Data#3

ANNUAL REPORT 2015

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ANNUAL GENERAL MEETING

The Annual General Meeting of Data#3 Limited will be held in Brisbane at 10:30am on Thursday 12 November 2015 at the Corporate Head Office, 67 High Street, Toowong, Brisbane.

LETTER TO SHAREHOLDERS

We are delighted to report increased revenues and very strong growth in earnings and dividends in the 2015 financial year. We consider this a very solid performance in a competitive and transforming technology market.

Entering the year we increased our sales and technical resources with the express intention of gaining market share. This strategy drove revenue growth of 4.4% to $870.5 million and more importantly, achieved better sales margins to drive gross profit up 8.9% to $129.5 million. Growth in expenses was contained to 5.8% to deliver an increase in after tax profit of 40.9% to $10.6 million. Fully franked dividends for the full year increased 40.0% to 6.3 cents per share representing a 91.5% payout ratio and an 8.6% yield on the average share price over the year.

In what continued to be a relatively flat market and a difficult national economy, return on equity was 29.2%, boosted by a steady increase in Data#3's share price during the year.

The business again generated strong cash flows to fund the acquisition of Business Aspect and the investment in Discovery Technology and still finished the year with cash on hand similar to prior years.

We remarked last year that in a market in transition, we believe a key responsibility we have is to ensure we are well positioned to secure revenue in the new and emerging service centric, Hybrid IT marketplace—on-premises, outsourced and cloud. In 2015, despite continuing decline in traditional investment in on-premises hardware and software product and the associated services, our market share strategy led to growth in both product and services revenues with increased gross profit.

2015 has also seen one more step in our transition to service centric, and we are successfully balancing our customers' need for on-premises product and services with their transition to the cloud. Further fuelling this transition, we invested more to improve our outsourcing, cloud and application offerings.

The acquisition of Business Aspect and the investment in Discovery Technology has added strong capability in consulting services and in Wi-Fi analytics. We believe their contribution will continue to increase, not only in profit terms but more importantly in strategically repositioning the company.

Going forward we expect market conditions to remain relatively unchanged and our key objective for the year is to increase earnings over 2015. To achieve this we intend to leverage the access we have to a very large marketplace to drive organic growth in our core businesses, and where and when appropriate, help our customers transition into service centric public cloud solutions. We will also open up new opportunities—for example in security, with the establishment of a national security practice that leverages the security consulting expertise in Business Aspect, and in mobile enterprise applications.

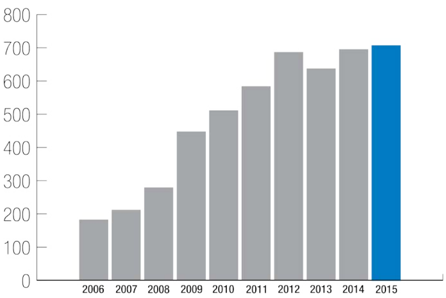
The board again acknowledges the contribution of the company's management and staff who understand the technology transition our customers are facing. Their application to the task is exceptional. We are also grateful for the continuing support of shareholders. You can be assured we are applying ourselves diligently to make the most of the market in which we operate and to increase the returns we provide to you.

Richard Anderson
Chairman

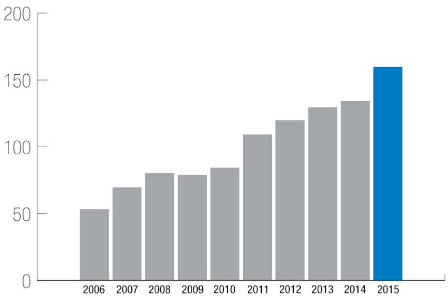
John Grant
Managing Director

FINANCIAL SUMMARY

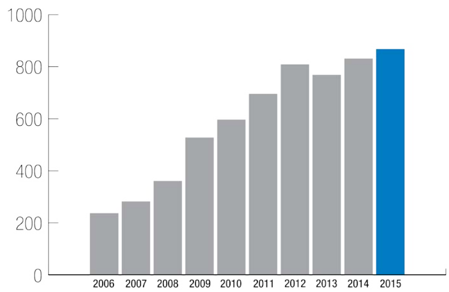
Product Revenue ($M)



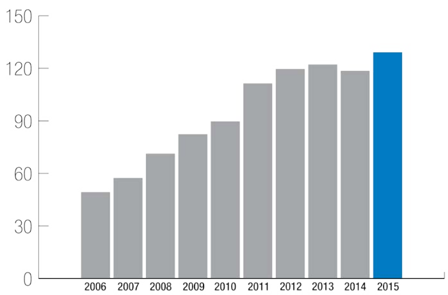
Services Revenue ($M)



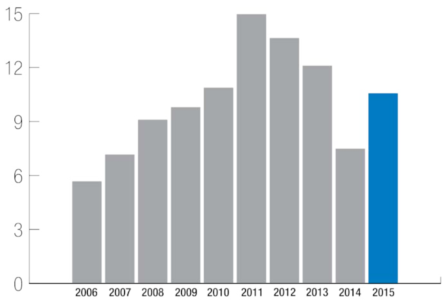
Total Revenue ($M)



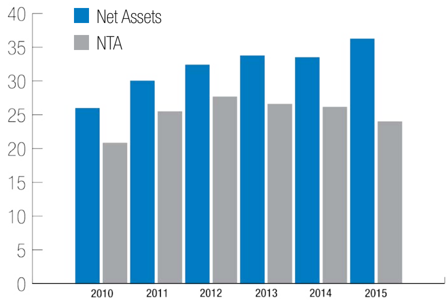
Total Gross Profit ($M)



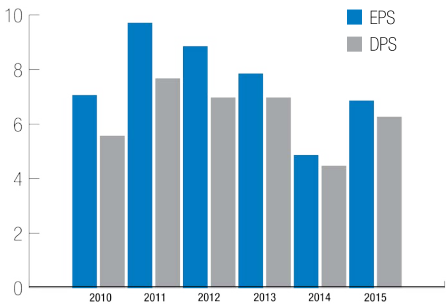
Net Profit After Tax ($M)



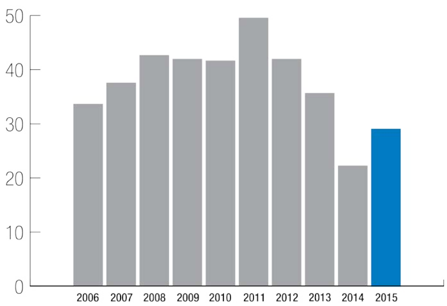
Net Assets and Net Tangible Assets ($M)



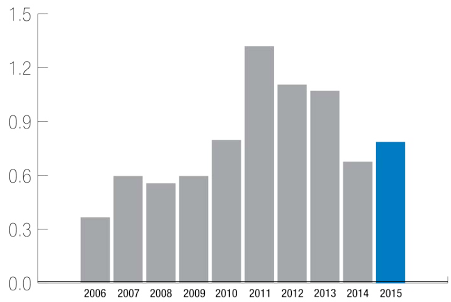
Earnings per Share and Dividends per Share (cents)



Return on Equity (%)



Share Price at 30 June ($)



The following table sets out our performance in 2015 compared with previous years:

	2010	2011	2012	2013	2014	2015	%
	$'000	$'000	$'000	$'000	$'000	$'000	change
Product revenue	513,585	586,354	689,060	639,644	697,319	709,196	*+1.7%*
Services revenue	85,015	109,804	120,427	130,182	134,776	160,247	*+18.9%*
Total revenue	599,215	697,788	811,390	771,042	833,595	870,470	*+4.4%*
Revenue under contract %	58.6%	59.3%	62.4%	59.2%	62.2%	65.4%	
Product gross profit	47,137	60,013	63,885	64,235	62,042	66,155	*+6.6%*
Services gross profit	42,907	51,732	56,072	58,290	56,827	63,329	*+11.4%*
Total gross profit	90,044	111,745	119,957	122,525	118,869	129,484	*+8.9%*
Product gross margin %	9.2%	10.2%	9.3%	10.0%	8.9%	9.3%	
Services gross margin %	50.5%	47.1%	46.6%	44.8%	42.2%	39.5%	
Gross margin %	15.0%	16.1%	14.8%	15.9%	14.3%	14.9%	
Internal staff costs	63,471	76,983	87,878	90,220	92,854	97,781	*+5.3%*
Operating expenses	11,589	14,565	14,244	16,049	16,663	18,085	*+8.5%*
Earnings before interest (net), tax, depreciation & amortisation [EBITDA]	16,262	21,189	19,430	18,700	12,219	17,021	*+39.3%*
Earnings before interest (net) & tax [EBIT]	15,247	20,514	18,302	16,664	9,703	14,377	*+48.2%*
Net profit before tax [NPBT]	15,793	21,827	19,738	17,472	10,852	15,193	*+40.0%*
Net profit after tax [NPAT]	10,914	14,999	13,679	12,138	7,524	10,604	*+40.9%*
Net profit margin %	1.82%	2.15%	1.69%	1.57%	0.90%	1.22%	
Net operating cash flow	44,906	4,817	28,891	30,489	29,419	24,262	*-17.5%*
Cash flow conversion [Net operating cash flow / NPAT]	4.1 times	0.3 times	2.1 times	2.5 times	3.9 times	2.3 times	
Return on equity %	41.8%	49.7%	42.1%	35.8%	22.4%	29.2%	
Basic earnings per share *(See note below)*	7.09 cents	9.74 cents	8.88 cents	7.88 cents	4.89 cents	6.89 cents	*+40.9%*
Dividends per share, fully franked *(See note below)*	5.6 cents	7.7 cents	7.0 cents	7.0 cents	4.5 cents	6.3 cents	*+40.0%*
Payout ratio	79.0%	79.0%	78.8%	88.8%	92.1%	91.5%	
Share price at 30 June *(See note below)*	$0.80	$1.32	$1.11	$1.075	$0.68	$0.79	*+16.2%*

Note: The comparative basic earnings per share, dividends per share and share prices for the 2010 and 2011 financial years have been adjusted for the 10-for-1 share split that occurred in November 2011.

OPERATING AND FINANCIAL REVIEW

Our financial objective for 2015 was to at least match the performance of 2014, and our 2015 budget had the usual bias towards the second half.

Market conditions in 2015 in both the public and private sectors remained challenging; however, our strategy to invest in building our sales and services capability to drive market share growth delivered the planned performance improvement.

Our 2015 plan was underpinned by the company's core purpose – to enable our customers' business success by focusing on three key areas – our people, our solutions, and organisational excellence. Our resilient belief is that if we ensure our customers are successful, we will deliver exceptional performance.

The 2015 plan's strategic priorities were

- to ensure our solutions remained outstanding, transitioning from primarily product centric to increasingly service centric in a Hybrid IT and applications-driven world;
- to ensure our people remained remarkable by being high performing, innovative, skilful and confident of their future;
- to ensure we continue to operate with organisational excellence through optimisation, alignment and continuous improvement;
- to ensure that everything we do is focused on our customer's success–in terms of technology for our customers' Business IT group, and in terms of driving their business forward for our customers' Business Consumers; and
- as a consequence, to deliver exceptional financial performance that improves returns to shareholders.

To give effect to these priorities we 'fine-tuned' aspects of the structure we put in place in the previous year by

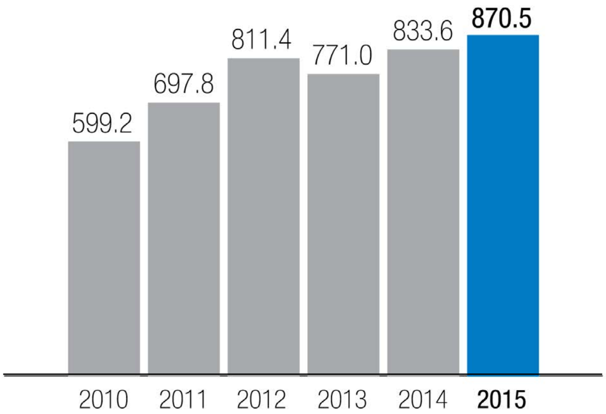
- appointing one leader for the vendor-aligned Software and Infrastructure Solutions businesses;
- appointing a new leader for the Managed Services business and significantly expanding the team with additional sales and service delivery capability;
- creating a new Application Solutions business to develop, acquire and implement software-based intellectual property;
- creating one team across all areas of specialisation responsible for solution development, sales program roll-out and enablement and leading solution representation into the more significant customer opportunities; and
- engaging specialist resources within our Shared Services business to drive the change process required to effect our transition from primarily product centric to increasingly service centric.

