ANNUAL REPORT 2016

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Annual General Meeting

The Annual General Meeting of Data#3 Limited will be held in Brisbane at 10:30am on Wednesday 16 November 2016 at the Corporate Head Office, 67 High Street, Toowong, Brisbane.

Letter to Shareholders

We are delighted to report another year of solid revenue growth in the 2016 financial year (FY16) and, more importantly, even stronger earnings and dividend growth. We consider this an excellent result in a competitive and transforming technology market.

It was particularly pleasing that at the same time as delivering short-term improved financial performance, we also made significant progress with our long-term strategic plan. The plan contains three objectives: to deliver sustained profit growth; to grow services revenue with an increase in annuity business and an increase in margin; and to grow cloud services revenues. We have now had four consecutive half year reporting periods of profit growth, and in FY16 services revenues grew by 17% and cloud-based revenues by 110% to reach $99 million – all clearly indicating that the strategic plan is on track.

After-tax profit and earnings per share increased by 30% which was ahead of plan, and the directors declared a final fully franked dividend of 5.5 cents per share, bringing the total dividend for FY16 to 8.0 cents per share fully franked, an increase of 27%. The share price increased steadily over the year, which together with dividends paid delivered a 41% total shareholder return for the year.

At the start of FY16 we restructured the senior leadership team and introduced a simplified business structure. Lead indicators that show the underlying health of the business also improved in FY16. Our staff and customer satisfaction surveys produced strong results, and the win of our first cross-industry Employer of Choice award was a particularly proud moment for our team.

Board succession planning has also progressed and we are delighted to have had Leanne Muller join the board in February 2016. Further progress is expected during the balance of 2016.

We see economic conditions remaining challenging in FY17, with traditional technology investments remaining flat. However, we are seeing digital technologies leading business transformation in both the commercial and public sector, with the speed of digital innovation in social media, mobility, analytics and cloud increasing significantly in the last few years. Digital technologies are already making profound and long-lasting changes to the technology industry and to how technology enables businesses and their users to operate. Data#3, together with the consulting team at Business Aspect, are well positioned to enable this transformation and to capture new business.

The board and management acknowledges the contribution of the company's staff who performed exceptionally well across multiple areas of specialisation and across our national market.

Likewise, we greatly appreciate the continued support of you, our shareholders. You can be assured that we are working diligently to both increase the return we provide to you and to achieve our long term strategic goals.

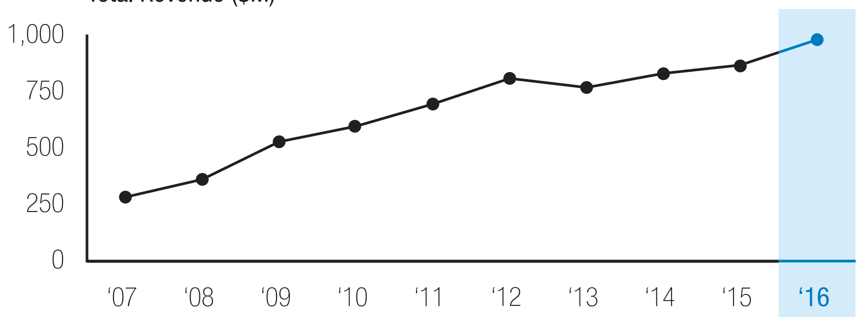
R A Anderson

Richard Anderson
Chairman

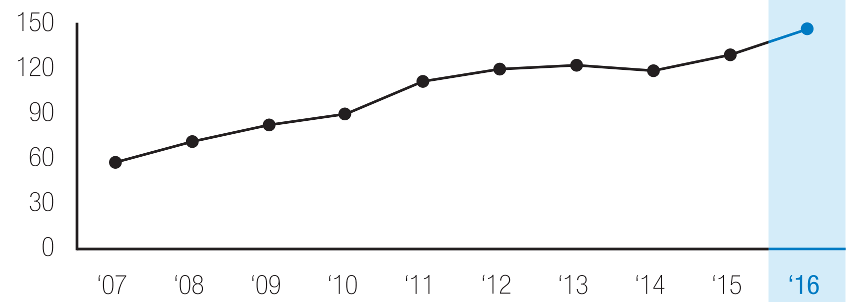
Laurence Baynham
Chief Executive Officer

Financial Summary

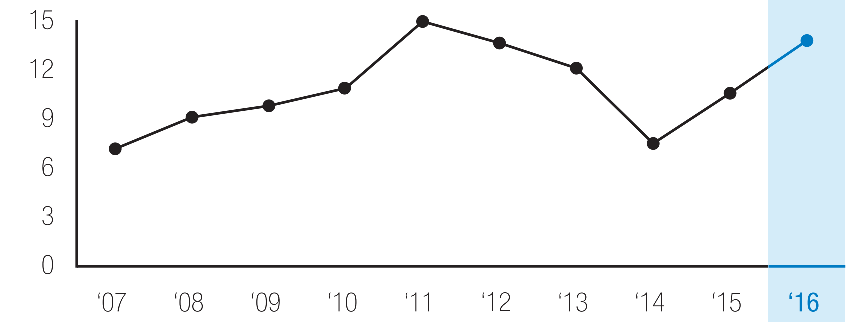
Total Revenue ($M)



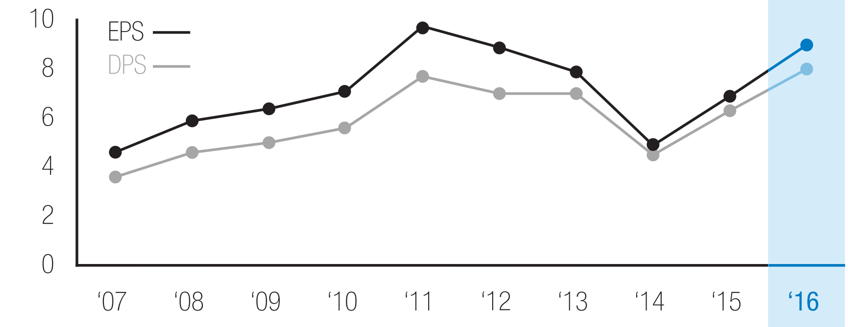
Total Gross Profit ($M)



Net Profit After Tax ($M)



Earnings Per Share and Dividends Per Share (¢)



