women in the senior leadership team.
Partly achieved. The restructure of the business at the start of the 2014 financial year reduced the proportion from 29% to 17%, however the subsequent appointment of Suzanne Carter as General Manager - Managed Solutions increased this proportion to 25% from January 2014 onwards.

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 2014 financial year. This objective will be pursued at the appropriate time.

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

	2014		2013	
	Female	Male	Female	Male
All employees	33%	67%	28%	72%
National management team	32%	68%	33%	67%
Senior leadership team	25%	75%	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. For further information see pages 16 and 17.

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 Johnston (Chairman), Mr Anderson and Mr Powell. Each member is financially literate and has the technical and business expertise necessary to serve on the committee - their profiles are set out on page 13. 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 27 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 27 to 31. 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.

Your directors present their report on Data#3 Limited ("the company", or "we", "our", or "us") for the year ended 30 June 2014.

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 2014	3.00	4,619
Dividends paid in the year:		
Interim for the year ended 30 June 2014	1.50	2,310
Final for the year ended 30 June 2013	3.55	5,466
		7,776

3. OPERATING AND FINANCIAL REVIEW

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

4. BUSINESS STRATEGY

Our vision is to remain an exceptional company in a world in transition – one that unites to enable our customers' success through the use of market-leading expertise, technologies and services; 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 11 of the Operating and Financial Review within this annual report.

5. EARNINGS PER SHARE

	2014	2013
	Cents	Cents
Basic and diluted earnings per share	4.89	7.88

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

Except as disclosed in note 27 to the financial statements, no matter or circumstance has arisen since 30 June 2014 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 Operating and Financial Review on pages 11-12.

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

G F Boreham, AM, BEcon (*non-executive director)*
Independent non-executive director since 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 Screen Australia (from 2008 to 2014) and Chair of the Australian Government's Convergence Review in 2011 and 2012. Currently Chair of Advance, a not-for-profit organisation that supports Australia's global community (since 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)*
Independent non-executive director since November 2007. Formerly Chairman Corporate Finance at Morgans Financial Limited and currently 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 Cardno Limited (director since 2004).

Special responsibilities:
Chairman of audit and risk committee (from 30 May 2013, the date of his appointment)
Member of remuneration and nomination committee

DIRECTORS' REPORT (CONTINUED)

9. DIRECTORS (CONTINUED)

W T Powell, BEcon (*non-executive director)*
Independent 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:
Member of audit and risk committee (from 30 May 2013)
Member of remuneration and nomination committee

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	15	17	4	4	2	2
G F Boreham	16	17	**	**	**	**
J E Grant	16	17	**	**	**	**
I J Johnston	17	17	4	4	2	2
W T Powell	15	17	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 the Governance Institute of 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 the Governance Institute of Australia.

11. REMUNERATION REPORT

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

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

11. REMUNERATION REPORT (CONTINUED)

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 may include 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 2014 the proportion of the planned total executive remuneration for key management personnel that was performance-related (excluding the managing director's long-term incentive discussed in Section C below) was 30% (2013: 30%). In 2014 actual short-term bonuses as a proportion of planned total executive remuneration was 23% (2013: 25%).

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 2014 the planned profit-related component represented 70% of the total executive bonuses (2013: 70%). Profit targets for some areas of the business were not met in 2014, 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.

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.