WHOLE OF GROUP PERFORMANCE

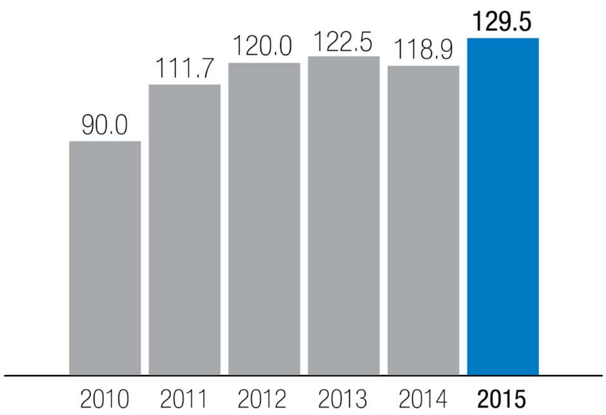
Total revenue was $870.5 million, 4.4% higher than last year's $833.6 million, with increases in both product and services revenues. We consider this to be a strong result in what continued to be a relatively flat market.

Total gross profit (excluding other revenue) increased by 8.9% from $118.9 million to $129.5 million, and total gross margin increased from 14.3% to 14.9%.

Total Revenue ($M):

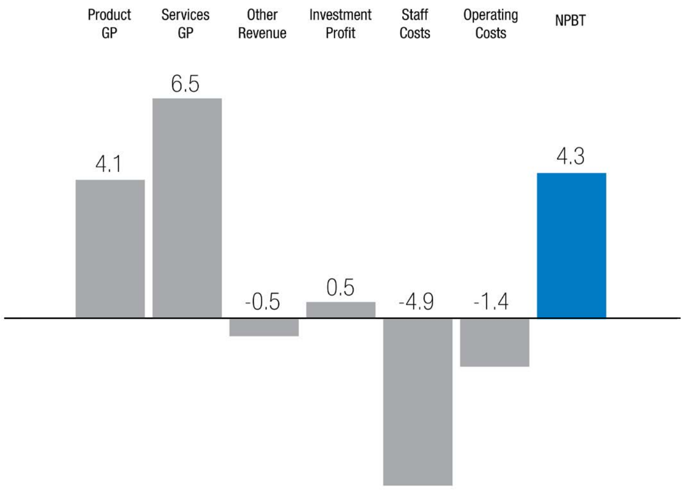


Total Gross Profit ($M):



Net profit before tax increased by 40.0% from $10.9 million to $15.2 million, demonstrating a welcome improvement in leveraging our cost structure.

Change in NPBT Elements from 2014 to 2015 ($M):



Net profit after tax increased by 40.9% from $7.5 million to $10.6 million. This represented basic earnings per share of 6.9 cents, an increase of 40.9% from 4.9 cents in the previous year.

The board declared fully franked dividends of 6.3 cents per share for the full year, representing a payout ratio of 92%.

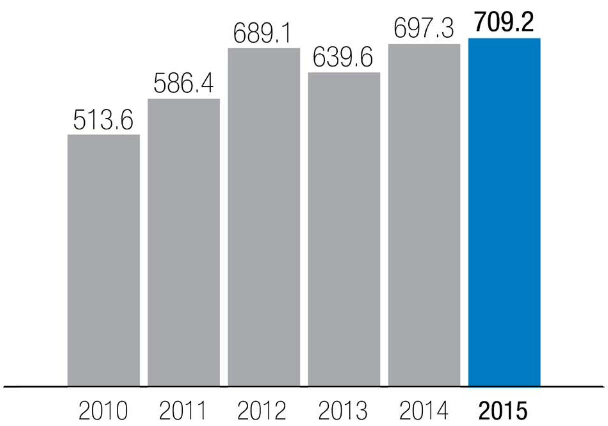
Return on equity increased from 22.4% to 29.2%.

Product revenue and gross profit

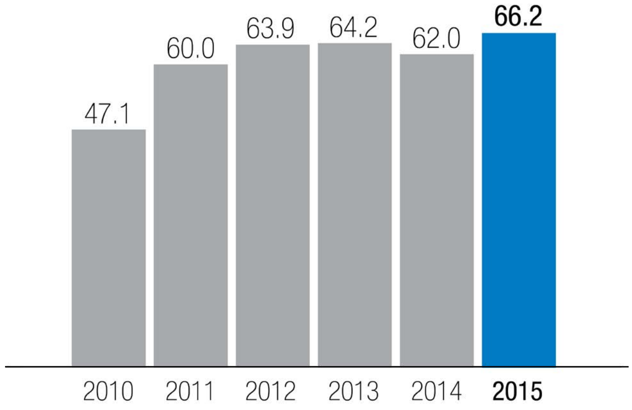
Total product revenue (hardware and software) increased by 1.7% from $697.3 million to $709.2 million. This constituted 81.5% of total revenue, down 2.2% on the previous year, and was fuelled by strong growth in hardware sales, and while still very significant, relatively flat software licensing revenue. Product revenue included approximately $47 million of revenues from reselling vendor cloud subscription services.

Total product gross margin increased from 8.9% to 9.3% with lower margins from software sales being offset by improved hardware margins. This delivered an increase in total product gross profit (excluding other revenue) of 6.6% from $62.0 million to $66.2 million.

Product Revenue ($M):



Product Gross Profit ($M):

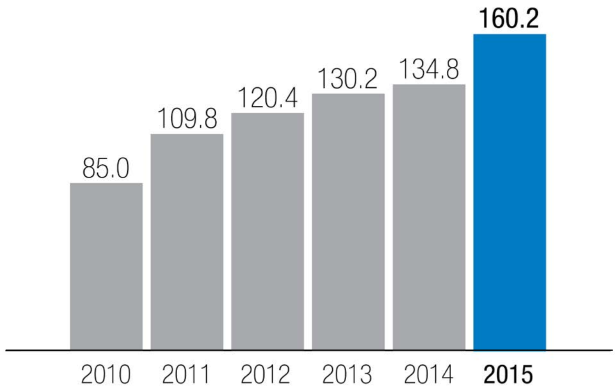


Services revenue and gross profit

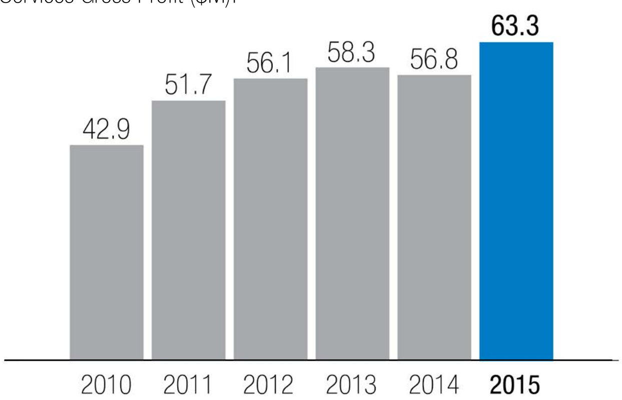
Total services revenue increased by 18.9% from $134.8 million to $160.2 million and constituted 18.4% of total revenue, up 2.2% from the previous year. All service lines grew over the previous year with the strongest growth coming from vendor cloud services, maintenance, asset management, applications and consulting. The consulting revenues were boosted by the acquisition of Business Aspect in the first half.

This combination saw a decrease in total services gross margin from 42.2% to 39.5%; however, the overall services gross profit increased by 11.4% from $56.8 million to $63.3 million.

Services Revenue ($M):



Services Gross Profit ($M):



Other revenue

Other revenue decreased from $1.5 million to $1.0 million, mostly due to a $0.3 million reduction in interest income resulting from the lower interest rates in 2015 compared to 2014.

Investment profit

Data#3's share of profit from the investment in Discovery Technology was $0.5 million.

Operating expenses

Internal staff costs increased by 5.3% from $92.9 million to $97.8 million and other operating expenses increased by 8.5% from 16.7 million to $18.1 million. Overall, staff numbers increased from 989 at the commencement of the financial year to 1,117 at the close. This was the result of the strategic expansion of our sales and services capability to drive market share growth, combined with 74 staff gained through the Business Aspect acquisition.

Cash flow

The net cash flow from operating activities was a strong inflow of $24.3 million, representing a cash conversion of 2.3 times. 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 $109.0 million was again inflated by this temporary surplus.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and at 27 days is industry best practice and better than the previous year.

Performance against strategic priorities

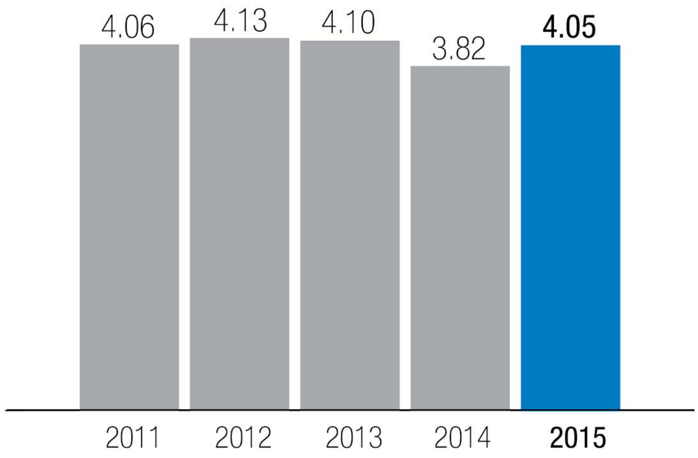
The progress we made against the 2015 strategic priorities is summarised below.

a) *Outstanding solutions transitioning from primarily product centric to increasingly service centric in a Hybrid IT and applications-driven world*

We set an objective of developing an integrated, cross-business solutions catalogue that would clearly show the service-centric transition of our solutions and offerings. The first stage of the solutions catalogue was completed and rolled out to the sales teams. We have positioned our solutions in the following seven categories which we believe account for the majority of our customers' IT spend:

This year customer satisfaction with the products and services we offer improved on the previous year, and while comfort can be derived from this, we are aware of the transition we must continue to drive to remain relevant.

Satisfaction with Products and Services (out of 5):



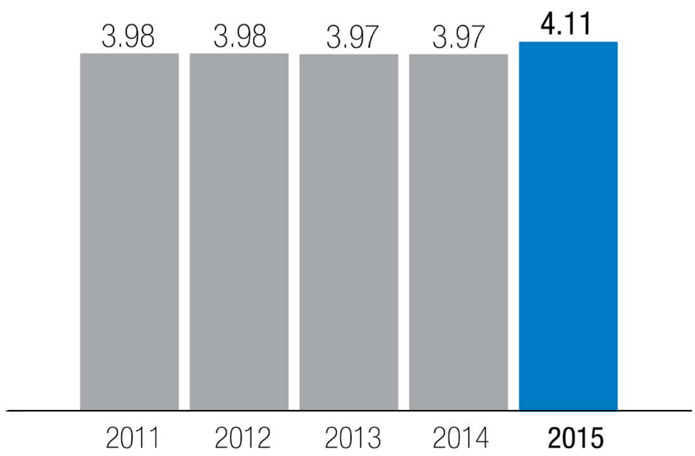
Once again we achieved significant recognition both nationally and internationally from our partners. Most significantly we were in the top ten of global suppliers for both Microsoft and HP, and in the top ten of the Asia Pacific region for Cisco. We won several major awards from these suppliers and other infrastructure and software suppliers during the year.

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

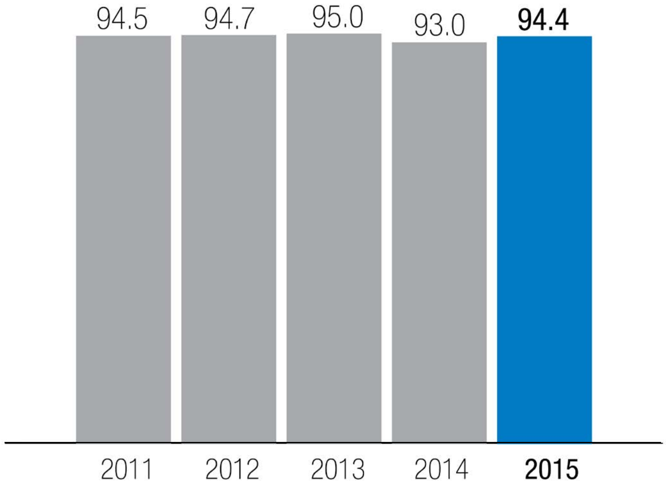
b) *Remarkable people who are high performing, innovative, skilful and confident of their future*

We finished the year with a total of 1,117 people (a combination of permanent, contracted and casual staff), compared to 2014's 989 total. We set an objective to improve our peoples' overall satisfaction and propensity to refer Data#3 to others in the industry. As in previous years we ran an independent online survey and we were pleased to achieve a record 80% response rate. Our people continued to be committed and engaged; overall satisfaction improved on the previous year and was ahead of target. The willingness of our people to recommend Data#3 as an employer to others increased to 94.4%.