Product Revenue

$794.0M +12.0%

Services Revenue

$187.4M +16.9%

Cloud Revenue

$99.0M +110.5%

Total Gross Profit

$146.6M +13.2%

Earnings Per Share

8.98¢ +30.4%

	2011	2012	2013	2014	2015	2016	
	$'000	$'000	$'000	$'000	$'000	$'000	% change
Product revenue	586,354	689,060	639,644	697,319	709,196	793,950	*+12.0%*
Services revenue	109,804	120,427	130,182	134,776	160,247	187,365	*+16.9%*
Total revenue	697,788	811,390	771,042	833,595	870,470	983,223	*+13.0%*
Cloud-based revenue, included above					47,000	98,953	*+110.5%*
Product gross profit	60,013	63,885	64,235	62,042	66,155	73,160	*+10.6%*
Services gross profit	51,732	56,072	58,290	56,827	63,329	73,414	*+15.9%*
Total gross profit	111,745	119,957	122,525	118,869	129,484	146,574	*+13.2%*
Product gross margin %	10.2%	9.3%	10.0%	8.9%	9.3%	9.2%	
Services gross margin %	47.1%	46.6%	44.8%	42.2%	39.5%	39.2%	
Total gross margin %	16.1%	14.8%	15.9%	14.3%	14.9%	14.9%	
Earnings before interest (net), tax, depreciation & amortisation	21,189	19,430	18,700	12,219	17,021	22,407	*+31.6%*
Earnings before interest (net) & tax	20,514	18,302	16,664	9,703	14,377	18,869	*+31.2%*
Net profit before tax	21,827	19,738	17,472	10,852	15,193	19,482	*+28.2%*
Net profit after tax	14,999	13,679	12,138	7,524	10,604	13,830	*+30.4%*
Net profit margin %	2.15%	1.69%	1.57%	0.90%	1.22%	1.41%	
Return on equity %	49.7%	42.1%	35.8%	22.4%	29.2%	34.7%	
Basic earnings per share *(See note below)*	9.74 cents	8.88 cents	7.88 cents	4.89 cents	6.89 cents	8.98 cents	*+30.4%*
Dividends declared per share, fully franked *(See note below)*	7.7 cents	7.0 cents	7.0 cents	4.5 cents	6.3 cents	8.0 cents	*+27.0%*
Payout ratio	79.0%	78.8%	88.8%	92.1%	91.5%	89.1%	
Share price at 30 June *(See note below)*	$1.32	$1.11	$1.075	$0.68	$0.79	$1.05	*+32.9%*
Total shareholder return, based on dividends paid during year	74.2%	-10.6%	3.2%	-32.0%	23.7%	41.4%	

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

Operating and Financial Review

Our strategic planning process for the 2016 financial year (FY16) identified the following trends in adoption and use of business technology:

- digital solutions would increasingly drive new business models;
- a rapid shift to consumption-based and service-centric solutions was occurring;
- security was the number one priority;
- cloud, big data and mobile were big drivers;
- software was dominating infrastructure; and
- increased IT spend was being driven by business users outside the traditional IT department.

Acknowledging the transition that was continuing within our customers and in technology, we planned to transition Data#3 steadily to capitalise on market opportunity and to satisfy customer demand. Our financial objective for FY16 was to at least match the performance of FY15, and our FY16 budget was biased towards the second half.

At the start of FY16 we implemented a refined organisation structure, a new leadership structure, and a measured approach to drive the ongoing transition of our solutions, our people and our business. The key execution elements of this transition included

- continuing to drive growth in our core software licensing and infrastructure businesses;
- assisting our customers with the shift from on-premises capital expenditure to consumption-based operating expenditure; and
- increasing emphasis on services which increase customer value, and increase margin.

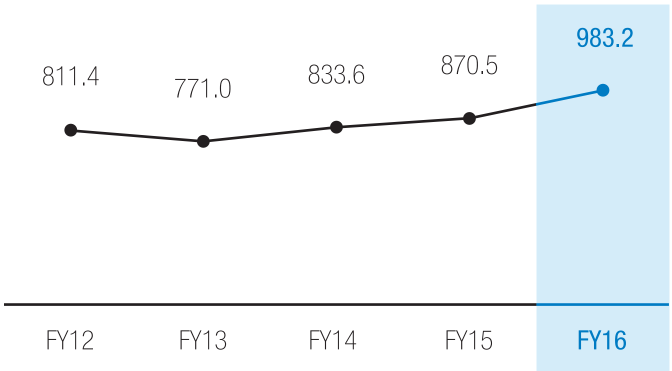
Market conditions in FY16 in both the public and private sectors remained challenging; however, our strategy to continue to grow our core business while building our service-centric revenues has been successful. We have continued to gain market share and delivered solid growth in earnings.

Whole of group performance

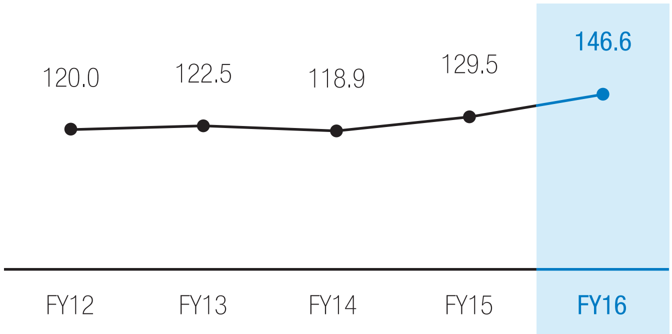
Total revenue was $983.2 million, 13.0% higher than last year's $870.5 million, with increases in both product and services revenues. We are delighted with the continued growth of our core business, and the significant growth in the emerging cloud-based business which saw total cloud-based revenues increase by 110.5% to $99.0 million. This is a particularly pleasing result considering growth in the sector remained relatively flat.

Total gross profit (excluding other revenue) increased by 13.2% from $129.5 million to $146.6 million, representing a steady total gross margin of 14.9%.

Total revenue ($M):



Total gross profit ($M):



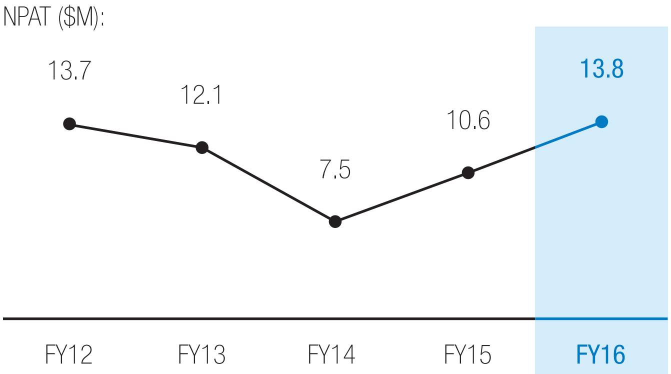
Net profit before tax increased by 28.2% from $15.2 million to $19.5 million, demonstrating ongoing improvement in operating leverage.

In July 2015 Data#3 exercised its option to acquire a controlling interest in Discovery Technology Pty Ltd ("Discovery Technology"), bringing Data#3's total shareholding to 61.6%. As a result of obtaining control, Discovery Technology has been consolidated in Data#3's consolidated financial statements from 3 July 2015.