11. REMUNERATION REPORT (CONTINUED)

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.	2014	103,500	-	-	-	9,574	113,074	-
Chairman	2013	103,500	-	-	-	9,315	112,815	-
Boreham, G.	2014	65,000	-	-	-	6,013	71,013	-
	2013	65,000	-	-	-	5,850	70,850	-
Johnston, I.	2014	74,750	-	-	-	6,914	81,664	-
	2013	63,250	-	-	-	5,693	68,943	-
Powell, W.T.	2014	63,250	-	-	-	5,851	69,101	-
	2013	74,750	-	-	-	6,728	81,478	-
Subtotals – non-executive directors	2014	306,500	-	-	-	28,352	334,852	-
	2013	306,500	-	-	-	27,586	334,086	-
Executive director								
Grant, J.	2014	530,801	117,140	8,842	113,269	17,775	787,827	29.2
Managing Director	2013	530,801	132,896	8,842	107,875	16,470	796,884	30.2
Other key management personnel								
Baynham, L.	2014	306,000	158,949	6,987	-	17,775	489,710	32.5
Group General Manager	2013	300,000	172,593	12,536	-	16,470	501,599	34.4
Hill, B. – Chief Financial	2014	234,000	100,370	3,898	-	17,775	356,043	28.2
Officer and Company Secretary	2013	234,000	97,516	7,004	-	16,470	354,990	27.5
Totals – key management personnel	2014	1,377,301	376,459	19,727	113,269	81,677	1,968,433	
	2013	1,371,301	403,005	28,382	107,875	76,996	1,987,559	

No director or executive received compensation in the form of share-based payments during the year ended 30 June 2014 (2013: nil).

C Service agreements

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

11. REMUNERATION REPORT (CONTINUED)

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, as follows:
  - total shareholder return (TSR) for the company that meets or exceeds the average TSR for a benchmark group comprising seven competitors;
  - strategic positioning of the company to deliver earnings, dividends and capital growth to shareholders, measured by the development and achievement of an approved annual strategic plan and growth of revenue and gross profit that exceeds the average of the benchmark group;
  - customer and people satisfaction relevant to strategic positioning, measured by the company's annual survey and review processes; and
  - delivery of an effective and complete succession plan.
- The board must consider whether and how much to accrue by way of LTI at least once each financial year in relation to performance in the previous financial year. In 2014 the board approved an entitlement of $113,269 for the 2013 financial year (2013: $107,875). 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 more 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 2014 (2013: nil), no rights or options vested or lapsed during the year (2013: nil), and no rights or options were exercised during the year (2013: nil).

Interests in shares

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

DIRECTORS' REPORT (CONTINUED)

11. REMUNERATION REPORT (CONTINUED)

	Balance 1 July 2012	Other changes*	Balance 30 June 2013	Other changes*	Balance 30 June 2014
Directors:					
Anderson, R.	600,000	-	600,000	-	600,000
Boreham, G.	42,150	41,000	83,150	55,211	138,361
Grant, J.	7,166,450	(2,500,000)	4,666,450	-	4,666,450
Johnston, I.	600,000	-	600,000	-	600,000
Powell, W.T.	3,900,000	(100,000)	3,800,000	(100,000)	3,700,000
Other executives:					
Baynham, L.	532,650	-	532,650	-	532,650
Hill, B.	516,650	-	516,650	-	516,650
	13,357,900	(2,559,000)	10,798,900	(44,789)	10,754,111

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 2009 total shareholder return was 12.8%. Our net profit grew from 2009 to a best-ever result in 2011, but since 2011 the difficult market conditions have seen the net profit decrease each year, resulting in a compounded average decrease in net profit of 5.2% since 2009. Over the same period average executive remuneration has increased by a compounded average rate of 5.9% per annum.

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

Name	Earned %	Forfeited %
Baynham, L.	76%	24%
Grant, J.	76%	24%
Hill, B.	87%	13%

2013 Annual General Meeting
We received 92% "yes" proxy votes on our Remuneration Report for the 2013 financial year, and the vote at the AGM was a unanimous "yes".

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.

	2014 $	2013 $
Amounts recognised as expense		
Other expense	19,400	19,400

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.

DIRECTORS' REPORT (CONTINUED)

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, we paid a premium of $34,685 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 continued as our auditor in 2014. 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 did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

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

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

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

R A Anderson

R A Anderson
Director

Brisbane
21 August 2014

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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Pitcher Partners is an association of independent firms
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The Directors
Data#3 Limited
67 High Street
TOOWONG QLD 4066

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Data#3 Limited for the financial year ended 30 June 2014, 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.