Overall Staff Satisfaction (out of 5):



% Recommend Data#3 to Others:



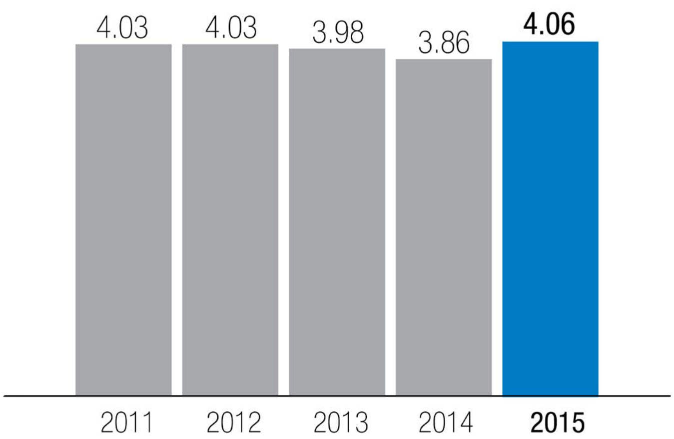
c) *Organisational excellence through optimisation, alignment and continuous improvement*

We made some fine tuning to the restructure put in place in the prior year and set the objective of ensuring we continue to operate with organisational excellence through optimisation, alignment and continuous improvement. Our overall measure of productivity, the cost ratio (= gross profit/expenses), improved on the previous year albeit that once again, we consciously accepted lower levels of utilisation in some areas in return for maintaining capacity and capability. We remain of the firm belief this is the right decision for the environment in which we are operating.

d) *Customer success for Business IT and the Business Consumer*

We set the objective of improving overall customer satisfaction and pleasingly this year's rating improved on the previous year and was above the four previous years.

Overall Customer Satisfaction (out of 5):



e) *Exceptional performance that consistently improves returns to shareholders*

We set key objectives relating to performance: growth in services revenue as a percentage of total revenues, and overall financial performance that at least matched that of the previous year.

We achieved these objectives with services revenue increasing to 18.4%, 2.2 percentage points up on the previous year, and NPAT up 40.9% to $10.6 million.

Total shareholder return for the year was 23.7% based on an improvement in the share price from $0.68 to $0.79 and dividends paid during the financial year.

REVIEW OF FINANCIAL POSITION

Our balance sheet remains conservative with no material debt.

Trade receivables and payables are generally highest at year end due to the traditional sales peak in May/June. Trade and other receivables at 30 June 2015 were $153.7 million and trade and other payables $234.6 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 $103.4 million to $109.0 million, despite acquisition and investment payments of $7.8 million, due to these temporary surplus funds combined with the strong underlying operating cash flow. At year end the net cash position was $27.0 million.

The key trade receivables indicator of average days' sales outstanding decreased and remained well ahead of target at 27 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 increased from $2.5 million to $3.9 million, reflecting the general increase in the volume of product held in our warehousing and configuration centres pending delivery to customers.

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, a strong performance in Queensland is key to the overall performance of the group. With increased investment in the public sector after the restraint of the previous two years, our business performed strongly across all areas of specialisation with revenue up 9% and gross profit up 10%.

New South Wales and Australian Capital Territory

While revenue declined 7% across our business, change in the mix of product and services pushed gross profit up 4% on the previous year.

Victoria and Tasmania

During the year we expanded to Tasmania, opening offices in Hobart and Launceston. While in its infancy, the revenue this business contributed allowed the combined operation to record 5% growth in revenue. However, market conditions remained very competitive and caused margins to decline, resulting in no growth in gross profit.

South Australia

Performance of this location was underpinned by a strong performance in Infrastructure Solutions. While revenue increased only slightly at 1%, gross profit increased by 4%.

Western Australia

In relative terms, this location was our strongest performer. Revenue increased 38%, underpinned by very solid growth in Infrastructure Solutions. With competitiveness at high levels given the overall environment in the state, margins declined slightly and restricted the growth in gross profit to 28%.

OPERATING RESULTS BY AREA OF SPECIALISATION

In the previous year we restructured our organisation, moving from five areas of specialisation to three - Software Solutions, Infrastructure Solutions and Managed Solutions. This year we added a specialist Applications Solutions business to capitalise on the investment Data#3 made in Discovery Technology and its Wi-Fi Analytics platform CCeX. We also expanded our consulting business with the acquisition of Business Aspect.

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 premises to outsourced to cloud, to supply and manage the license, deploy and manage the software, and customise and improve user adoption of the software.

Licensing revenue matched the previous year and with growth in annuity-based subscriptions. This was achieved, as it was 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 grew strongly, but with increased investment in productizing its offerings and the lag in achieving returns, business productivity services performance declined on the previous year. Professional services grew revenue strongly, but in so doing sacrificed margin, and with higher costs, delivered a lower contribution to profit. Overall, Software Solutions consolidated performance was in line with the previous year.

Data#3 remained a member of Microsoft's Worldwide Licensing Solutions Provider Partner Engagement Board and its Partner Advisory Council and continued to contribute 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 as Devices and Deployment Partner of the Year.

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.

This business had its best performance in a number of years with revenue growing 13%. Performance was particularly strong in the infrastructure sales area, both on premises and in the private cloud, with product revenues growing 12% and services up 20%.

Data#3 retained its position on 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 market that continued to be very challenging for all players. Revenue increased, but with higher cost to serve, contribution to profit was in line with the previous year.

Strategically, expansion of our sales capacity was most evident in our outsourcing business. However, with the lag in securing new contracts, overall revenue grew only 4% and our continued investment impacted profitability.

Application Solutions

Application Solutions helps our enterprise, government and education customers improve the productivity of their people through content management, business process management, document and records management, workflow and forms, mobile applications, portals and collaboration, business intelligence and education solutions. Based on proven software IP and the expertise of our development and implementation team, our customers benefit from software that meets their specific needs with the flexibility their operating environments demand. Application Solutions also takes to market Discovery Technology's CCeX data and location-based services and analytics platform.

The strategic expansion of our sales capacity was also evident in this business and drove revenues up 36% albeit off a small base. However, with the accompanying expense increase, contribution to profit declined over the previous year.

Consulting (including Business Aspect)

Our consulting capability is vested in our acquisition of Business Aspect. Business Aspect helps our customers align their technology investment to their business objectives through expertise in services for strategy, planning and execution, architecture, business transformation, risk management and business continuity, and consultant recruitment and augmentation.

Business Aspect became part of Data#3 in September 2014. The year was one that embodied significant change for the business with the Queensland team relocating to the Data#3 office in Brisbane and with expansion of the business down the eastern seaboard. Also, improved time recording and billing systems were implemented. This activity came with some short-term impact on financial performance but with the potential to drive strong growth in the coming year. In the ten months to 30 June 2015, it delivered $10.4 million in revenue and, while slightly down on its 'year one earn-out' target, a positive contribution to group profit.

Discovery Technology

Data#3 acquired a 46.2% interest in Discovery Technology on 1 August 2014 for $2.5 million. Subsequent to the financial year end, on 3 July 2015 it acquired an additional 15.4% interest for $0.5 million. Discovery contributed $0.5 million of profit in the current year. The sale of Discovery Technology's CCeX also contributed revenue to Data#3's Infrastructure and Managed Solutions businesses through the sale of managed Wi-Fi services.

OUR STRATEGY AND PLAN FOR 2016

The strategic planning process for 2016–2018 identified the following key external economic and business factors that will influence performance over the coming year:

- Economic outlook is neutral for commercial customers—our customers range from neutral to positive.
- Economic outlook for public sector is mixed, with increasing cost pressures and unstable governments.
- Education and health sectors will continue to grow.
- The resource sector will continue to slow.

It also identified the following trends in adoption and use of business technology:

- Digital solutions will increasingly drive new business models.
- A rapid shift to consumption-based and service-centric solutions is occurring.
- Security is the number one priority.
- Cloud, big data and mobile are big drivers.
- Software is dominating infrastructure.
- Increased IT spend is occurring outside of Business IT.

Our customer survey also gave us important insights into their priorities. With the increasing move to a mobile operating environment and storage of data in the cloud, security has emerged as the highest priority for the Business IT group.

The survey also gives us additional insight into intended expenditure for the 2016 financial year. On balance, planned expenditure across the survey respondents indicated some small degree of optimism.

Our Plan

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

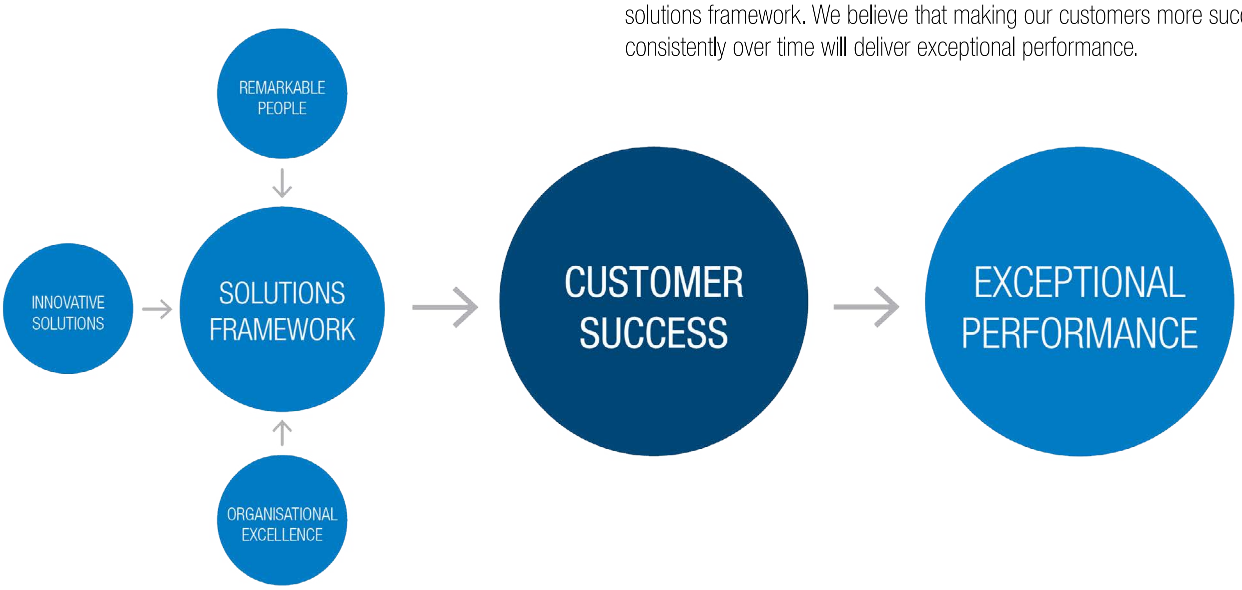
Acknowledging the transition that is continuing within our customers and in technology, our **vision** remains 'to be an exceptional company in a world in transition'.

Our **core purpose** is to enable our customers' success.

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

- Honesty
- Excellence
- Agility
- Respect
- Teamwork

Our **strategy** is the pathway to enable our customers' success. It unites innovative 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 2016 has five strategic priorities with specific targets and actions within each for each part of the business that map to each staff member's performance plan. The strategic priorities are

1. innovative solutions that are increasingly service centric in a Hybrid IT world;
2. remarkable people who are high performing, evolving and valued,
3. organisational excellence through optimisation, alignment and planned transformation;
4. customer success by enabling business and technology outcomes; and
5. exceptional performance that delivers sustainable value for our shareholders and other stakeholders.

These introduce some new elements to the priorities of the previous year:

- 'Innovative' rather than 'outstanding' solutions acknowledges the need to look for 'game-changing' solutions from our existing partners, from new partners and internally developed solutions that are relevant to our customers' and technology's rapidly changing landscape.
- 'People who are evolving' recognises the need for individuals to upgrade their skills, as well as the company to provide the development programs.
- 'Organisation excellence through planned transformation' rather than 'continuous improvement' clearly indicates greater intent to drive the organisational transformation that is required to remain a leader.
- Customer success 'by enabling business and technology outcomes' rather than 'for Business IT and the Business Consumer' more specifically indicates the need to focus on our customers' business and on outcomes.
- 'Exceptional performance that delivers sustainable value for our shareholders and other stakeholders' rather than 'consistently improves returns to shareholders' emphasises the sustainability in value we must achieve for our shareholders and broadens performance to also deliver to other stakeholders of the company.