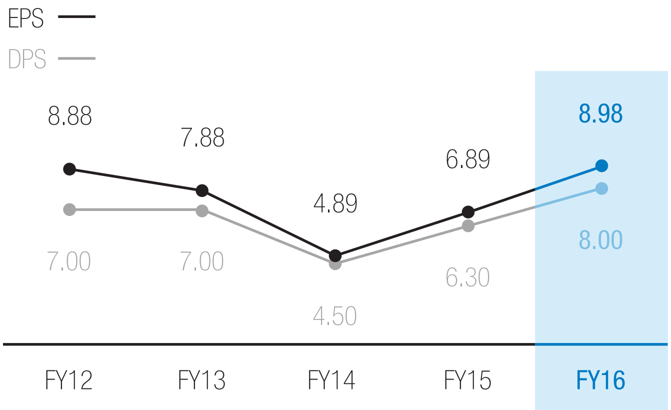
Net profit after tax (excluding minority interests) increased by 30.4% from $10.6 million to $13.8 million. This represented basic earnings per share of 8.98 cents, an increase of 30.4% from 6.89 cents in the previous year.

The board declared fully franked dividends of 8.0 cents per share for the full year, representing a payout ratio of 89.1%.

NPAT ($M):



EPS & DPS (cents):



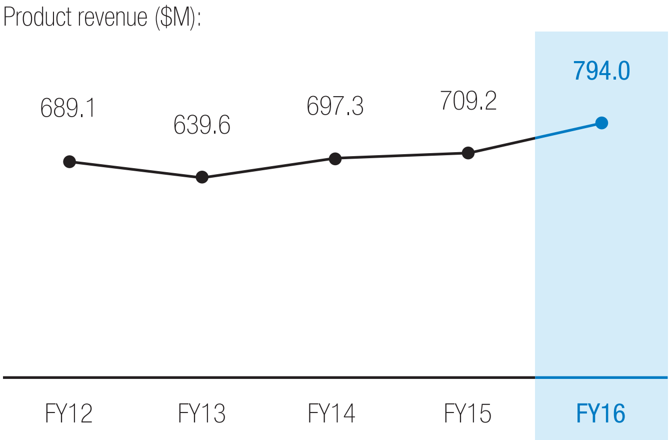
Return on equity increased from 29.2% to 34.7%.

Product revenue and gross profit

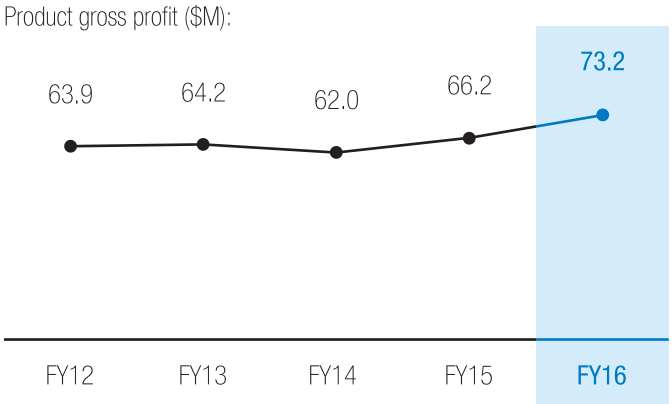
Total product revenue (hardware and software) increased by 12.0% from $709.2 million to $794.0 million, reflecting very strong growth in public cloud solutions (up 91.5% from $47.0 million to $90.0 million) and solid growth in the traditional on-premises solutions (up 6.3% from $662.2 million to $704.0 million).

Total product gross margin decreased fractionally from 9.3% to 9.2%, and total product gross profit increased by 10.6% from $66.2 million to $73.2 million.

Product revenue ($M):



Product gross profit ($M):

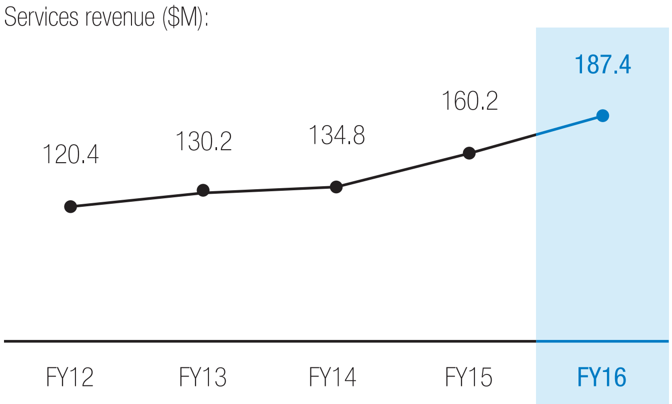


Services revenue and gross profit

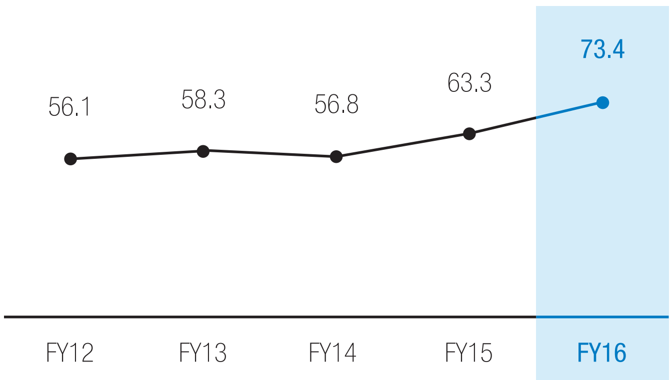
Total services revenue increased by 16.9% from $160.2 million to $187.4 million, including $9.0 million of cloud-based services. All services areas increased revenue, however the strongest growth came from consulting, professional services and maintenance services.

Total services gross margin decreased slightly from 39.5% to 39.2%, and the overall services gross profit increased by 15.9% from $63.3 million to $73.4 million.

Services revenue ($M):



Services gross profit ($M):



Other revenue

Other revenue increased from $1.0 million to $1.9 million. Other revenue for FY16 includes $1.1 million for the reversal of deferred consideration recorded in FY15 in connection with the purchase of Business Aspect, as the agreed financial hurdles for any additional earn-out payment were not met as at 30 June 2016. Interest revenue decreased by $0.3 million primarily due to falling interest rates.

Operating expenses

Internal staff costs increased by 7.4% from $97.8 million to $105.0 million and other operating expenses increased by 32.5% from $18.1 million to $24.0 million. These increases incorporated, for the first time, employees and operating costs of Discovery Technology that are included in the consolidated results from 3 July 2015 onwards (refer to the Discovery Technology section, and Note 29 in the attached financial statements).

Additional rent, depreciation and amortisation expenses accounted for $2.9 million of the $5.9 million increase in other operating expenses.

Overall, staff numbers increased from 1,117 at the commencement of the financial year to 1,175 at the close, with continual re-balancing of resources to meet business demands, growth in consulting and contract recruitment headcount staff, and the acquisition of Discovery Technology.

Cash flow

The net cash flow from operating activities was an inflow of $6.8 million. As usual the operating cash flow and year-end cash balance were temporarily inflated due to the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections pre-30 June that generate temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur. As a result, the year-end cash balance of $102.3 million was again inflated by this temporary surplus.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and at 26 days is industry best practice and even better than the previous year.