PITCHER PARTNERS

R C N Walker
Partner
Pitcher Partners

Brisbane
21 August 2014

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Revenue			
Sale of goods	2	697,319	639,644
Services	2	134,776	130,182
Other	5	1,500	1,216
		833,595	771,042
Expenses			
Changes in inventories of finished goods		(869)	(1,076)
Purchase of goods		(634,408)	(574,333)
Employee and contractor costs directly on-charged (cost of sales on services)		(41,907)	(38,286)
Other cost of sales on services		(36,042)	(33,606)
Internal employee and contractor costs		(92,854)	(90,220)
Telecommunications		(1,396)	(1,522)
Rent	6	(5,883)	(5,964)
Travel		(1,622)	(2,199)
Professional fees		(583)	(457)
Depreciation and amortisation	6	(2,516)	(2,036)
Finance costs	6	(147)	(282)
Other		(4,516)	(3,589)
		(822,743)	(753,570)
Profit before income tax expense		10,852	17,472
Income tax expense	7	(3,328)	(5,334)
Profit for the year		7,524	12,138
Other comprehensive income, net of tax		-	-
Total comprehensive income		7,524	12,138
		Cents	**Cents**
Basic earnings per share	8	4.89	7.88
Diluted earnings per share	8	4.89	7.88

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

BALANCE SHEET

as at 30 June 2014

	Notes	2014 $'000	2013 $'000
Current assets			
Cash and cash equivalents	10	103,427	85,322
Trade and other receivables	11	146,936	108,084
Inventories	12	2,526	3,232
Other	13	3,193	2,603
Total current assets		256,082	199,241
Non-current assets			
Property and equipment	14	6,021	6,249
Deferred tax assets	7	2,342	2,186
Intangible assets	15	7,341	7,166
Total non-current assets		15,704	15,601
Total assets		271,786	214,842
Current liabilities			
Trade and other payables	16	216,944	164,919
Borrowings	17	756	695
Current tax liabilities		98	218
Provisions	18	1,984	1,734
Other	19	15,249	9,845
Total current liabilities		235,031	177,411
Non-current liabilities			
Borrowings	17	402	1,158
Provisions	18	2,231	1,783
Other	19	500	616
Total non-current liabilities		3,133	3,557
Total liabilities		238,164	180,968
Net assets		33,622	33,874
Equity			
Contributed equity	21	8,278	8,278
Retained earnings		25,344	25,596
Total equity		33,622	33,874

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

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2014

	Number of Ordinary Shares	Contributed Equity	Retained Earnings	Total Shareholders' Equity
	'000	$'000	$'000	$'000
Balance at 1 July 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
Profit for the year	-	-	7,524	7,524
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	7,524	7,524
Payment of dividends	-	-	(7,776)	(7,776)
Balance at 30 June 2014	153,975	8,278	25,344	33,622

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

CASH FLOW STATEMENT

for the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Profit for the year		7,524	12,138
Depreciation and amortisation		2,895	2,036
Bad and doubtful debts		207	-
Reversal of unused doubtful debts provision		-	(96)
Loss on disposal of property and equipment		1	38
Other		15	-
Change in operating assets and liabilities			
(Increase)/decrease in trade receivables		(35,311)	32,009
Decrease in inventories		706	1,007
(Increase) in other operating assets		(4,338)	(4,495)
(Increase)/decrease in net deferred tax assets		(156)	387
Increase/(decrease) in trade payables		47,925	(1,968)
Increase/(decrease) in unearned income		5,483	(10,885)
Increase in other operating liabilities		3,999	1,260
(Decrease) in current tax liabilities		(120)	(1,681)
Increase in provision for employee benefits		589	739
Net cash inflow from operating activities		29,419	30,489
Cash flows from investing activities			
Payments for property and equipment	14	(1,453)	(1,604)
Payments for software assets	15	(1,390)	(2,966)
Net cash outflow from investing activities		(2,843)	(4,570)
Cash flows from financing activities			
Payment of dividends	9	(7,776)	(10,778)
Finance lease payments	23	(695)	(639)
Net cash outflow from financing activities		(8,471)	(11,417)
Net increase / (decrease) in cash and cash equivalents held		18,105	14,502
Cash and cash equivalents, beginning of financial year		85,322	70,820
Cash and cash equivalents, end of financial year	10	103,427	85,322

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies we have adopted in the preparation of our financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for Data#3 Limited.