Executing our plan in 2016

We have implemented a refined organisation model for 2016 with five areas of specialisation—Consulting, Software, Infrastructure, Managed and Application Solutions, further consolidation in leadership and a programmatic approach to drive the continuing transition of our solutions, our people and our business under the banner 'T4—Transition Together Towards Tomorrow'. The graphic below shows the key execution elements:

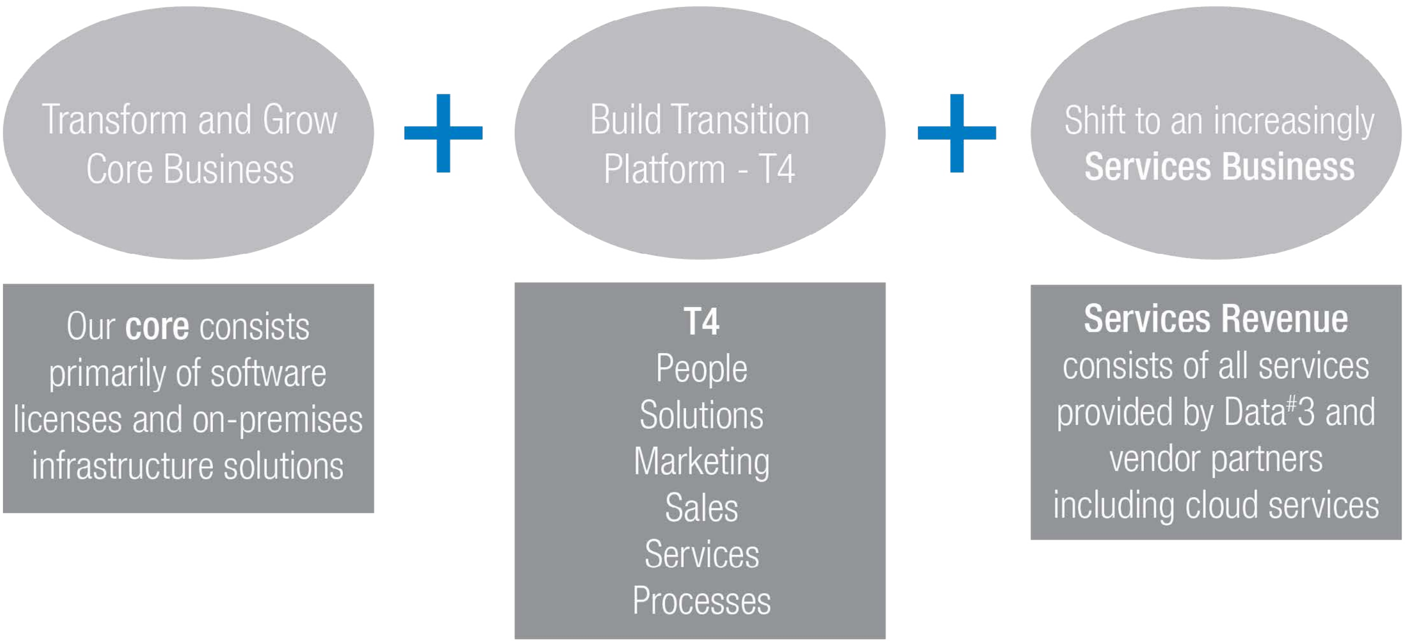
- continuing to drive growth of our core software licensing and infrastructure businesses with transformation of revenue from on-premises capex to consumption-based opex;
- the T4 transformation platform across all aspects of the business;
- increasing emphasis on service-centric revenues, both existing and new; and
- continual measurement and adjustment.

The plan contains three long-term objectives:

- return the business to improved and sustainable profit;
- significantly grow services revenue measured as a percentage of overall group revenue; and
- reduce the financial performance dependency on the month of June.

The key financial objective of the plan is to increase earnings over 2015. The plan anticipates relatively small growth in product revenues and strong growth in services (on premises, outsourced and cloud) and that this will come at improved overall margin. Expenses are anticipated to grow primarily through additional staff, but investments are also targeted for our maintenance services business to implement a new contract system and for our outsourcing business to improve and further automate service delivery.

We will continue to grow organically. We will establish new business units to address new market demands. We will look to partner or acquire to address new market opportunities. We will also continue to actively seek strategic acquisitions and new partnership opportunities to introduce new revenue streams.



BOARD OF DIRECTORS

RICHARD ANDERSON OAM

Non-executive Chairman

Richard joined the board of Data#3 Limited in 1997 and was appointed Chairman in September 2000. He is a member of the boards of Namoi Cotton 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 Managing Director of IBM Australia and New Zealand for the last five years before stepping down in 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 currently Chairman of the Industry Advisory Board and Chairman of the Business School Advisory Board at the University of Technology, Sydney, and Chairman of Advance, a not-for-profit organisation that supports Australia's global community. Glen is also an independent non-executive director of Southern Cross Media Group Limited and Cochlear Limited. In 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, and 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. 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. He is also Chairman of Discovery Technology Pty Ltd.

SENIOR LEADERSHIP TEAM

LAURENCE BAYNHAM

Chief Executive Officer

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

MICHAEL BOWSER

Executive General Manager – Services

Michael joined Data#3 in 1987 and has worked in many key positions within the company including technical services, services management, sales, pre-sales management and state management roles for Queensland and NSW. He has been responsible for the creation and development of Data#3's original outsourcing, networking and consulting services including numerous sales and process programs within the business. His previous responsibilities as General Manager - Data#3 Shared Services included logistics, marketing, IT, HR and sales process management. In his current role, Michael has executive general management responsibility for all of Data#3's Professional and Managed Services and People Solutions. His role also includes Data#3's internal IT and sales process management teams

BRAD COLLEDGE

Executive General Manager – Software Solutions and Infrastructure Solutions

Brad holds a degree in Business Management from Queensland University of Technology. He has 26 years' experience in the business technology industry and joined Data#3 in 1995. Brad started the Licensing Solutions business and subsequently was responsible for the broader Software Solutions business and the Infrastructure Solutions business. He was appointed to his current Executive General Manager role on 1 July 2015. Brad is a Microsoft Certified Professional in Licensing Delivery and Software Asset Management and is a member of the Microsoft Worldwide 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 28 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 9 years and was then appointed as General Manager – Integrated Solutions and Infrastructure 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 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 has developed strategic relationships within the market, enabling continual growth and development of the South Australian branch. He has 30 years' experience in the business technology industry, holding roles spanning administrative, sales and management positions with companies such as IBM, Volante and Commander.

JELAINE DONCASTER

General Manager – Software Solutions

Jelaine joined Data#3 in 2002, helping to grow the Licensing Solutions business nationally across Australia and the Pacific Islands. Jelaine was also instrumental in building the Asset Management and Licensing Consulting practices within Software Solutions. Jelaine is responsible for Licensing Solutions, Asset Management Services, Business Productivity Services and Professional Services Sales within Data#3. Jelaine has a Bachelor of Arts from the Queensland University of Technology (QUT) and was promoted to General Manager – Software Solutions in July 2015.

SENIOR LEADERSHIP TEAM (CONTINUED)

BREM HILL

Chief Financial Officer and Company Secretary

Brem joined Data#3 in 1991 following positions at Defiance Milling, Royal Bank Leasing (London) and IBM Australia. He is responsible for the finance & accounting and risk & legal 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.

KEVIN LEIGHTON

General Manager – Managed Services

Kevin joined Data#3 in July 2014 and was promoted to General Manager in July 2015. Kevin has over 25 years of varied industry experience across a wide range of consulting, delivery and business leadership roles in both the public and private sector. Kevin is an experienced leader of people, teams and partners, and is confident leading passionate people through periods of debate and change in complex enterprise organisations. Kevin has worked with large global, national and ANZ Service Providers and over the last decade has focused on the pursuit of excellence in Managed Application and Infrastructure Service.

DAVID LENNON

General Manager – Business Aspect

David is a founding partner and General Manager of the management and technology consulting firm Business Aspect (acquired by Data#3 in September 2014). His 25-year career covers management and technology roles across engineering, business development, and more recently consulting. David holds a Bachelor of Engineering (Electrical and Electronics) from James Cook University, and a Masters in Business Administration from Queensland University of Technology. Prior to co-founding Business Aspect he held positions in Australia and Asia with Telstra (and related Asia-based companies in Vietnam and Singapore), Logica (Asia-Pacific), and Dimension Data

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 31 years' business technology experience in the Western Australian marketplace, holding executive management positions for the past 23 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

RAY MERLANO

General Manager – Queensland

Ray was appointed as General Manager – Queensland in June 2014. He has been involved in the ICT Industry for 27 years with more than 16 years of sales and sales management experience at Data#3. Ray holds a Bachelor of Science (Biology) from Pennsylvania State University and a Diploma of Education from Florida Atlantic University. Ray has also held roles in sales at Ferntree Computer Systems, Microsoft Australia and branch management at Computer Associates Australia. He is a member of the Queensland AIIA Committee and Queensland AIIA Government Engagement SIG.

PHIL REDMOND

General Manager – Professional Services

Phil holds a Bachelor of Business from the University of Southern Queensland. Prior to joining Data#3 in 2007 he held senior management positions in federal, state and local government. He has 20 years' experience delivering ICT services. Since his commencement with Data#3 he has focused on the delivery of professional services as a state and national manager. He was promoted to General Manager in July 2015.

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 Australia 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

JOHN TAN

General Manager – Maintenance Solutions

John joined Data#3 in 2007 to lead the national maintenance practice. John holds a Bachelor of Business (Accounting) degree from Queensland University of Technology. John worked in various roles in the finance and accounting industry before transitioning to the IT industry in 1999. John has over 15 years' experience working in technical services, service management, and IT management roles in both Australia and the UK. He was promoted to General Manager in July 2015.


Data#3

CORPORATE SOCIAL RESPONSIBILITY

Our commitment to the Data#3 social responsibility program continued in 2015, 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 we regularly make corporate donations to national and regional charities. We also work with our customers to support their corporate citizenship goals by helping them to reduce their energy use with green technology solutions and assisting them to dispose of their IT equipment responsibly.

OUR COMMITMENT TO 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: Bush Heritage, WaterAid Australia, Day of Difference, The Smith Family, Endeavour Foundation, Legacy, SAMHRI, Cancer Council Qld, World Vision, Rainbow Club, Act for Kids, and Royal Children's Hospital Foundation.
- We have supported the child sponsorship program through World Vision for 13 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. Moving forward we are expanding our commitment to our community and have welcomed the Starlight Foundation as our major charity partner. Throughout the coming year we will be working with them in a number of ways to provide a greater level of support.

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; and
- continually improve 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.

We finished the year with a total of 1,117 people, a combination of permanent, contracted and casual staff, compared to a total of 989 at the end of the previous year.

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, seven 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.

CORPORATE SOCIAL RESPONSIBILITY (CONTINUED)

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 2015 we received a 94.4% favourable response, up from 93.0% in the previous year. We think this is an outstanding outcome given the challenging year our people have faced. Our overall staff satisfaction was a record high.

Work Health and Safety

Ensuring the safety and wellbeing of our employees and contractors remains a critical aspect of our business operations. This sustained commitment to our people is best reflected in our safety performance, with our injury and illness statistics four times lower than our industry's average, and seven times lower than the national average.

Our business operations continue to see Data#3 workers and contractors in remote and high-risk locations domestically and abroad. This includes locations such as offshore oil rigs and vessels, open cut mine sites, LNG sites, and large scale construction projects.

In addition to the deployment of our people to high-risk work environments, we acknowledge that our office-based workers are not without exposure to risks to their health and wellbeing. Whilst perceived within Australian industry to be relatively low risk, working within office environments may expose people to a variety of ergonomic risks, specifically long-term musculoskeletal disorders. An increased focus in this area has seen the introduction of mobile stand-up workstations throughout our office environments, and further initiatives will be investigated in the coming year.

Whilst we continue to perform at an exceptional level, we remain cognizant of the fact that there is no finish line in safety. Work continues to improve our systems and processes to ensure we meet our legislative obligations, our commitments to our customers, and our commitment to our workers by providing work environments that are free from unnecessary risks.

CORPORATE GOVERNANCE STATEMENT

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

In developing Data#3's corporate governance framework, the board has considered the third edition of 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 the Recommendations throughout the 2015 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 the following:

- 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, chief executive officer 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; and
- authorising and monitoring major strategic investments and capital expenditure.

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

In November 2014 Mr Baynham was appointed as CEO, and during the remainder of the 2015 financial year the responsibility for the management of the business was transitioned from the MD to the CEO. This was in accordance with the succession plan announced at the 2014 Annual General Meeting (AGM), in preparation for the completion of the MD's employment agreement in December 2015. Prior to his appointment as CEO, Mr Baynham was Group General Manager for ten years and contributed as a key member of Data#3's team for 21 years in total. Consequently the CEO is now the board's principal link to the senior leadership team. The CEO 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 MD, the CEO and other members of the senior leadership team.

Whilst no new directors were appointed during the 2015 financial year, the board engaged an external consultant to assist it with the assessment of the board's skills, to help develop the board succession plan and to assist in the search for new directors. These actions were taken in preparation for the MD's retirement in December 2015 and to facilitate a broader renewal of the board.