Performance against strategic priorities

FY16 was the first year into a three-year strategic plan. The plan contained three long-term objectives:

- return the business to improved and sustainable profit
- grow services revenue with an increase in annuity and an increase in margin
- grow cloud services revenues.

The progress we made against these strategic priorities is summarised below.

1. Return the business to improved and sustainable profit

As of June 2016 we have achieved four consecutive half years of profit growth. The business has achieved the improved profit result by

- increasing revenues in FY15 and FY16,
- maintaining prudent cost control, and
- improving operating leverage, or the ratio of staff and operating costs to gross profit.

2. Grow services profit with an increase in annuity and an increase in margin

Increased investment and focus on our services business has resulted in growth in services revenues across our solution categories. Services revenues have increased every year since FY09, with FY16 delivering 16.9% growth and a higher proportion of annuity revenue. While a change in mix yielded a fractional decrease in gross margin percentage, the total services gross profit increased by 15.9% and the services segment profit increased by 33.3%. At the same time as increasing services revenue, we maintained our national leadership position in the provision of product, infrastructure and software solutions to our customers.

3. Grow cloud services revenue

In FY15 we recorded $47.0 million of cloud services revenues, which was a significant increase from FY14. The major component of cloud services is the emerging market of public cloud. In FY16 we capitalised on this new growth market with total cloud services revenue of $99.0 million for the year, an increase of 110.5% on FY15. Public cloud solutions such as Microsoft Office 365 and Azure were major elements of our cloud service offerings.

Microsoft's global strategy is to take a lead in the cloud market, and our leadership position in Australia with Microsoft made the transition to cloud solutions a logical extension of our existing business. At the base level, the cloud services annuity revenue with Microsoft subscription licenses is a substitute for our traditional license business. Our focus and intent is to help our customers migrate applications to public cloud and extend our own services. An ideal engagement would see us provide services at every stage of our solution life cycle: consulting, design and implementation, and managed or support services.

Aside from the above strategic priorities, there are a several indicators we utilise to determine the health of the business. Our internal people satisfaction survey, external customer surveys and external awards are three such indicators.

People satisfaction

We ended FY16 with over 1,100 people in the group which includes a combination of permanent, contracted and casual. Each year we survey our people's satisfaction and the summary for FY16 was as follows:

- record participation in the survey
- record overall satisfaction score of 4.2 out of 5
- 94.1% of our people recommend Data#3 as an employer.

Customer satisfaction

Our annual customer satisfaction survey produced a solid overall satisfaction rating of 4.0 out of 5. This was a slight decrease from FY15, although we had many elements that were higher. During FY16 we introduced "customer pulse" surveys which provide instant customer feedback on projects, service desk calls and services in general. These surveys have proved to be very useful sources of information, and the results in FY16 were well above the annual survey result.

External awards

Each year we win many national and international awards from our global partners. FY16 was no exception and we were pleased to be recognised with the following:

- Australia's Best Company in the 2016 Employer of Choice Awards for Human Resources Director (HRD) Magazine
- EMC Services Partner of the Year for Asia Pacific Japan
- EMC Solution Provider Partner Australia
- Australian Reseller News (ARN) Enterprise Partner of the Year
- Australian Reseller News (ARN) Channel Choice Partner Award
- Cisco Enterprise Partner of the Year for Asia Pacific Japan
- Cisco Revenue Marketer of the Year
- Cisco Security Partner Award for 2015 for Australian and New Zealand
- Cisco Alliance Manager of the Year
- Cisco Technical Excellence
- Canalys Software Channel Partner of the Year for Asia Pacific
- Microsoft Excellence in Volume Licensing.

For the ninth 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 fourth consecutive year.

The most significant external award, however, was not for our solutions or technical expertise, it was the Employer of Choice Award from the HRD publication. This was our first year for an employer of choice nomination and we were very pleased to receive the gold medal for organisations with more than 500 employees. This award is significant because the category was not limited to the Information Technology sector; it covered all industries and included many multinational entries.

Overall we not only had a solid FY16 financial performance, we made significant headway against our strategic goals, producing solid results in people satisfaction, customer satisfaction and external awards.

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 2016 were $170.7 million and trade and other payables $239.7 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 decreased from $109.0 million to $102.3 million, reflecting a slight reduction in temporary surplus funds compared to the previous year.

The key trade receivables indicator of average days' sales outstanding decreased and remained well ahead of target at 26 days. This is an excellent result which demonstrates our ongoing focus on collections and credit management.

Total inventory holdings increased from $3.9 million to $12.6 million, reflecting a higher than usual volume of product held in our warehousing and configuration centres pending delivery to customers for a number of significant infrastructure projects that were in progress at year end.

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. We achieved solid growth from both public and commercial sectors, and in particular, we achieved great success in health and education. Total revenue increased by 13% and profit increased by 17%.

New South Wales

The NSW business took advantage of market opportunity, growing revenue by 19% while improving the cost ratio to finish with a 31% growth in profit. Increased public sector business, combined with strong commercial growth, provided the foundation for the strong FY16 result.

ACT

Our Federal Government business is characterised by large revenues and relatively small margin. FY16 saw investment to establish of our Business Aspect consulting business in Canberra. The combined FY16 revenue increased by 8% and profit increased by 2%.

Victoria

Our Victorian business has been at the forefront of our transition to an increasingly services business. Although total revenue remained steady in FY16, we improved the services mix and increased profit by 22%.

Tasmania

Our first full year of operations in Tasmania produced a solid profit contribution from our operations in Hobart and Launceston.

South Australia

Adverse economic conditions impacted our SA performance. We saw a 29% reduction in profit contribution from what was a challenging year.

Western Australia

Our strategic focus on the health and education sectors has proved to be successful in WA. We took market share with revenue increases of 16%, but more importantly we improved our services business which produced greater profit contribution with 29% growth on FY15.

Operating results by area of specialisation

The core Data#3 business is structured around three functional areas, operating across seven regions. Business Aspect operates independently but within the Data#3 group structure. Discovery Technology operates independently and external to the Data#3 group.

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. This includes the supply and management of licensing programs, the deployment and management of the software, and the user adoption and productivity benefits of the software.

Software Solutions achieved modest growth over FY15. The increasing shift to cloud offerings with subscription services for Microsoft Azure and Office 365 included substantial annuity-based growth. At the same time, we gained market share from new business which enabled us to grow the overall business.

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. Our Software Licensing team continued to be the most successful team in Australia, winning major awards with all our key software licensing partners.

Infrastructure Solutions

Infrastructure Solutions helps our customers maximise return from their infrastructure investments across server, storage, networks and devices.

FY16 proved to be a record performance for the Infrastructure team. While there is global and local pressure on the server and storage business, we saw a relatively small decline in these segments. This was more than offset by an increase in networking which was largely driven by the increase in public cloud business. In addition, the device or end-user computing market segment saw Data#3 gain substantial market share. With our investments in three integration centres in Sydney, Melbourne and Brisbane, we are well positioned to provide large customers with large volume product orders under strict service level and contractual agreements.