(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 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 2013. 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 financial statements are for Data#3 Limited alone, as all subsidiaries of the company had no financial activity during financial years 2013 and 2014 and were wound up. References in this financial report to "we", "us" or "our" refer to management speaking on behalf of Data#3 Limited ("the company").

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

(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.

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.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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(n)). 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Business combinations (continued)
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) 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Investments and other financial assets (continued)
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.

(m) 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)).

(n) 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.

(o) 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) 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.

(q) 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.

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Employee benefits (continued)

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.

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.

(s) 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.

(t) Comparatives

We have reclassified comparative figures where necessary to ensure consistency with current year presentation.

(u) Corporate information

The financial report was authorised for issue in accordance with a resolution of the directors on 21 August 2014. 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 FINANCIAL STATEMENTS (CONTINUED)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(v) 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 2014, 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 2018	1 July 2018
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 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
AASB 2013-4 ***Amendments to AASB 139 – Financial Instruments: Recognition & Measurement*** These amendments permit the continuation of hedge accounting in circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations. We anticipate there will be no impact on our financial statements, as we currently do not engage in hedging.	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
IFRS 15 ***Revenue from Contracts with Customers*** This new standard contains a single model that applies to contracts with customers and two approaches to recognising revenue. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. We anticipate this interpretation will have no significant impact on our financial statements as it is not significantly different from our method of recognising revenue.	1 January 2017	1 July 2017

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

NOTES TO THE 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 2014 (2013: 99%).

We report operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors. 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 licenses for our customers' desktop, network and data centre infrastructure; and
- Services - providing consulting, project, managed and maintenance contracts, as well as 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 2014 and 2013.

	Product		Services		Total	
	2014	2013	2014	2013	2014	2013
	$’000	$’000	$’000	$’000	$’000	$’000
Revenue						
Total revenue	697,319	639,644	140,122	142,155	837,441	781,799
Inter-segment revenue	-	-	(5,346)	(11,973)	(5,346)	(11,973)
External revenue	697,319	639,644	134,776	130,182	832,095	769,826
Costs of sale						
Cost of goods sold	(635,277)	(575,409)			(635,277)	(575,409)
Employee and contractor costs			(41,907)	(38,286)	(41,907)	(38,286)
Other costs of sales on services			(36,042)	(33,606)	(36,042)	(33,606)
Gross profit	62,042	64,235	56,827	58,290	118,869	122,525
Other expenses	(44,518)	(37,718)	(55,430)	(55,222)	(99,948)	(92,940)
Segment profit	17,524	26,517	1,397	3,068	18,921	29,585
Unallocated corporate items						
Interest and other revenue					1,500	1,216
Internal employee and contractor costs					(4,497)	(7,953)
Rent					(1,264)	(2,281)
Depreciation and amortisation					(2,253)	(929)
Other					(1,555)	(2,166)
					(8,069)	(12,113)
Profit before income tax					10,852	17,472
Reconciliation of revenue:						
External revenue					832,095	769,826
Unallocated corporate revenue:						
Interest and other revenue					1,500	1,216
Revenue					833,595	771,042

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 2. SEGMENT INFORMATION (CONTINUED)

From 1 July 2013 we changed the structure of our internal organisation and in doing so changed the composition of our operating segments. We also changed the manner by which we allocate corporate overhead costs to the operating segments to achieve an equitable allocation. As a result, we have restated the corresponding information for the previous year.