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

One new senior executive was appointed during the year as a result of the Business Aspect acquisition, and three others joined the senior leadership team through internal promotion effective from 1 July 2015.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

The performance of Data#3's senior executives is assessed in accordance with the process adopted by the board against pre-set financial and non-financial goals. The performance of the MD and the CEO is formally assessed annually by the chairman, and that assessment is reviewed by the other non-executive directors. The CEO is responsible for evaluating the performance of each member of the senior leadership team. A formal evaluation of the MD, CEO and other senior executives was undertaken during the year in accordance with this process.

The board and its committees have also established a structured self-assessment process to regularly review and evaluate the performance of the board as a whole, its committees, and the board's interaction with management. This is an internal performance evaluation that uses a detailed assessment questionnaire. The results are reviewed by the chairman and presented to the board. A performance evaluation was completed during the 2015 financial year in accordance with this process.

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

Diversity

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

The diversity policy seeks to provide a workplace where

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

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

The measurable objectives adopted for the 2015 financial year and an update on the company's progress towards achieving those objectives is set out in the following table. The result in 2015 was disappointing due to the unexpected departure of some members of the senior leadership team and the acquisition activity undertaken during the year.

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

- The proportion decreased from 33% to 25%.

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

- The proportion decreased from 32% to 30%.

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

- The proportion decreased from 25% to 18%.

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

- The appointment of another director was not considered during the 2015 financial year.

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

	2015		2014	
	Female	Male	Female	Male
All employees	25%	75%	33%	67%
National management team	30%	70%	32%	68%
Senior leadership team	18%	82%	25%	75%
Board of directors	0%	100%	0%	100%

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The board has determined that its optimum composition will

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

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

The board is currently composed of five directors. The membership of the board is set out in the directors' report on pages 25 to 26. Details of each individual director's background is set out in the directors' report on pages 25 to 26, and the directors' profiles on page 12.

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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; and
- appointing new directors and the CEO.

The remuneration and nomination committee met four times during the year. Members' attendance at these meetings is set out on page 26 in the directors' report.

Board skills and experience

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

It is not expected that all directors will have skills and experience in all areas; however, it is understood that the board as a whole must have the skills and experience identified as being necessary, and the board considers that this is the case. During the 2015 financial year a board skills matrix was developed to identify and assess the collective board skills in relevant competency areas. The matrix identified that the board exhibited strong skills and experience in commercial acumen, problem solving, negotiation and financial management. Areas identified for further consideration were high-growth company exposure, marketing, and digital and social media experience. The matrix will be an important input to assist the board in identifying potential future directors to complement the board's current skill set and to address areas of future focus and development for existing directors.

Independence

The board has adopted specific principles in relation to the assessment of directors' independence, which it has applied in making this judgment for each director during the year. The chairman of the board, Mr Anderson, is considered an independent, non-executive director. Mr Boreham, Mr Johnston and Mr Powell (and therefore the majority of the board) are also considered independent non-executive directors. Whilst Mr Anderson has been on the board since 1997 and Mr Powell has been on the board since 2002, both have been assessed as independent, and the board has determined that their appointment remains in the best interests of Data#3 because of the substantial knowledge and expertise they bring to the board. Mr Johnston has been on the board since 2007 and Mr Boreham since 2011.

The roles of MD and CEO are performed by separate individuals who report to the chairman.

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

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

The board meets as often as the directors determine necessary to fulfil its responsibilities and duties—generally on a monthly basis. The number of meetings of the board and its committees held during the 2015 financial year and the number of meetings attended by each director is disclosed in the directors' report.

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

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

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

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

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

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

Code of conduct

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

Corporate social responsibility

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

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

Audit and risk committee

The board has established an audit and risk committee which is composed of three independent non-executive directors, being 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 12. 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 MD, CEO and CFO participating by invitation. Members' attendance at these meetings is set out on page 26 in the directors' report. The audit and risk committee has, within the scope of its responsibilities, unlimited access to members of the senior leadership team and access to the external auditor. Directors receive detailed financial and operational reports from senior management regularly and managers are available to discuss the reports with the board if necessary.

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

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

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

Continuous disclosure policy

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE (CONTINUED)

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

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

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

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

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

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

Risk management policy

The board has established a risk management policy and procedures (in accordance with AS/NZ ISO 31000) that promote the identification, assessment, monitoring and managing of risk, and the identification of any material changes to Data#3's risk profile. A copy of 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.

Audit and risk committee

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

The audit and risk committee reviewed the copany's risk management framework in the 2015 financial year and is satisfied that management has ensured sound risk management practices are embedded into the operations of the business, and that management has continued to review and improve those practices. The audit and risk committee and the board receive regular reports from management regarding the effectiveness of Data#3's management framework and any material business risks that have been identified.

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

CORPORATE GOVERNANCE STATEMENT (CONTINUED)

PRINCIPLE 7: RECOGNISE AND MANAGE RISK (CONTINUED)

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

- changes in customers' ICT procurement models
- attraction and retention of key personnel
- quality and skill of the senior leadership team
- market demand for ICT products and services
- key vendor channel strategy and customer engagement models
- identification of ICT industry opportunities and new technology trends
- effective positioning of Data#3's solutions in the market
- internal information technology systems and processes
- delivery of customer solutions within agreed expectations
- competitor activity

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

- identification and assessment of strategic risks through an annual review;
- regular review and reporting of operational risks relating to individual business units;
- budgeting and reporting systems to monitor monthly performance against budgets and targets;
- written reports from senior executives provided at monthly board meetings;
- delegations of authority, including approval limits for operational and capital expenditure;
- a comprehensive annual insurance review program;
- workplace health and safety reviews
- half yearly financial reviews conducted by the company's auditors; and
- internal and external quality assurance audits (Data#3 Limited is 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; and
- remuneration for directors.

Data#3's remuneration policies and practices in relation to senior executives, including the amount of remuneration, are as disclosed in Data#3's remuneration report on pages 27 to 32. Data#3 has clearly differentiated the structure of non-executive directors' remuneration from that of the MD, CEO and senior executives.

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

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Data#3 Limited (the company) and the entities it controlled at the end of, or during, the year ended 30 June 2015. Throughout the report, the consolidated entity is referred to as the group. "We", "our", or "us" refer in this report to the directors speaking on behalf of the group.

1. PRINCIPAL ACTIVITIES

We provide information technology solutions which draw on our broad range of products and services and 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 group's activities during the year.

2. DIVIDENDS

	Cents	$'000
Final dividend recommended for the year ended 30 June 2015	4.2	6,467
Dividends paid in the year:		
Interim for the year ended 30 June 2015	2.1	3,234
Final for the year ended 30 June 2014	3.0	4,619
		7,853

3. OPERATING AND FINANCIAL REVIEW

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

4. BUSINESS STRATEGY

Our vision is to remain an exceptional company 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 9 of the attached Operating and Financial Review.

DIRECTORS' REPORT (CONTINUED)

5. EARNINGS PER SHARE

	2015	2014
	Cents	Cents
Basic and diluted earnings per share	6.89	4.89

6. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

7. SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Except as disclosed in note 30 to the financial statements, no matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

- the group's operations in future financial years; or
- the results of those operations in future financial years; or
- the group's state of affairs in future financial years.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS

Information on likely developments and expected results is included in the attached Operating and Financial Review on pages 9 and 10.

9. DIRECTORS

The names and details of Data#3 Limited'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

DIRECTORS' REPORT (CONTINUED)

9. DIRECTORS (CONTINUED)

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), former Chair of Screen Australia (from 2008 to 2014) and Chair of the Australian Government's Convergence Review in 2011 and 2012.

During the past three years Mr Boreham has also served as a non-executive director of Southern Cross Media Group Limited (director since 2014) and Cochlear Limited (director since 2015). Mr Boreham is also Chair of Advance, a not-for-profit organisation that supports Australia's global community.

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; Chairman of Discovery Technology Pty Ltd; 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 and 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
Member of remuneration and nomination committee

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 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
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 are shown below:

Name	Full meetings of directors		Meetings of audit and risk committee		Meetings of remuneration and nomination committee	
	Meetings attended	Meetings held *	Meetings attended	Meetings held *	Meetings attended	Meetings held *
R A Anderson	18	18	4	4	4	4
G F Boreham	17	18	**	**	**	**
J E Grant	17	18	**	**	**	**
I J Johnston	16	18	4	4	4	4
W T Powell	18	18	4	4	4	4

* 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 fellow 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

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 and chief executive officer 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 2015 the proportion of the planned total executive remuneration for key management personnel that was performance related (excluding the long-term incentives discussed in Section C below) was 31% (2014: 30%). In 2015 actual short-term bonuses as a proportion of planned total executive remuneration was 29% (2014: 23%).

11. REMUNERATION REPORT (CONTINUED)

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 2015 the planned profit-related component represented 68% of the total executive bonuses (2014: 70%). Profit targets for some areas of the business were not met in 2015, 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 and chief executive officer are eligible to earn long-term incentives in the form of a cash payment. Details of the incentives are set out in Section C "Service agreements" below.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The board determines remuneration of non-executive directors within the maximum amount approved by the shareholders from time to time. This maximum currently stands at $500,000 per annum in total for salary and fees, to be divided among the non-executive directors in such a proportion and manner as they agree.

Members of the board (non-executive directors) are paid a fixed remuneration comprising base fees, superannuation, and additional fees for those in the role of chair for the full board and chair of the audit and risk committee. Non-executive directors do not receive bonus payments or share options and are not provided with retirement benefits other than statutory superannuation. The board is composed of four non-executive directors and one executive director. The board undertakes a periodic review of its performance and the performance of the board committees.

DIRECTORS' REPORT (CONTINUED)

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 $	Superannuation $	Total $	% performance related
Non-executive directors								
Anderson, R.	2015	103,500	-	-	-	9,833	113,333	-
Chairman	2014	103,500	-	-	-	9,574	113,074	-
Boreham, G.	2015	65,000	-	-	-	6,175	71,175	-
	2014	65,000	-	-	-	6,013	71,013	-
Johnston, I.	2015	74,750	-	-	-	7,101	81,851	-
	2014	74,750	-	-	-	6,914	81,664	-
Powell, W.T.	2015	63,250	-	-	-	6,009	69,259	-
	2014	63,250	-	-	-	5,851	69,101	-
Subtotals – non-executive directors	2015	306,500	-	-	-	29,118	335,618	-
	2014	306,500	-	-	-	28,352	334,852	-
Executive director								
Grant, J.	2015	530,800	145,367	8,842	117,517	18,783	821,309	32.0
Managing Director	2014	530,801	117,140	8,842	113,269	17,775	787,827	29.2
Other key management personnel								
Baynham, L.	2015	375,278	242,210	29,221	-	18,783	665,492	36.4
Chief Executive Officer (1)	2014	306,000	158,949	6,987	-	17,775	489,710	32.5
Hill, B.	2015	240,000	114,234	5,864	-	18,783	378,881	30.2
Chief Financial Officer	2014	234,000	100,370	3,898	-	17,775	356,043	28.2
Totals – key management personnel	2015	1,452,578	501,811	43,927	117,517	85,467	2,201,300	
	2014	1,377,301	376,459	19,727	113,269	81,677	1,968,433	

(1) Mr L Baynham was promoted from Group General Manager to Chief Executive Officer on 21 November 2014.
No director or executive received compensation in the form of share-based payments during the year ended 30 June 2015 (2014: nil).

DIRECTORS' REPORT (CONTINUED)

11. REMUNERATION REPORT (CONTINUED)

C Service agreements

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

J Grant (Managing Director)

- Five-year service agreement effective until 31 December 2015 unless terminated under the terms of the agreement.
- A long-term incentive (LTI) is payable at the discretion of the board of directors based on Mr Grant's performance over the term of the agreement assessed against agreed financial and non-financial targets, 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 2015 the board approved an entitlement of $117,517 for the 2015 financial year (2014: $113,269). 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 (Chief Executive Officer)

- The agreement includes a long-term incentive (LTI) based on financial performance over the three financial years 2015 to 2017. The aim of the LTI remuneration element is to provide a LTI that would progressively accrue up to a maximum value of 50% of Mr Baynham's total remuneration (comprising base pay, bonuses and super), based solely on performance against the net profit after tax (NPAT) targets for each year, and payable at an appropriate time following the end of financial year 2017. The LTI is calculated as follows:
  - 10% of total LTI based on achievement of the 2015 NPAT target
  - 20% of total LTI based on achievement of the 2016 NPAT target
  - 70% of total LTI based on achievement of the 2017 NPAT target.

  The LTI entitlement is assessed for each financial year separately.
- Termination notice of six months is required.
- Payment of a termination benefit on termination due to redundancy by the company of six months of the packaged salary including performance-related and equity bonuses.

B Hill (Chief Financial Officer)

- 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.