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.

Services

Data#3 now operates one services business unit with a single business leader. The business has many specialisations including Professional Services for project-based solutions, Managed Services for annuity-based contract support services, and People Solutions for the provision of contractors and permanent staff.

We enjoyed revenue growth in each segment, but more importantly profitability improved across each of our service lines except for Application Services. Both Professional and Managed Services had many significant project and contract wins and both produced solid results. The leading services result for FY16 came from People Solutions in what was a challenging market. Pleasingly, this success came from the cross-selling and co-operation of the Professional and Managed Services business units.

During the year we incurred several application development project overruns which adversely impacted profitability in our Application Solutions area. Corrective action measures were implemented and we merged the operations of the applications business into our larger professional services team.

Business Aspect Consulting

Our consulting capability is vested in our acquisition of Business Aspect. Business Aspect has extensive skills, experience and expertise in business transformation, strategy, architecture, risk, control, planning, design and governance. In delivering services, we address all layers of the business, including people, organisational change, process change, information management, information and communications technology (ICT) applications and technology infrastructure. One of our key strengths is the diversity of the background and skills our senior consultants bring to planning initiatives involving people, process and systems.

FY16 was the first full year of operation within the Data#3 group and it was a year of investment to build a national business. The financial performance did not match our expectations; however, it was a very solid profit contribution to the group and that contribution is expected to continue to increase steadily.

Discovery Technology

Discovery Technology is predominantly a Wi-Fi analytics business which has developed an application called Connected Customer eXperience (CCX) that provides a unique range of location and analytical services utilising Wi-Fi infrastructure. As at 30 June 2016 Data#3 has a 61.6% shareholding in Discovery Technology. The entity continues to operate independently of Data#3. The return on Data#3's investment in FY16 was disappointing as the company posted an operating loss. Long sales cycles and some abnormal expense contributed to the financial result. The market demand and the acceptance of CCX as a leading software application is well recognised, and the business has a very significant pipeline of opportunities, so we expect financial performance to improve.

Our strategy and plan for FY17

We are currently on track with our three-year plan and the success of FY16 has determined that we should look to refine the existing strategy rather than make major changes. The overriding goal that the management team has with the FY17 plan is to 'Connect everything better and simplify'. The ICT industry is fast moving and can be complex, so our aim for the FY17 plan is to improve the connection with our people and to simplify where possible.

The strategic planning process for FY17-FY19 identified the following key external economic and business factors that will influence performance over the coming year:

- economic outlook is mixed but overall neutral for commercial customers
- 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 transform business models
- a rapid shift to consumption-based and service-centric solutions is occurring
- security is the number one priority
- public cloud usage will become mainstream.

Our plan

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

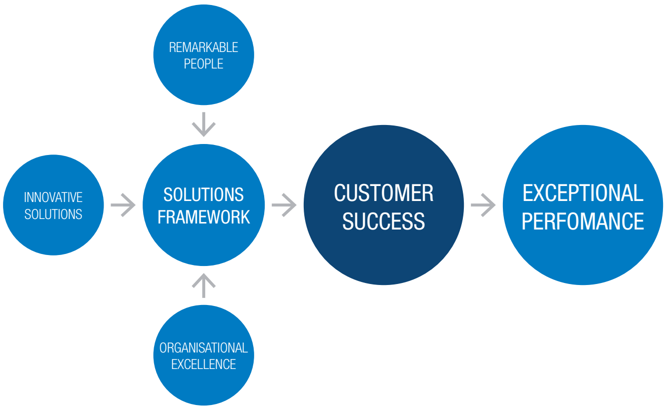
Our **core purpose** is to enable our customers' success.

Acknowledging the transition that is continuing within our customers and in technology, our new **vision** is

To harness the power of people and technology for a better future.

Our **core values** guide how we behave and we continually reinforce these values:

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.



The three key components of the FY17 plan are:

1. to enable our customers' digital transformation
We believe we can help our customers position, plan, design, deploy and ultimately manage their technology solutions that underpin their digital transformation.

2. to accelerate our transition to services
In addition to our traditional services, we see the market opportunity to increasingly provide our technology solutions 'as a service' or consumption based.

3. to grow and leverage our core capability
At the same time as executing in the above 'new' markets, we will continue our focus on growing and leveraging our core capability in software and infrastructure.

Executing our plan in FY17

At the highest level, our plan starts with our customers' business objectives which we have grouped as follows:

We work with our customers to enable their business objectives utilising our technology solution categories:

Each customer business objective may have multiple solutions, and each solution may apply to multiple business objectives. Our solution categories contain over two hundred specific solution offerings.

Our business plan contains three long-term objectives:

- deliver sustained profit growth
- grow services revenue with an increase in annuity and an increase in margin
- grow cloud services revenues.

Priority actions in the FY17 plan include:

- growing our Business Aspect consulting business and leveraging Data#3 where appropriate
- investing in new internal systems to improve operational efficiency
- investing in sales enablement to better position ourselves with our customer's digital transformation
- establishing a health sector practice and emulating the success we have seen with our sector investment in education.

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 Guide Dogs Queensland. Formerly a partner of PricewaterhouseCoopers, Richard was the firm's Managing Partner in Queensland and a member of the firm's National Committee. He previously has been a member of the board of Villa World Group and the Capital Markets Board of Queensland Treasury Corporation, and President of CPA Australia in Queensland.

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, and is a fellow of the Australian Institute of Company Directors.

Leanne Muller

Non-executive Director

Leanne joined the board of Data#3 Limited in February 2016. During her thirty-year business career Leanne has held various senior corporate financial management roles, including as Chief Financial Officer (or equivalent) for RACQ, Uniting Care Queensland and Energex. Prior to those appointments Leanne worked in professional advisory services for antecedent firms of PwC and KPMG.

Leanne is currently on the boards of QInsure Limited and Guide Dogs Queensland, chairing their Audit & Risk Committees. She is also a director of Local Government Infrastructure Services Pty Limited and Local Buy Pty Ltd and an external specialist member of the Audit, Risk & Compliance Committee of QSuper.

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.

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. He 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 IT 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. Michael was appointed to his current Executive General Manager role on 1 July 2015, and is responsible for Data#3's Professional Services, Managed Services and People Solutions businesses.

Brad Colledge

Executive General Manager: Software Solutions and Infrastructure Solutions

Brad holds a degree in Business Management from Queensland University of Technology. He has 27 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.

Brem Hill

Chief Financial Officer and Company Secretary

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

Corporate Social Responsibility

Our commitment to the Data#3 social responsibility program continued in 2016, as did our pride in the fact that we remain dedicated to contributing to the national economy, having a positive influence on the communities in which we work and reducing our impact on the environment. This program enables our people to personally make a difference and to feel satisfied that they work for a company that cares.