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 2014 and 2013 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 2014		30 June 2013	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on hand	1.4%	4,427	0.3%	6,322
Deposits at call	3.1%	99,000	3.3%	79,000
Cash and cash equivalents	2.9%	103,427	3.0%	85,322

NOTES TO THE 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)	
	2014	2013	2014	2013
	$000	$000	$000	$000
+0.25% (25 basis points) (2013: –0.25%)	181	(149)	181	(149)
+1.00% (100 basis points) (2013: –1.00%)	724	(597)	724	(597)

(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 2014 year, sales to one government customer comprised 7% of revenue (2013: 3%).
- At 30 June 2014, one government debtor comprised 25% of total debtors (2013: 7%), and the ten largest debtors comprised approximately 49% of total debtors (2013: 34%), of which 94% were accounts receivable from a number of government customers (2013: 74%).
- 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. In 2014 bad debt write-offs as a percent of the trade receivables carrying amount was 0.04%, (2013: nil).

(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 $2,556,000 (2013: 2,578,000) 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:

	2014	2013
	$'000	$'000
Multi-option bank facility	8,944	8,422

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 2014 was 6.3% (2013: 6.7%).

NOTES TO THE 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 2014						
Trade and other payables	216,944	-	-	-	216,944	216,944
Finance lease liabilities	412	412	412	-	1,236	1,158
	217,356	412	412	-	218,180	218,102
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

(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.

	2014	2013
	$'000	$'000
NOTE 5. OTHER REVENUE		
Interest	1,296	1,090
Other recoveries	204	126
	1,500	1,216
NOTE 6. EXPENSES		
Cost of goods sold	635,277	575,409
Depreciation and amortisation of property and equipment (note 14)	1,680	1,513
Amortisation of intangibles (note 15)		
Amortisation of intangibles included in depreciation and amortisation expense	836	523
Amortisation of intangibles included in other cost of sales on services	379	-
	1,215	523
	2,895	2,036
Employee benefits expense	85,031	82,426
Termination benefits expense	1,040	414
Defined contribution superannuation expense	6,619	6,219
Other charges against assets		
Impairment of trade receivables (note 11)	207	-

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 $'000	2013 $'000
NOTE 6. EXPENSES (CONTINUED)		
Rental expenses on operating leases		
Minimum lease payments	4,830	4,162
Straight lining lease rentals	229	413
Rental expenses – other	824	1,389
	5,883	5,964
Finance costs		
Interest and finance charges paid/payable	132	268
Unwinding of discount on provisions and other payables	15	14
	147	282
Loss on disposal of property and equipment	1	38

NOTE 7. INCOME TAX

Income tax expense

The major components of income tax expense are:

	2014 $'000	2013 $'000
Current income tax expense	3,419	4,947
Deferred income tax relating to the origination and reversal of temporary differences	(95)	387
Adjustments for current tax of prior years	4	-
Income tax expense	3,328	5,334

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:

	2014 $'000	2013 $'000
Accounting profit before income tax	10,852	17,472
Income tax calculated at the Australian tax rate: 30% (2013: 30%)	3,256	5,242
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible items	68	92
	3,324	5,334
Under provision in prior year	4	-
Income tax expense	3,328	5,334

We paid income taxes of $3,151,000 during financial year 2014 (2013: $6,500,000).

	Balance sheet		Statement of comprehensive income	
	2014	2013	2014	2013
	$'000	$'000	$'000	$'000
NOTE 7. INCOME TAX (CONTINUED)				
Deferred income tax				
Deferred income tax for the company comprises:				
Deferred tax assets				
Accrued liabilities	1,965	1,928	37	237
Provisions	1,310	1,055	255	179
Lease incentive liability	194	253	(59)	(7)
Other	463	198	204	166
	3,932	3,434	437	575
Deferred tax liabilities				
Lease incentive assets	(79)	(138)	59	7
Accrued income	(1,511)	(1,104)	(407)	(963)
Other	-	(6)	6	(6)
	(1,590)	(1,248)	(342)	(962)
Net deferred tax assets	2,342	2,186		
Deferred income tax revenue/(expense)			95	(387)

No tax losses are available for offset against future taxable profits (2013: nil).