11. REMUNERATION REPORT (CONTINUED)

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 2015 (2014: nil), no rights or options vested or lapsed during the year (2014: nil), and no rights or options were exercised during the year (2014: nil).

Interests in shares

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

	Balance 1 July 2013	Other changes*	Balance 30 June 2014	Other changes*	Balance 30 June 2015
Directors:					
Anderson, R.	600,000	-	600,000	-	600,000
Boreham, G.	83,150	55,211	138,361	-	138,361
Grant, J.	4,666,450	-	4,666,450	-	4,666,450
Johnston, I.	600,000	-	600,000	-	600,000
Powell, W.T.	3,800,000	(100,000)	3,700,000	(160,000)	3,540,000
Other executives:					
Baynham, L.	475,360	-	475,360	-	475,360
Hill, B.	516,650	-	516,650	-	516,650
	10,741,610	(44,789)	10,696,821	(160,000)	10,536,821

E Additional information

Relationship between remuneration and company performance

The overall level of executive reward takes into account the group's performance over a number of years, with greater emphasis given to improving performance over the prior year. Since 2010 total shareholder return was 7.7%. Our net profit grew from 2010 to a best-ever result in 2011, but since 2011 the difficult market conditions have seen the net profit decrease each year until 2014, resulting in a compounded average decrease in net profit of 0.6% since 2010. Over the same period average executive remuneration has increased by a compounded average rate of 7.6% 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.	92%	8%
Grant, J.	94%	6%
Hill, B.	95%	5%

2014 Annual General Meeting

We received 97% "yes" and open proxy votes on our Remuneration Report for the 2014 financial year, and the vote at the AGM was a unanimous "yes".

DIRECTORS' REPORT (CONTINUED)

11. REMUNERATION REPORT (CONTINUED)

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.

	2015	2014
	$	$
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.

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, we paid a premium of $34,682 to insure the directors and members of the executive management team against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. Our executive officers are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings involving them as such officers if judgement is given in their favour or if they are acquitted or granted relief.

14. ENVIRONMENTAL REGULATION AND PERFORMANCE

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

15. ROUNDING

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and 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.

DIRECTORS' REPORT (CONTINUED)

16. AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Pitcher Partners continued as our auditor in 2015. We employ Pitcher Partners on assignments additional to its statutory duties where the firm's expertise and experience with our company are important. Fees we paid or owed to the auditor for these non-audit services during the year are included in the following table of total fees paid or payable to the auditor:

	2015	2014
	$	$
Audit and other assurance services		
Audit and review of financial statements	145,000	150,000
IT controls review services	-	-
	145,000	150,000
Non-audit services		
Acquisition due diligence services	60,600	57,550
Tax compliance services	7,000	7,400
	67,600	64,950
Total remuneration	212,600	214,950

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
20 August 2015

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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Pitcher Partners is an association of independent firms
Brisbane | Melbourne | Sydney | Perth | Adelaide | Newcastle

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 year ended 30 June 2015, 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

J. Evans

J J Evans
Partner
Pitcher Partners

Brisbane
20 August 2015

FINANCIAL REPORT

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Revenue			
Sale of goods	2	709,196	697,319
Services	2	160,247	134,776
Other	5	1,027	1,500
		870,470	833,595
Expenses			
Changes in inventories of finished goods		1,321	(869)
Purchase of goods		(644,362)	(634,408)
Employee and contractor costs directly on-charged (cost of sales on services)		(51,585)	(41,907)
Other cost of sales on services		(45,333)	(36,042)
Internal employee and contractor costs		(97,781)	(92,854)
Telecommunications		(1,493)	(1,396)
Rent	6	(6,175)	(5,883)
Travel		(1,784)	(1,622)
Professional fees		(655)	(583)
Depreciation and amortisation	6	(2,644)	(2,516)
Finance costs	6	(196)	(147)
Other		(5,138)	(4,516)
Share of net profits of associate accounted for using the equity method	14	548	-
		(855,277)	(822,743)
Profit before income tax expense		15,193	10,852
Income tax expense	7	(4,589)	(3,328)
Profit for the year		10,604	7,524
Other comprehensive income, net of tax		-	-
Total comprehensive income		10,604	7,524
		Cents	Cents
Basic earnings per share	8	6.89	4.89
Diluted earnings per share	8	6.89	4.89

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2015

	Notes	2015 $'000	2014 $'000
Current assets			
Cash and cash equivalents	10	108,966	103,427
Trade and other receivables	11	153,667	146,936
Inventories	12	3,915	2,526
Other	13	2,997	3,193
Total current assets		269,545	256,082
Non-current assets			
Investment accounted for using the equity method	14	3,057	-
Property and equipment	15	6,458	6,021
Deferred tax assets	7	2,332	2,342
Intangible assets	16	12,264	7,341
Total non-current assets		24,111	15,704
Total assets		293,656	271,786
Current liabilities			
Trade and other payables	17	234,051	216,944
Borrowings	18	402	756
Current tax liabilities		1,186	98
Provisions	19	2,763	1,984
Other	20	15,606	15,249
Total current liabilities		254,008	235,031
Non-current liabilities			
Borrowings	18	-	402
Provisions	19	2,880	2,231
Other	20	395	500
Total non-current liabilities		3,275	3,133
Total liabilities		257,283	238,164
Net assets		36,373	33,622
Equity			
Contributed equity	22	8,278	8,278
Retained earnings		28,095	25,344
Total equity		36,373	33,622

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2015

	Number of Ordinary Shares	Contributed Equity	Retained Earnings	Total Shareholders' Equity
	'000	$'000	$'000	$'000
Balance at 1 July 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
Profit for the year	-	-	10,604	10,604
Other comprehensive income, net of tax	-	-	-	-
Total comprehensive income	-	-	10,604	10,604
Payment of dividends	-	-	(7,853)	(7,853)
Balance at 30 June 2015	153,975	8,278	28,095	36,373

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2015

	Notes	2015 $'000	2014 $'000
Cash flows from operating activities			
Profit for the year		10,604	7,524
Depreciation and amortisation		3,376	2,895
Share of net profit from equity-accounted investment		(548)	-
Unwinding of discount on provisions		100	-
Bad and doubtful debts		10	207
Loss on disposal of property and equipment		-	1
Other		-	15
Change in operating assets and liabilities			
(Increase) in trade receivables		(3,615)	(35,311)
(Increase)/decrease in inventories		(1,389)	706
(Increase) in other operating assets		(506)	(4,338)
(Increase) in net deferred tax assets		(430)	(156)
Increase in trade payables		14,267	47,925
Increase in unearned income		399	5,483
Increase in other operating liabilities		68	3,999
Increase/(decrease) in current tax liabilities		1,140	(120)
Increase in provision for employee benefits		786	589
Net cash inflow from operating activities		24,262	29,419
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	29	(5,298)	-
Payment for investment in associate	14	(2,509)	-
Payments for property and equipment	15	(2,103)	(1,453)
Payments for software assets	16	(204)	(1,390)
Net cash (outflow) from investing activities		(10,114)	(2,843)
Cash flows from financing activities			
Payment of dividends	9	(7,853)	(7,776)
Finance lease payments	24	(756)	(695)
Net cash (outflow) from financing activities		(8,609)	(8,471)
Net increase in cash and cash equivalents held		5,539	18,105
Cash and cash equivalents, beginning of financial year		103,427	85,322
Cash and cash equivalents, end of financial year	10	108,966	103,427

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies we 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 the group consisting of Data#3 Limited ("the company") and its subsidiaries. References in this financial report to "we", "us" or "our" refer to management speaking on behalf of the consolidated group ("the group").

(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 2014. 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

(i) Subsidiaries

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.

(ii) Associates

Associates are all entities over which we have significant influence but not control or joint control. This is generally the case where we hold between 20% and 50% of the voting rights. We account for investments in associates using the equity method of accounting (see note (m) below), after initially being recognised at cost.

(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.

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition (continued)

(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)

(e) Income tax (continued)

Tax consolidation legislation

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

(f) Leases

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

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

(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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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 re-evaluate 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Investments and other financial assets (continued)

Subsequent measurement

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

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

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

(m) Investments in associates

Associates are all entities over which we have significant influence, but not control or joint control. This is generally the case where we hold between 20% and 50% of the voting rights. We account for investments in associates using the equity method. Under the equity method, investments are initially recognised at cost and adjusted thereafter to recognise our share of post-acquisition profits or losses of the investee in our profit or loss, and our share of movements in other comprehensive income of the investee in our comprehensive income. We recognise dividends received or receivable from investees as a reduction in the carrying amount of the investment.

When our share of losses in an equity-accounted investment equals or exceeds our interest in the investee, including any other long-term receivables, we do not recognise further losses unless we have incurred obligations or made payments on behalf of the investee. We eliminate unrealised gains on transactions between our group and our investees to the extent of our interest in these investees. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investees have been changed where necessary to ensure consistency with our group's accounting policies.

We test the carrying amount of equity-accounted investments for impairment in accordance with our accounting policy set out in note 1(k).

(n) Property and equipment

Property and equipment is stated at cost, less accumulated depreciation and amortisation. We depreciate our equipment using the straight-line method to allocate cost, net of residual values, over the estimated useful lives of the assets, being three to 20 years. We calculate amortisation on leasehold improvements using the straight-line method over two to ten years. If an asset is impaired, we immediately write down its carrying amount to its recoverable amount (refer to note 1(k)).

(o) Intangible assets

Goodwill

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

Software

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Intangible assets (continued)

Customer relationships

We capitalise acquired customer relationship assets at fair value based on an assessment of future cash flows. Customer relationship assets are carried at cost less accumulated amortisation and impairment losses. We calculate amortisation using the straight-line method over the estimated useful lives of the respective assets, generally three to five years. We test customer relationship assets for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired, and we write its value down when impaired (refer to note 1(k)).

(p) 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.

(q) 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.

(r) 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.

(s) 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 corporate bonds with terms to maturity that match the estimated future cash flows as closely as possible. Liabilities for sick leave, which are non-vesting, are recognised when the leave is taken and measured at the rates paid or payable.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) 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 corporate bonds with terms to maturity that match the estimated future cash flows as closely as possible. Liabilities for sick leave, which are non-vesting, are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

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

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

Post-employment benefits

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

Bonus plans

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

Share-based compensation benefits

Share-based compensation benefits may be provided to employees via the Data#3 Limited Deferred Share and Incentive Plan, an employee option plan, and an employee share ownership plan (ESOP). As at balance sheet date we have not provided any share-based compensation benefits to our employees under these plans.

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

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) 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.

(u) Comparatives

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

(v) Corporate information

The financial report was authorised for issue in accordance with a resolution of the directors on 20 August 2015. 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

(w) 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 2015, 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*	1 January 2018	1 July 2018
AASB 15 *Revenue from Contracts with Customers*	1 January 2018	1 July 2018
AASB 2014-3 *Accounting for acquisitions of interests in joint operations*	1 January 2016	1 July 2016
AASB 2014-4 *Clarification of acceptable methods of depreciation and amortisation*	1 January 2016	1 July 2016
AASB 2014-9 *Equity method in separate financial statements*	1 January 2016	1 July 2016
AASB 2014-10 *Sale or contribution of assets between an investor and its associate or joint venture*	1 January 2016	1 July 2016
AASB 2015-2 *Disclosure Initiative: Amendments to AASB 101*	1 January 2016	1 July 2016

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Accounting standards not yet effective (continued)

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

AASB 9 - AASB 9 provides guidance on the classification and measurement of financial assets, which is the first phase of a multi-phase project to replace AASB 139 Financial Instruments: Recognition and Measurement. Under the new guidance, a financial asset is to be measured at amortised cost only if it is held within a business model whose objective is to collect contractual cash flows and the contractual terms of the asset give rise on specified dates to cash flows that are payments solely of principal and interest (on the principal amount outstanding). All other financial assets are to be measured at fair value. Changes in the fair value of investments in equity securities that are not part of a trading activity may be reported directly in equity, but upon realisation those accumulated changes in value are not recycled to the profit or loss. Changes in the fair value of all other financial assets carried at fair value are reported in the profit or loss. We anticipate this standard will have no material impact on the financial statements, but the full impact has not yet been assessed. In the second phase of the replacement project, the revised standard incorporates amended requirements for the classification and measurement of financial liabilities. The new requirements pertain to liabilities at fair value through profit or loss, whereby the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than profit or loss. There will be no impact on the group's accounting for financial liabilities, as we do not have any liabilities at fair value through profit or loss. Recent amendments as part of the project introduced a new hedge accounting model to simplify hedge accounting requirements and more closely align hedge accounting with risk management activities. There will be no impact on the group's accounting, as we do not utilise hedge accounting.

AASB 15 - 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.