We support local communities with environmentally responsible practices, 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 Australia

We strive to be good corporate citizens of Australia, where we transact 99% of our business. We meet all our tax obligations in accordance with the laws of each state and the commonwealth. We do not engage in aggressive tax planning strategies and we do not use any “tax havens”. At all times we seek to have transparent and cooperative relationships with relevant tax authorities in Australia and other countries in which we may operate. Our effective income tax rate for the 2016 financial year was 30.2%.

For financial year 2016 we paid the following amounts of tax:

	$’000
Australian corporate income tax	4,325
Other taxes (payroll tax and fringe benefits tax)	6,556
	10,881

Additional disclosures of income tax information are set out in note 7 of the financial statements.

Our commitment to the community

2016 saw a change in the way Data#3 approaches our engagement with the communities in which we operate. Part of the strategic plan for the 2016 financial year involved recognising the contribution the community plays in our success as a business. At the annual company business plan launch, Laurence Baynham announced that 'Community' had been added to the list of key stakeholders, and that Data#3 would renew its focus on making a meaningful difference. The new community program was branded SOUL to align with the Data#3 Core Values – HEART, and a national committee was established in July 2015. We undertook a company-wide survey asking all Data#3 employees about the causes that meant most to them, and charities operating in the health and education sectors emerged as the key areas of focus. We have continued to support the Starlight Foundation as our main charity partner, and we encourage our staff’s commitment to the broader community by allowing all employees to take one day of paid leave each year to participate in voluntary programs.

The more significant achievements during the year include the following:

Data#3’s Charity Golf Day

- Now in its 12th consecutive year, this is one of Data#3's largest annual fundraising activities.
- Hosted by the Queensland team, the event included more than 140 customers, vendor partners and Data#3 employees.
- Generous support from sponsors, on-course donations and the post-event auction allowed Data#3 to raise a record $25,000 donation for the Starlight Foundation.

Great Southern Crossing initiative

- The Data#3 cycling team completed a ‘virtual’ ride from Brisbane to Perth, raising over $5,000 for the Starlight Foundation.

Christmas giving program

- Each location participated in local volunteering activities ranging from selling merchandise to wrapping toys.
- Raffles and other fundraising events raised over $6,000 for the Starlight Foundation.

World's Greatest Shave

- All of our state offices participated in a simultaneous hair shaving and hair colouring event to support the Leukaemia Foundation's World's Greatest Shave, and representatives from the Leukaemia Foundation attended the Queensland and NSW functions.
- Each team member worked to raise money prior to the event, with more funds being raised on the day, including an auction by the Queensland team for the privilege of shaving off the CEO's hair.
- Overall the business raised $14,500 for the Leukaemia Foundation.

Starlight Day – National Star-B-Q

- This is the Starlight Foundation's biggest national fundraising event.
- Data#3 held events in all states, including Star-B-Qs, lunches and a fundraising movie night, and teams in several states sold Starlight merchandise to the public.
- This raised over $6,000 for the Starlight Foundation.

Our commitment to the environment

While 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 life cycle 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. Along with our core values, this strategy underpins our approach to recruitment and employee benefits and is highlighted in our Learning and Development and Work-Health-Life Balance programs.

Learning and development

Our commitment to learning and development is driven by our aim to foster an inclusive, accessible learning culture which supports the professional growth and development of our remarkable people.

The key objectives of this are to

1. provide a broad and diverse learning curriculum aligned with organisational objectives, core values, role specifics, and career development pathways;

2. create a variety of learning avenues which cater to a broad array of adult learning styles and enable effective transfer of learning; and

3. foster a culture which creates opportunities for timely and effective continual learning and opportunities to apply learning outcomes and share expertise and capability.

To achieve this, our learning framework has multiple tiers to address:

- leadership
- sales capability
- technical capability
- professional competencies
- individual career and personal development
- mandatory and compliance requirements.

We offer a range of different learning opportunities and resources to address our needs in these areas, including:

- eLearning and video content delivered through an integrated Learning Management System and Performance Management System
- subscriptions to third party content providers
- development of internal learning content and collateral
- instructor-led training programs
- individual career and performance coaching
- an internal mentoring program
- tertiary and further study support.

Work-health-life balance

We are committed to helping our people achieve a healthy balance between their work and home lives. We 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 and Human Resources team.

People satisfaction

One of the key benchmarks 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 2016 we received a 94.1% favourable response, similar to 94.4% 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.

We are also delighted that Data#3 was named Australia's Best Company in the 2016 Employer of Choice Award for the Human Resources Director (HRD) Magazine. The award recognises companies that were rated by their employees across several different aspects of satisfaction. Data#3 won the gold medal in the large category (500+ employees) and was followed by MYOB who received silver and Johnson & Johnson who received bronze.

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. Our contractor accreditation and health and safety information in tenders secures health and safety from the outset and is actively followed through for site-based work. Our contractor and procurement arrangements ensure any outsourcing for goods and services meets Data#3's high standards for work health and safety.

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. While 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.

While 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 and to manage any change effectively 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 2016 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 other members of the senior leadership team, and their respective delegated levels of authority
- reviewing and approving remuneration policies and practices generally and determining remuneration packages and other terms of employment for directors (within the maximum amount approved by the shareholders) and senior executives
- ensuring that the board as a whole has a sufficient understanding of each substantial segment of the business
- determining the amount, timing and nature of dividends to be paid to shareholders
- reviewing business results, monitoring budgetary control and corrective actions
- adopting and overseeing the implementation of corporate governance practices that represent good practice in the company's particular circumstances
- authorising and monitoring major strategic investments and capital expenditure.

The board's charter also 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 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 management team for over 20 years. 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 senior leadership team was restructured at the start of the 2016 financial year, and comprises four senior executives. The board ensures that the senior leadership team is appropriately qualified, experienced and resourced to discharge its responsibilities.

In 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. In February 2016 a new non-executive director was appointed. Mr Johnston will retire as a non-executive director on 30 September 2016, and the board intends to confirm at least one further new appointment, during the 2017 financial year.

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

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

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 CEO is formally assessed half-yearly by the chairman, and that assessment is reviewed by the other non-executive directors. The CEO is responsible for evaluating the performance of the other members of the senior leadership team. Formal evaluations of the 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, and the next review will be completed during the 2017 financial year.

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 2016 financial year and an update on the company's progress towards achieving those objectives are set out in the following table:

Objective	Outcome
To maintain or increase the proportion of female employees working for Data#3.	The proportion remained steady at 25%.
To maintain or increase the proportion of women in the national management team.	The proportion decreased from 30% to 27%.
To appoint an appropriately qualified female board member when the next board appointment is made	Leanne Muller was appointed to the board in the 2016 financial year.

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

	2016		2015	
	Female	Male	Female	Male
All employees	25%	75%	25%	75%
National management team	27%	73%	30%	70%
Senior leadership team	0%	100%	18%	82%
Board of directors	25%	75%	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 four directors. The membership of the board is set out in the directors' report on page 26. Details of each individual director's background is set out in the directors' report on page 26, and the directors' profiles on page 12.