	2014	2013
	Number	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 profit for the year.
- Rights and options granted are considered to be potential ordinary shares. Details relating to rights and options are set out in note 26. No rights or options were on issue during 2014 or 2013; therefore there was no impact on the calculation of diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 9. DIVIDENDS

	2014 $'000	2013 $'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2013: 3.55c per share (2012: 3.55c)	5,466	5,466
Interim fully franked dividend for 2014: 1.50c per share (2013: 3.45c)	2,310	5,312
	7,776	10,778
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for 2014: 3.00c (2013: 3.55c)	4,619	5,466

The tax rate at which dividends paid have been franked is 30% (2013: 30%).
Dividends declared will be franked at the rate of 30% (2013: 30%).

	2014 $'000	2013 $'000
Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (2013: 30%)	15,289	15,594

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 $1,980,000 (2013: $2,343,000).

NOTE 10. CASH AND CASH EQUIVALENTS

	2014 $'000	2013 $'000
Cash at bank and on hand	4,427	6,322
Deposits at call	99,000	79,000
	103,427	85,322

NOTE 11. TRADE AND OTHER RECEIVABLES

	2014 $'000	2013 $'000
Trade receivables	135,956	100,700
Allowance for impairment (a)	(152)	-
	135,804	100,700
Other receivables (b)	11,132	7,384
	146,936	108,084

(a) Allowance for impairment
We recognised an impairment loss of $207,000 in the current year (2013: nil). Impairment amounts are included in other expense in the statements of comprehensive income. Movements in the provision for impairment loss were as follows:

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

	$'000
Carrying amount at 1 July 2012	143
Unused provision reversed during the year	(96)
Receivables written off during the year	(47)
Carrying amount at 30 June 2013	-
Impairment loss recognised during the year	207
Receivables written off during the year	(55)
Carrying amount at 30 June 2014	152

Our ageing of overdue trade receivables as at 30 June 2014 is as follows:

	2014		2013	
	Considered impaired $'000	Past due but not impaired $'000	Considered impaired $'000	Past due but not impaired $'000
31-60 days	-	10,981	-	8,037
61-90 days	-	2,386	-	2,775
91-120 days	2	1,006	-	578
+120 days	150	684	-	1,113
	152	15,057	-	12,503

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.

	2014 $'000	2013 $'000
NOTE 12. INVENTORIES		
Goods held for sale – at cost	2,526	3,232

Inventories recognised as expense in cost of goods sold during the year ended 30 June 2014 amounted to $177,302,000 (2013: $185,195,000).

	2014 $'000	2013 $'000
NOTE 13. OTHER CURRENT ASSETS		
Prepayments	3,105	2,509
Security deposits	88	94
	3,193	2,603

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 $'000	2013 $'000

NOTE 14. PROPERTY AND EQUIPMENT

	2014 $'000	2013 $'000
Leasehold improvements – at cost	9,887	8,661
Accumulated amortisation	(4,170)	(2,622)
	5,717	6,039
Equipment – at cost	806	602
Accumulated depreciation	(502)	(392)
	304	210
	6,021	6,249

(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:

	2014 $'000	2013 $'000
Leasehold improvements	-	535

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

	2014 $'000	2013 $'000
Cost	3,380	3,380
Accumulated depreciation	(1,211)	(873)
Carrying amount	2,169	2,507

	Leasehold improvements $'000	Equipment $'000	Total $'000
Carrying amount at 1 July 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
Additions	1,246	207	1,453
Disposals	(1)	-	(1)
Depreciation and amortisation expense	(1,567)	(113)	(1,680)
Carrying amount at 30 June 2014	5,717	304	6,021

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 $'000	2013 $'000
NOTE 15. INTANGIBLE ASSETS		
Goodwill – at cost	4,919	4,919
Accumulated impairment	(587)	(587)
	4,332	4,332
Software assets – at cost	2,413	1,996
Accumulated amortisation and impairment	(1,674)	(1,184)
	739	812
Internally generated software assets – at cost	3,232	2,259
Accumulated amortisation and impairment	(962)	(237)
	2,270	2,022
	7,341	7,166
(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:		
Internally generated software assets	-	762

	Goodwill $'000	Software assets $'000	Internally generated software $'000	Total $'000
Carrying amount at 1 July 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
Additions	-	417	973	1,390
Amortisation expense	-	(490)	(725)	(1,215)
Carrying amount at 30 June 2014	4,332	739	2,270	7,341

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(n). 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. Goodwill summarised by reporting segment is shown below.