AASB 2014-3 - This amendment to AASB 11 clarifies the accounting for the acquisition of an interest in a joint operation where the activities of the operation constitute a business. We anticipate there will be no impact on our financial statements, as we currently do not engage in joint operations.

AASB 2014-4 - This amendment clarifies that a revenue-based method of depreciation or amortisation is generally not appropriate. There will be no impact on our financial statements, as we do not use revenue-based methods of depreciation or amortisation.

AASB 2014-9 - This amendment allows entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates. We anticipate there will be no impact on our financial statements, as we do not prepare separate financial statements.

AASB 2014-10 - The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. We anticipate there will be no impact on our financial statements, as we do not intend to sale or contribute assets to an associate or joint venture in the foreseeable future.

AASB 2015-2 - The amendments clarify a number of presentation issues and highlight that preparers are permitted to tailor the format and presentation of the financial statements to their circumstances and the needs of users. This interpretation will have no material impact on our financial statements but will result in refinement of our financial statements. We have not yet assessed the full impact of the amendments.

Other than as noted above, the adoption of the various Australian Accounting Standards and Interpretations and IFRSs on issue but not yet effective will not impact our accounting policies. However, the pronouncements may result in changes to information currently disclosed in the financial statements. We do not intend to adopt any of these pronouncements before their effective dates.

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 2015 (2014: 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.

NOTE 2. SEGMENT INFORMATION **(CONTINUED)**

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 2015 and 2014.

	Product		Services		Total	
	2015	2014	2015	2014	2015	2014
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue						
Total revenue	709,196	697,319	168,416	140,122	877,612	837,441
Inter-segment revenue	-	-	(8,169)	(5,346)	(8,169)	(5,346)
External revenue	709,196	697,319	160,247	134,776	869,443	832,095
Costs of sale						
Cost of goods sold	(643,041)	(635,277)	-	-	(643,041)	(635,277)
Employee and contractor costs	-	-	(51,585)	(41,907)	(51,585)	(41,907)
Other costs of sales on services	-	-	(45,333)	(36,042)	(45,333)	(36,042)
Gross profit	66,155	62,042	63,329	56,827	129,484	118,869
Other expenses	(46,763)	(44,518)	(59,418)	(55,430)	(106,181)	(99,948)
Segment profit	19,392	17,524	3,911	1,397	23,303	18,921
Unallocated corporate items						
Share of net profit of equity-accounted investment					548	-
Interest and other revenue					1,027	1,500
Internal employee and contractor costs					(4,548)	(4,497)
Rent					(1,310)	(1,264)
Depreciation and amortisation					(2,230)	(2,253)
Other					(1,597)	(1,555)
					(8,110)	(8,069)
Profit before income tax					15,193	10,852
Reconciliation of revenue:						
External revenue					869,443	832,095
Unallocated corporate revenue:						
Interest and other revenue					1,027	1,500
Revenue					870,470	833,595

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 16.

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 2015 and 2014 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 2015		30 June 2014	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on hand	2.0%	8,966	1.4%	4,427
Deposits at call	2.7%	100,000	3.1%	99,000
Cash and cash equivalents	2.6%	108,966	2.9%	103,427

NOTE 4. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

	After-tax profit Higher/(lower)		Equity Higher/(lower)	
	2015	2014	2015	2014
	$000	$000	$000	$000
-0.25% (25 basis points) (2014: +0.25%)	(190)	181	(190)	181
+0.25% (25 basis points) (2014: +1.00%)	190	724	190	724

(b) Credit risk

Credit risk arises from the financial assets of our group, 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 2015 year, sales to one government customer comprised 7% of revenue (2014: 7%).
- At 30 June 2015, one government debtor comprised 13% of total debtors (2014: 25%), and the ten largest debtors comprised approximately 47% of total debtors (2014: 49%), of which 84% were accounts receivable from a number of government customers (2014: 94%).
- 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 2015 bad debt write-offs as a percent of the trade receivables carrying amount was 0.11% (2014: 0.04%).

(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 $2,609,000 (2014: 2,556,000) 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:

	2015	2014
	$'000	$'000
Multi-option bank facility	8,391	8,944

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 2015 was 6.1% (2014: 6.3%).

NOTE 4. FINANCIAL RISK MANAGEMENT (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	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000
At 30 June 2015					
Trade and other payables	234,136	-	-	234,136	234,136
Finance lease liabilities	412	-	-	412	402
	234,548	-	-	234,548	234,538
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

(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.

NOTE 5. OTHER REVENUE

	2015	2014
	$'000	$'000
Interest	1,012	1,296
Other recoveries	15	204
	1,027	1,500

NOTE 6. EXPENSES

	2015	2014
	$'000	$'000
Cost of goods sold	643,041	635,277
Depreciation and amortisation of property and equipment (note 15)	1,703	1,680
Amortisation of intangibles (note 16)		
Amortisation of intangibles included in depreciation and amortisation expense	691	836
Amortisation of intangibles included in other cost of sales on services	732	379
Amortisation of customer relationships	250	-
	1,673	1,215
	3,376	2,895
Employee benefits expense	90,671	85,031
Termination benefits expense	227	1,040
Defined contribution superannuation expense	7,276	6,619
Other charges against assets		
Impairment of trade receivables (note 11)	10	207
Rental expenses on operating leases		
Minimum lease payments	5,064	4,830
Straight lining lease rentals	270	229
Rental expenses – other	841	824
	6,175	5,883
Finance costs		
Interest and finance charges paid/payable	96	132
Unwinding of discount on provisions and other payables	100	15
	196	147

NOTE 7. INCOME TAX

	2015	2014
	$'000	$'000
The major components of income tax expense are:		
Current income tax expense	4,984	3,419
Deferred income tax relating to the origination and reversal of temporary differences	(388)	(95)
Adjustments for current tax of prior years	(7)	4
Income tax expense	4,589	3,328
A reconciliation between income tax expense and the product of accounting profit before income tax multiplied by the company's applicable income tax rate is as follows:		
Accounting profit before income tax	15,193	10,852
Income tax calculated at the Australian tax rate: 30% (2014: 30%)	4,558	3,256
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-assessable income	(164)	-
Non-deductible items	202	68
	4,596	3,324
Under/(over) provision in prior year	(7)	4
Income tax expense	4,589	3,328
We paid income taxes of $3,694,000 during financial year 2015 (2014: $3,151,000).		
Deferred income tax assets and liabilities are attributable to the following temporary differences:		
Accrued liabilities	2,180	1,965
Provisions	1,721	1,310
Lease incentive liabilities	150	194
Other	731	463
Total deferred tax assets	4,782	3,932
Intangible assets	(375)	-
Lease incentive assets	(42)	(79)
Accrued income	(2,030)	(1,511)
Other	(3)	-
Total deferred tax liabilities	(2,450)	(1,590)
Net deferred tax assets	2,332	2,342

NOTE 7. INCOME TAX (CONTINUED)

Movements in deferred tax assets are as follows:

	Accrued liabilities	Provisions	Lease incentive liabilities	Other	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2013	1,928	1,055	253	198	3,434
(Charged)/credited					
- to profit or loss	37	255	(59)	204	437
- to current tax liability	-	-	-	61	61
Balance at 30 June 2014	1,965	1,310	194	463	3,932
Charged/(credited)					
- to profit or loss	200	257	(44)	226	639
- to current tax liability	-	-	-	42	42
Acquisition of subsidiary	15	154	-	-	169
Balance at 30 June 2015	2,180	1,721	150	731	4,782

Movements in deferred tax liabilities are as follows:

	Intangible assets	Lease incentive assets	Accrued income	Other	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2013	-	(138)	(1,104)	(6)	(1,248)
Charged/(credited) to profit or loss	-	59	(407)	6	342
Balance at 30 June 2014	-	79	1,511	-	(1,590)
Charged/(credited) to profit or loss	75	37	(360)	(3)	(251)
Acquisition of subsidiary	(450)	-	(159)	-	(609)
Balance at 30 June 2015	(375)	(42)	2,030	(3)	(2,450)

Tax consolidation legislation
Data#3 Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is disclosed in note 1(e).

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

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

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

No tax losses are available for offset against future taxable profits (2014: nil).

NOTE 8. EARNINGS PER SHARE

	2015	2014
	Number	Number
(a) Weighted average number of shares		
Weighted average number of ordinary shares for basic and diluted earnings per share	153,974,950	153,974,950

(b) Other information concerning earnings per share

- 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 28. No rights or options were on issue during 2015 or 2014; therefore there was no impact on the calculation of diluted earnings per share.

NOTE 9. DIVIDENDS

	2015	2014
	$'000	$'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2014: 3.00c per share (2013: 3.55c)	4,619	5,466
Interim fully franked dividend for 2015: 2.10c per share (2014: 1.50c)	3,234	2,310
	7,853	7,776
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for 2015: 4.2c (2014: 3.55c)	6,467	4,619
The tax rate at which dividends paid have been franked is 30% (2014: 30%). Dividends declared will be franked at the rate of 30% (2014: 30%).		
Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (2014: 30%)	15,999	15,289

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

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

The dividend recommended by the directors since year end, but not recognised as a liability at year end, will result in a reduction in the franking account of $2,772,000 (2014: $1,980,000).

NOTE 10. CASH AND CASH EQUIVALENTS

	2015	2014
	$'000	$'000
Cash at bank and on hand	8,966	4,427
Deposits at call	100,000	99,000
	108,966	103,427

NOTE 11. TRADE AND OTHER RECEIVABLES

	2015	2014
	$'000	$'000
Trade receivables	141,272	135,956
Allowance for impairment (a)	(6)	(152)
	141,266	135,804
Other receivables (b)	12,401	11,132
	153,667	146,936

(a) Allowance for impairment

We recognised an impairment loss of $10,000 in the current year (2014: $207,000). Impairment amounts are included in other expense in the statements of comprehensive income. Movements in the provision for impairment loss were as follows:

	$'000
Carrying amount at 1 July 2013	-
Unused provision reversed during the year	207
Receivables written off during the year	(55)
Carrying amount at 30 June 2014	152
Impairment loss recognised during the year	10
Receivables written off during the year	(156)
Carrying amount at 30 June 2015	6

NOTE 11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Our ageing of overdue trade receivables as at 30 June 2015 is as follows:

	2015		2014	
	Considered impaired $'000	Past due but not impaired $'000	Considered impaired $'000	Past due but not impaired $'000
31-60 days	-	9,707	-	10,981
61-90 days	-	3,229	-	2,386
91-120 days	-	1,839	2	1,006
+120 days	6	1,000	150	684
	6	15,775	152	15,057

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.

NOTE 12. INVENTORIES

	2015	2014
	$'000	$'000
Goods held for sale – at cost	3,915	2,526

Inventories recognised as expense in cost of goods sold during the year ended 30 June 2015 amounted to $196,052,000 (2014: $177,302,000).

NOTE 13. OTHER CURRENT ASSETS

	2015	2014
	$'000	$'000
Prepayments	2,896	3,105
Security deposits	101	88
	2,997	3,193

NOTE 14. INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD

In August 2014 Data#3 Limited acquired a 46.2% shareholding in Wi-Fi analytics company Discovery Technology Pty Ltd ("Discovery Technology") at a cost of $2.5 million. The company acquired an additional controlling interest subsequent to year end (please refer to note 30). Discovery Technology had no contingent liabilities at 30 June 2015. Summarised financial information for our associate for the 2015 financial year is as follows:

	Company's share
	$'000
Assets	1,658
Liabilities	619
Revenues	2,935
Net profit and total comprehensive income	548
Movement in carrying amount of investment:	
Carrying amount at the beginning of the financial year	-
Acquisition of associate	2,509
Share of profit after income tax	548
Carrying amount at the end of the financial year	3,057

NOTE 15. PROPERTY AND EQUIPMENT

	2015	2014
	$'000	$'000
Leasehold improvements – at cost	10,518	9,887
Accumulated amortisation	(5,599)	(4,170)
	4,919	5,717
Equipment – at cost	2,407	806
Accumulated depreciation	(868)	(502)
	1,539	304
	6,458	6,021
Leased assets Leasehold improvements include the following amounts where we are a lessee under a finance lease:		
Cost	3,380	3,380
Accumulated depreciation	(1,549)	(1,211)
Carrying amount	1,831	2,169

NOTE 15. PROPERTY AND EQUIPMENT (CONTINUED)

	Leasehold improvements	Equipment	Total
	$'000	$'000	$'000
Carrying amount at 1 July 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
Additions	631	1,472	2,103
Acquisition of subsidiaries (note 29)	-	37	37
Depreciation and amortisation expense	(1,429)	(274)	(1,703)
Carrying amount at 30 June 2015	4,919	1,539	6,458