Remuneration and nomination committee

The remuneration and nomination committee is composed of three independent non-executive directors, being Mr 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 five times during the year. Members' attendance at these meetings is set out on page 27 in the directors' report.

Board skills and experience

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

It is not expected that all directors will have skills and experience in all areas; however, it is understood that the board as a whole must have the skills and experience identified as being necessary, and the board considers that this is the case. A board skills matrix has been developed to identify and assess the collective board skills in relevant competency areas. The matrix 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. Ms Muller, Mr Johnston and Mr Powell are also considered independent non-executive directors. While Mr Anderson has been on the board since 1997 and Mr Powell has been on the board since 2002, 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 will retire on 30 September 2016. Ms Muller was appointed in February 2016.

The role of CEO is performed by Mr Baynham, who reports to the board via 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 2016 financial year and the number of meetings attended by each director is disclosed in the directors' report.

The board convenes at various Data#3 office locations throughout the year and meets formally on a regular basis with members of the senior leadership team and other executives. The meetings are chaired by the chairman or, in his absence, his nominee. The chairman is responsible for ensuring the governance objectives of the board are 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.

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 14 to 16.

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 four independent non-executive directors, being Mr Johnston, Ms Muller, Mr Anderson and Mr Powell. Ms Muller was appointed to the audit and risk committee in June 2016 and took over from Mr Johnston as the chair on 26 August 2016. 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 CEO and CFO participating by invitation. Members' attendance at these meetings is set out on page 27 in the directors' report. The audit and risk committee has, within the scope of its responsibilities, unlimited access to members of the senior leadership team and access to the external auditor. Directors receive detailed financial and operational reports from senior management regularly and managers are available to discuss the reports with the board if necessary.

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.

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 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 company's risk management framework in the 2016 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.

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:

- 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
- 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 28-33. 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 2016. Throughout the report, the consolidated entity is referred to as the group. "We", "our", or "us" refer in this report to the directors speaking on behalf of the group.

1. Principal activities

We provide information technology solutions which draw on our broad range of products and services, and where relevant with our alliances with other leading industry providers. Our technology offerings cover the following areas:

- CONSULTING
  Solutions to align people, processes and technology to our customers' overall business strategy through expert business consulting from Business Aspect, a Data#3 company
- DATA & ANALYTICS
  Solutions designed to enhance visibility and control over customers' data to enable them to make faster, more accurate business decisions
- CLOUD
  Highly secure data centre solutions to improve business efficiency, reduce costs and easily scale customers' technology requirements up or down
- IT LIFECYCLE MANAGEMENT
  Solutions to optimise our customers' IT landscape and assist them to realise the full value of their technology assets
- MOBILITY
  Solutions to enable customers to seamlessly connect to business networks and information – anywhere, any time and on any device
- SECURITY
  Solutions designed to help our customers navigate the complexities of cyber security and a changing threat landscape.

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 2016	5.5	8,469
Dividends paid in the year:		
Interim for the year ended 30 June 2016	2.5	3,849
Final for the year ended 30 June 2015	4.2	6,467
		10,316

3. Operating and financial review

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

4. Business strategy

Our vision is to harness the power of people and technology for a better future.

For more information on our business strategy please refer to page 9 of the attached Operating and Financial Review.

5. Earnings per share

	2016 Cents	2015 Cents
Basic and diluted earnings per share	8.98	6.89

6. Significant changes in the state of affairs

The group acquired control of a company during the year. Please refer to Note 29 for further information.

7. Significant events after the balance date

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

(a) the group's operations in future financial years; or

(b) the results of those operations in future financial years; or

(c) the group's state of affairs in future financial years.

8. Likely developments and expected results

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

9. Directors

The names and details of Data#3 Limited's directors are set out below. Mr G Boreham and Mr J Grant were directors from the beginning of the year until 30 September 2015 and 31 December 2015, the respective dates they ceased to be directors. Ms L Muller was a director from 26 February 2016, the date of her appointment, and remains in office at the date of this report. All other directors were in office for the entire financial year and remain in office at the date of this report.

Names, qualifications, experience and special responsibilities

R A Anderson, OAM, BCom, FCA, FCPA *(Chairman, non-executive director)*
Independent non-executive director since 1997 and Chairman since 2000. 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 two other public companies: Namoi Cotton Cooperative Limited (director since 2001) and Lindsay Australia Limited (director since 2002). Mr Anderson is also president of Guide Dogs Queensland.

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

G F Boreham, AM, BEcon *(non-executive director until 30 September 2015)*
Independent non-executive director from 2011 to 2015. 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 previous three years Mr Boreham also served as a non-executive director of Southern Cross Media Group Limited (director since 2014) and Cochlear Limited (director since 2015).

J E Grant, BEng *(Managing Director until 31 December 2015)*
Director of the company from its foundation in 1984; Chief Executive Officer or Managing Director from 1996 to 2015; 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, AGIA, 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 from 2004 to 2015).

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

L M Muller, BCom, CA, GradDip App Fin and Inv, GAICD *(non-executive director from 26 February 2016)*
Independent non-executive director since February 2016. Extensive experience in finance with a 30-year career in senior corporate financial management roles and professional advisory services roles. Formerly Chief Financial Officer (or equivalent) for RACQ, Uniting Care Queensland and Energex. Prior to those appointments Ms Muller worked for PricewaterhouseCoopers and with the Australian Securities Commission. Ms Muller is currently on the boards of QInsure Limited, Guide Dogs Queensland, Local Government Infrastructure Services Pty Limited and Local Buy Pty Ltd, and is an external specialist member of the Audit, Risk & Compliance Committee of QSuper.

Special responsibilities:

- Member of audit and risk 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:

	Full meetings of directors		Meetings of auditand risk committee		Meetings of remuneration and nomination committee	
Name	Meetings attended	Meetings held*	Meetings attended	Meetings held*	Meetings attended	Meetings held*
R A Anderson	18	18	4	4	5	5
G F Boreham	5	5	**	**	**	**
J E Grant	8	9	**	**	**	**
I J Johnston	18	18	4	4	5	5
L M Muller	4	4	1	1	**	**
W T Powell	18	18	4	4	4	5

* Number of meetings held during the time the director held office or was a member of the committee during the year.
** Not a member of the committee during the year.

10. Company secretary

Mr B I Hill, BBus, FCPA, FGIA, was appointed to the position of Company Secretary in 1997. He has served as our Financial Controller or Chief Financial Officer since 1992 and is a fellow of CPA Australia and a fellow of the Governance Institute of Australia.

Mr T W Bonner, LLB, BComm, AGIA, was appointed to the position of Joint Company Secretary in 2007. He has served as our General Counsel since 2005 and is a member of the Queensland Law Society and the Governance Institute of Australia.