	Goodwill $'000
Product	2,860
Services	1,472
	4,332

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

2015. We applied a 12% before-tax discount rate to cash flow projections. We have extrapolated cash flows beyond the 2015 financial year using an average growth rate of 3.5%.

NOTE 15. INTANGIBLE ASSETS (CONTINUED)

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.

	2014 $'000	2013 $'000
NOTE 16. TRADE AND OTHER PAYABLES		
Current		
Trade payables – unsecured	188,226	140,301
Other payables – unsecured	28,718	24,618
	216,944	164,919

Trade and other payables are unsecured and are usually paid within 30 to 60 days of recognition.

NOTE 17. BORROWINGS

	2014 $'000	2013 $'000
Current		
Finance lease liabilities – secured (note 23(c))	756	695
Non–current		
Finance lease liabilities – secured (note 23(c))	402	1,158

	2014			2013		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
NOTE 18. PROVISIONS						
Employee benefits	1,984	1,891	3,875	1,734	1,552	3,286
Lease remediation (note 1(f))	-	340	340	-	231	231
	1,984	2,231	4,215	1,734	1,783	3,517

Movements in provisions other than employee benefits are as follows:

	Lease remediation $'000
Balance at 1 July 2012	230
Arising during the year	7
Used during the year	(20)
Increase to present value	14
Balance at 30 June 2013	231
Arising during the year	94
Increase to present value	15
Balance at 30 June 2014	340

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 $'000	2013 $'000
NOTE 19. OTHER LIABILITIES		
Current		
Unearned income	15,102	9,619
Lease incentives	147	226
	15,249	9,845
Non–current		
Lease incentives	500	616

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

NOTE 20. SECURED LIABILITIES

	2014 $'000	2013 $'000
Secured liabilities (current and non-current)		
Finance lease liabilities (note 23(c))	1,158	1,853
Total secured liabilities	1,158	1,853

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.

NOTE 21. CONTRIBUTED EQUITY

(a) Movements in ordinary share capital
There were no movements in ordinary share capital during the years ended 30 June 2014 and 2013.

(b) Ordinary shares
All ordinary shares issued as at 30 June 2014 and 2013 are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company has an unlimited amount of authorised capital. Subject to legislative requirements, the directors control the issue of shares in the company.

(c) Share options
No share options are outstanding as at 30 June 2014 (refer to note 26).

(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 2014, the board paid dividends of $7,776,000 (2013: $10,778,000). 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.

We are not subject to any externally imposed capital requirements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 22. CONTINGENT LIABILITIES

At 30 June 2014 we had provided bank guarantees totalling $2,037,000 (2013: $1,860,000) to lessors as security for premises we lease and $269,000 (2013: $468,000) to customers for contract performance. The guarantees will remain in place for the duration of the relevant contracts. Bank guarantees are secured by charges over all our assets.

	2014 $'000	2013 $'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
(b) Non-cancellable operating leases		
Future minimum lease payments under non-cancelable operating leases are as follows:		
Within one year	4,953	4,770
Later than one year but not later than five years	13,609	13,910
Later than five years	2,529	5,058
	21,091	23,738
Operating leases include leases of premises and office equipment. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. Operating leases are under normal commercial operating lease terms and conditions.		
(c) Finance leases		
Commitments related to finance leases as at 30 June are payable as follows:		
Within one year	824	824
Later than one year but not later than five years	412	1,236
	1,236	2,060
Less: future finance charges	(78)	(207)
Recognised as a liability	1,158	1,853
The present value of finance lease liabilities is as follows:		
Within one year	756	695
Later than one year but not later than five years	402	1,158
	1,158	1,853

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

NOTE 24. KEY MANAGEMENT PERSONNEL

Key management personnel compensation is set out below.