NOTE 16. INTANGIBLE ASSETS

	2015	2014
	$'000	$'000
Goodwill – at cost	9,811	4,919
Accumulated impairment	(587)	(587)
	9,224	4,332
Software assets – at cost	2,617	2,413
Accumulated amortisation and impairment	(2,132)	(1,674)
	485	739
Internally generated software assets – at cost	3,232	3,232
Accumulated amortisation and impairment	(1,927)	(962)
	1,305	2,270
Customer relationships	1,500	-
Accumulated amortisation and impairment	(250)	-
	1,250	-
	12,264	7,341

NOTE 16. INTANGIBLE ASSETS (CONTINUED)

	Goodwill	Software assets	Internally generated software	Customer relationships	Total
	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 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
Additions	-	204	-	-	204
Acquisition of subsidiaries (note 29)	4,892	-	-	1,500	6,392
Amortisation expense	-	(458)	(965)	(250)	(1,673)
Carrying amount at 30 June 2015	9,224	485	1,305	1,250	12,264

Intangibles – software assets and customer relationships

Customer relationships have been externally acquired. Software assets include those we have developed ourselves and those we have purchased. Our accounting policy is set out in note 1(o). We review the useful lives and potential impairment of all these 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	6,364
	9,224

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 2016. We applied a 12% before-tax discount rate to cash flow projections (2014: 12%). We have extrapolated cash flows beyond the 2016 financial year using an average growth rate of 3.5% (2014: 3.5%).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17. TRADE AND OTHER PAYABLES

	2015	2014
	$'000	$'000
Current		
Trade payables – unsecured	204,057	188,226
Other payables – unsecured	30,079	28,718
	234,136	216,944

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

NOTE 18. BORROWINGS

	2015	2014
	$'000	$'000
Current		
Finance lease liabilities – secured (note 24(b))	402	756
Non–current		
Finance lease liabilities – secured (note 24(b))	-	402

NOTE 19. PROVISIONS

	2015			2014		
	Current $'000	Non-current $'000	Total $'000	Current $'000	Non-current $'000	Total $'000
Employee benefits	2,702	2,472	5,174	1,984	1,891	3,875
Lease remediation (note 1(f))	61	408	469	-	340	340
	2,763	2,880	5,643	1,984	2,231	4,215

NOTE 19. PROVISIONS (CONTINUED)

Movements in provisions other than employee benefits are as follows:

	Lease remediation
	$'000
Balance at 1 July 2013	231
Arising during the year	94
Increase to present value	15
Balance at 30 June 2014	340
Arising during the year	104
Increase to present value	25
Balance at 30 June 2015	469

NOTE 20. OTHER LIABILITIES

	2015	2014
	$'000	$'000
Current		
Unearned income	15,501	15,102
Lease incentives	105	147
	15,606	15,249
Non–current		
Lease incentives	395	500

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

NOTE 21. SECURED LIABILITIES

	2015	2014
	$'000	$'000
Secured liabilities (current and non-current)		
Finance lease liabilities (note 24(b))	402	1,158
Total secured liabilities	402	1,158

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 15) effectively secure lease liabilities as noted above.

NOTE 22. CONTRIBUTED EQUITY

(a) Movements in ordinary share capital

There were no movements in ordinary share capital during the years ended 30 June 2015 and 2014.

(b) Ordinary shares

All ordinary shares issued as at 30 June 2015 and 2014 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 2015 (refer to note 28).

(d) Capital management

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

During 2015, the board paid dividends of $7,853,000 (2014: $7,776,000). 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.

NOTE 23. CONTINGENT LIABILITIES

At 30 June 2015 we had provided bank guarantees totalling $2,117,000 (2014: $2,037,000) to lessors as security for premises we lease and $211,000 (2014: $269,000) to customers for contract performance. The guarantees will remain in place for the duration of the relevant contracts. Bank guarantees are secured by charges over all our assets.

NOTE 24. COMMITMENTS

	2015	2014
	$'000	$'000
(a) Non-cancellable operating leases		
Future minimum lease payments under non-cancelable operating leases are as follows:		
Within one year	4,875	4,953
Later than one year but not later than five years	14,452	13,609
Later than five years	5,271	2,529
	24,598	21,091
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.		
(b) Finance leases		
Commitments related to finance leases as at 30 June are payable as follows:		
Within one year	412	824
Later than one year but not later than five years	-	412
	412	1,236
Less: future finance charges	(10)	(78)
Recognised as a liability	402	1,158
The present value of finance lease liabilities is as follows:		
Within one year	402	756
Later than one year but not later than five years	-	402
	402	1,158

We lease our head office fitout under a finance lease which expires in December 2015 (refer to note 15). The fitout becomes our property on expiry of the lease. The lease liability is secured by the fitout assets.

NOTE 25. KEY MANAGEMENT PERSONNEL

Key management personnel compensation is set out below.

	2015	2014
	$	$
Short-term employee benefits	1,954,389	1,753,760
Long-term employee benefits	161,444	132,996
Post-employment benefits	85,467	81,677
	2,201,300	1,968,433

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. The amount recognised as expense in the profit and loss for 2015 was $19,400 (2014: $19,400). There were no other transactions during the year with key management personnel or their personally related entities.

NOTE 26. RELATED PARTIES

Wholly-owned group

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

Name of entity	Country of formation or incorporation	Equity holding (ordinary shares)	
		2015	2014
		%	%
Business Aspect Group Pty Ltd	Australia	100	-
Business Aspect (Australia) Pty Ltd	Australia	100	-
Business Aspect Pty Ltd	Australia	100	-
Business Aspect (ACT) Pty Ltd	Australia	100	-
People Aspect Pty Ltd	Australia	100	-
CTG Consulting Pty Ltd	Australia	100	-

NOTE 26. RELATED PARTIES (CONTINUED)

Summarised financial information for the parent entity is as follows:

	2015	2014
	$	$
As at 30 June		
Current assets	267,002	256,082
Total assets	292,267	271,786
Current liabilities	252,978	235,031
Total liabilities	256,038	238,164
Shareholders' equity		
Contributed equity	8,278	8,278
Retained earnings	27,951	25,344
Total equity	36,229	33,622
For the year ended 30 June		
Net profit and total comprehensive income	10,459	7,524

NOTE 27. REMUNERATION OF AUDITOR

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

	2015	2014
	$	$
Audit and other assurance services		
Audit and review of financial statements	145,000	150,000
IT controls review services	-	-
	145,000	150,000
Non-audit services		
Acquisition due diligence services	60,600	57,550
Tax compliance services	7,000	7,400
	67,600	64,950
Total remuneration	212,600	214,950

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 group are important.

NOTE 28. 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.

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 22(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 2015 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(s).

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 2015 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 2015 (2014: nil).

NOTE 29. ACQUISITION OF SUBSIDIARIES

Effective 5 September 2014 Data#3 Limited acquired 100% of the shares in business and technology consulting firm Business Aspect Group Pty Ltd and its subsidiary companies (Business Aspect). Business Aspect provides customers across a broad range of industries with specialist technology consulting services in strategy, risk and continuity, architecture, and planning and execution.

Details of the acquisition are as follows:

	$'000s
Total purchase consideration	
Cash paid	6,000
Contingent consideration liability	1,086
Total purchase consideration	7,086
Purchase consideration – cash outflow	
Cash consideration	6,000
Less: cash acquired	(702)
Outflow of cash to acquire subsidiary, net of cash acquired	5,298

Assets acquired and liabilities assumed	**Fair value $'000s**
Cash and cash equivalents	702
Receivables	2,396
Other current assets	27
Plant and equipment	37
Customer relationships	1,500
Payables	(1,515)
Employee benefit liabilities	(513)
Deferred tax liability (net)	(440)
Net identifiable assets acquired	2,194
Add: goodwill	4,892
	7,086

NOTE 29. ACQUISITION OF SUBSIDIARIES (CONTINUED)

We have accounted for the assets acquired and liabilities assumed on a provisional basis as we are awaiting information to finalise these amounts. The goodwill is attributable to accumulated brand, reputation and specialised workforce and is allocated entirely to the services segment. None of the customer relationships intangible asset or goodwill is expected to be deductible for income tax purposes.

Acquisition-related costs of $105,000 are included in professional fees in profit and loss. Amortisation of acquired intangible assets amounted to $250,000. Contingent consideration is included in other payables (current liabilities).

Contingent consideration

As part of the agreement with the previous owners of Business Aspect, subject to achievement of earnings before taxes, depreciation and amortisation (EBTDA) hurdles in financial year (FY) 2015 of $1.6 million and in FY 2016 of $1.9 million, Data#3 Limited (DTL) will issue $2,000,000 in shares at the end of FY 2016 priced at 82.34 cents per share, being the 7 day volume weighted average price (VWAP) immediately prior to 5 September 2014. Any shortfall in actual results against these EBTDA hurdles will reduce the number of shares to be issued. For performance exceeding these EBTDA hurdles, Data#3 Limited will additionally pay up to a maximum of $3 million in cash (75%) and issue $1 million in shares (25%) at the 7 day VWAP following DTL's financial results announcement for FY16. At 30 June 2015 we have estimated the fair value of the contingent consideration at $1.1 million due to a shortfall of performance for FY 2015. The estimate is based on level 3 hierarchy inputs using discounted cash flows, applying a discount rate of 6% and assuming the remaining EBTDA hurdle will be met. Using a higher discount rate would result in a lower fair value, and assuming higher levels of revenue and profit would result in a higher fair value.

NOTE 30. SUBSEQUENT EVENT

On 3 July 2015 Data#3 Limited exercised its option to acquire a further 15.4% shareholding in Wi-Fi analytics company Discovery Technology Pty Ltd ("Discovery Technology") for $0.5 million. The company had acquired its initial shareholding of 46.2% in August 2014 at a cost of $2.5 million (refer to note 14). Data#3 retains a further option to acquire the balance of the shares in the company at market price by 30 June 2017.

DIRECTORS' DECLARATION

In the opinion of the directors:

a) the financial statements and notes set out on pages 35 to 69 are in accordance with the Corporations Act 2001, including:

(i) complying with Australian Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(ii) giving a true and fair view of the group's financial position as at 30 June 2015 and of its performance for the financial year ended on that date; and

a) there are reasonable grounds to believe that the group 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
20 August 2015

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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NORMAN THURECHT
BRETT HEADRICK
WARWICK FACE
NIGEL BATTERS
COLE WILKINSON
SIMON CHUN

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

Report on the Financial Report

We have audited the accompanying financial report of Data#3 Limited, which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation of the financial report that 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.

Pitcher Partners
ACCOUNTANTS • AUDITORS • ADVISORS

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:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
(ii) 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 2015. 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 2015 complies with Section 300A of the Corporations Act 2001.

PITCHER PARTNERS

J. Evans

J J Evans
Partner

Brisbane, Queensland
20 August 2015

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 18 August 2015.

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	216,010	0.14	353
1,001 to 5,000	3,244,417	2.11	1,021
5,001 to 10,000	7,056,873	4.58	851
10,001 to 50,000	37,055,673	24.07	1,532
50,001 to 100,000	20,306,575	13.19	271
100,001 and over	86,095,402	55.92	173
	153,974,950	100.00	4,201

(b) There were 144 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	10,926,272	7.10
J P Morgan Nominees Australia Limited	7,685,612	4.99
HSBC Custody Nominees (Australia) Limited	7,180,992	4.66
Citicorp Nominees Pty Limited	3,903,000	2.53
Oakport Pty Ltd	2,918,593	1.90
Powell Clark Trading Pty Ltd	2,895,370	1.88
RBC Investor Services Australia Nominees P/L	2,536,508	1.65
Wood Grant & Associates Pty Ltd	2,125,000	1.38
Thomson Associates Pty Ltd	2,000,000	1.30
Elterry Pty Ltd	1,840,000	1.19
J E Grant	1,791,000	1.16
J T Populin	1,690,140	1.10
Portfolio Services Pty Ltd	1,554,053	1.01
W T & E M Powell	1,000,000	0.65
Densley Pty Ltd	990,850	0.64
HGT Investments Pty Ltd	860,000	0.56
Albany Braithwaite Holdings Limited	792,226	0.51
M G & J T Populin	782,280	0.51
Equitas Nominees Pty Limited	751,262	0.49
W T Powell	700,000	0.45
	54,923,158	35.67

SHAREHOLDER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in the company are set out below:

Name	Number held	% of issued shares
Celeste Funds Management Limited	12,199,942	7.92
Commonwealth Bank of Australia	10,109,424	6.57

UNQUOTED EQUITY SECURITIES

Not applicable.

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

2015			2016		
August	20	Full year results announcement	February	22	Half year results announcement
September	16	Record date for final dividend	March	17	Record date for interim dividend
September	30	Final dividend payment	March	31	Interim dividend payment
November	12	Annual General Meeting	June	30	Year end

CORPORATE DIRECTORY

CORPORATE HEAD OFFICE

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