	2014 $	2013 $
Short-term employee benefits	1,753,760	1,774,306
Long-term employee benefits	132,996	136,257
Post-employment benefits	81,677	76,996
	1,968,433	1,987,559

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.

	2014 $	2013 $
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:

	2014 $	2013 $
Audit and other assurance services		
Audit and review of financial statements	150,000	138,000
IT controls review services	-	26,500
	150,000	164,500
Non-audit services		
Acquisition due diligence services	57,550	8,900
Tax compliance services	7,400	6,700
	64,950	15,600
Total remuneration	214,950	180,100

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.

NOTE 26. SHARE-BASED PAYMENTS

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

Under the ESOP, all full-time and part-time employees of the 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.

NOTE 26. SHARE-BASED PAYMENTS (CONTINUED)

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 2014 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(r).

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 2014 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 2014 (2013: nil).

NOTE 27. SUBSEQUENT EVENT

On 20 August 2014 Data#3 Limited acquired 42.5% of the issued capital of Discovery Technology Pty Ltd, a company specialising in Wi-Fi analytics, at a cost of $2,500,000.

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) the financial statements and notes set out on pages 34 to 60 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 company's financial position as at 30 June 2014 and of its performance for the financial year ended on that date; and

(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

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
21 August 2014

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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BRETT HEADRICK
WARWICK FACE
NIGEL BATTERS
ADELE TOWNSEND
COLE WILKINSON

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 statement of financial position as at 30 June 2014, the statement of comprehensive income, the statement of changes in equity and the 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 company.

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 company's financial position as at 30 June 2014 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 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 2014. 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 2014 complies with Section 300A of the *Corporations Act 2001*.

PITCHER PARTNERS

R C N Walker
Partner

Brisbane, Queensland
21 August 2014

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 18 August 2014.

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	230,567	0.15	369
1,001 to 5,000	3,660,048	2.38	1,126
5,001 to 10,000	7,922,636	5.15	955
10,001 to 50,000	40,584,884	26.36	1,690
50,001 to 100,000	22,436,317	14.57	298
100,001 and over	79,140,498	51.40	174
	153,974,950	100.00	4,612

(b) There were 152 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	8,150,953	5.29
J P Morgan Nominees Australia Limited	7,611,675	4.94
HSBC Custody Nominees (Australia) Limited	5,195,750	3.37
Citicorp Nominees Pty Limited	4,096,000	2.66
Oakport Pty Ltd	3,255,178	2.11
Powell Clark Trading Pty Ltd	2,895,370	1.88
Wood Grant & Associates Pty Ltd	2,167,330	1.41
Thomson Associates Pty Ltd	2,000,000	1.30
Elterry Pty Ltd	1,940,000	1.26
J E Grant	1,791,000	1.16
J T Populin	1,690,140	1.10
Portfolio Services Pty Ltd	1,673,807	1.09
W T & E M Powell	1,000,000	0.65
M G & J T Populin	782,280	0.51
Densley Pty Ltd	761,540	0.49
W T Powell	760,000	0.49
J D & C E Densley	682,340	0.44
M T Pitt	658,260	0.43
Banksia Administration Services Pty Ltd	637,000	0.41
Sundowner Productions Pty Ltd	632,852	0.41
	48,381,475	31.42

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	12,925,442	8.39
Commonwealth Bank of Australia	10,109,424	6.57

4. UNQUOTED EQUITY SECURITIES

Not applicable.

5. VOTING RIGHTS

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

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

Options have no voting rights.

FINANCIAL CALENDAR

2014

aug 21
Full year results announcement

sept 16
Record date for final dividend

sep 30
Final dividend payment

nov 21
Annual General Meeting

2015

feb 19
Half year results announcement

mar 17
Record date for interim dividend

mar 31
Interim dividend payment

jun 30
Year end

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NORTH SYDNEY NSW 2059

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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
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ACN NUMBER

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010 545 267

ASX CODE

DTL

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