11. Remuneration report

The remuneration report 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; and
- 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
- long-term incentives.

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-cash benefits at the executive's discretion, plus statutory superannuation. There are no guaranteed base pay increases included in any senior executives' contracts.

Short-term performance-related bonuses
Performance-related cash bonuses are linked to the achievement of financial and non-financial objectives which are relevant to meeting the company's business objectives. In 2016 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 35% (2015: 31%). In 2016 actual short-term bonuses as a proportion of planned total executive remuneration was 38% (2015: 29%).

A major part of the short-term bonus 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 2016 the planned profit-related component represented 70% of the total executive bonuses (2015: 68%). Profit targets for some areas of the business were not met in FY15, resulting in reduced bonus payments calculated on a pro rata basis; however, in FY16 the profit targets were exceeded for all executives except Mr Grant, who terminated mid-year. The balance of the short-term bonus is determined by performance against agreed non-financial objectives relevant to each individual.

The executives' cash bonuses 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

The managing director had a long-term incentive arrangement that concluded when his contract ended on 31 December 2015. The chief executive officer and three other senior executives are eligible to earn long-term incentives in the form of cash payments. 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, using independent expert advice if required, 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. The board undertakes a periodic review of its performance and the performance of the board committees.

B Details of remuneration

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

		Short-term		Long-term		Post-employment		
		Cash salary and fees	Cash bonus	Long service leave	LTI	Super-annuation	Total	Performance related
		$	$	$	$	$	$	%
Non-executive directors								
Anderson, R. Chairman	2016	121,342	-	-	-	11,527	132,869	-
	2015	103,500	-	-	-	9,833	113,333	-
Boreham, G. *(Until 30/9/2015)*	2016	17,500	-	-	-	1,663	19,163	-
	2015	65,000	-	-	-	6,175	71,175	-
Johnston, I.	2016	82,986	-	-	-	7,884	90,870	-
	2015	74,750	-	-	-	7,101	81,851	-
Muller, L. *(From 26/2/2016)*	2016	27,692	-	-	-	2,631	30,323	-
Powell, W.T.	2016	71,828	-	-	-	6,824	78,652	-
	2015	63,250	-	-	-	6,009	69,259	-
Subtotals – non-executive directors	2016	321,348	-	-	-	30,529	351,877	-
	2015	306,500	-	-	-	29,118	335,618	-
Executive director								
Grant, J. *(Until 31/12/2015)* Managing Director	2016	265,400	64,380	4,480	211,447	14,778	560,485	49.2
	2015	530,800	145,367	8,842	117,517	18,783	821,309	32.0
Other key management personnel								
Baynham, L. Chief Executive Officer [1]	2016	375,278	311,848	6,265	91,000	19,308	803,699	50.1
	2015	375,278	242,210	29,221	-	18,783	665,492	36.4
Bowser, M. Executive General Manager [2]	2016	267,750	226,812	10,508	85,000	19,308	609,378	51.2
Colledge, B. Executive General Manager [2]	2016	325,238	265,017	10,508	85,000	19,308	705,071	49.6
Hill, B. Chief Financial Officer	2016	280,000	155,090	17,782	85,000	19,308	557,180	43.1
	2015	240,000	114,234	5,864	-	18,783	378,881	30.2
Totals – key management personnel	2016	1,835,014	1,023,147	49,543	557,447	122,539	3,587,690	
	2015	1,452,578	501,811	43,927	117,517	85,467	2,201,300	

(1) Mr L Baynham was promoted from Group General Manager to Chief Executive Officer on 21 November 2014.
(2) Messrs Bowser and Colledge became key management personnel from 1 July 2015, the date of their appointments to Executive General Manager positions.

No director or executive received compensation in the form of share-based payments during the year ended 30 June 2016 (2015: nil).

C Service agreements

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

J Grant (Managing Director until 31 December 2015)

- Five-year service agreement effective until 31 December 2015.
- A long-term incentive (LTI) was paid on Mr Grant's termination by 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 met or exceeded 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 exceeded the average of the benchmark group
  - customer and people satisfaction relevant to strategic positioning, measured by the company's annual survey and review processes
  - delivery of an effective and complete succession plan.
- In relation to the LTI, in 2016 the board approved a bonus of $211,447 for the 2015 financial year and the first half of the 2016 financial year (2015: $117,517). The total amount accrued over the term of the agreement was $550,108 which did not exceed Mr Grant's annual base salary (including statutory superannuation but excluding short-term performance-related bonuses), in accordance with his contract, and was paid subsequent to his termination.

L Baynham (Chief Executive Officer)

- The agreement includes a long-term incentive (LTI) based on financial performance over the 2015, 2016 and 2017 financial years. The aim of the LTI remuneration element is to provide a LTI that would progressively accrue up to a maximum value of $329,000, based 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 (or $33,000) based on achievement of the 2015 NPAT target (not achieved)
  - 20% of total LTI (or $66,000) based on achievement of the 2016 NPAT target (achieved)
  - 70% of total LTI (or $230,000) based on achievement of the 2017 NPAT target.
- The LTI is assessed for each financial year separately, on an 'all or nothing' basis. The board has the ability to adjust the targets in the event of significant over-achievement, business combination, or other significant special circumstances. If the executive terminates before the end of the 2017 financial year, any bonus is lost.
- An additional "equity bonus" of up to $50,000 is payable upon the company exceeding its NPBT target each year by a designated amount. Any bonus is paid in two parts, with 50% payable at the end of the financial year and 50% at the end of the following financial year provided there has been continuous employment during the intervening period. The bonus is paid as a gross bonus, and the net after-tax proceeds are applied to the on-market purchase of Data#3 shares.
- 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 bonuses.

All other executive KMPs

- Each agreement includes a long-term incentive (LTI) based on financial performance over the 2016 and 2017 financial years. The aim of the LTI remuneration element is to provide a LTI that would progressively accrue up to a maximum value of $200,000, 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:
  - 30% of total LTI (or $60,000) based on achievement of the 2016 NPAT target (achieved)
  - 70% of total LTI (or $140,000) based on achievement of the 2017 NPAT target.

  The LTI bonus is assessed for each financial year separately, on an 'all or nothing' basis.
- An additional "equity bonus" of up to $50,000 is payable upon the company exceeding its NPBT target each year by a designated amount. Any bonus is paid in two parts, with 50% payable at the end of the financial year and 50% at the end of the following financial year provided there has been continuous employment during the intervening period. The bonus is paid as a gross bonus, and the net after-tax proceeds are applied to the on-market purchase of Data#3 shares

- Termination notice of three months is required.

Mr B Hill is also entitled to payment of a termination benefit on termination due to redundancy by the company of six months of the packaged salary including performance-related bonuses. This termination benefit is provided for the CEO and CFO roles as these positions are considered more likely to be subject to early termination in the event of a significant business combination.

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 2016 (2015: nil), no rights or options vested or lapsed during the year (2015: nil), and no rights or options were exercised during the year (2015: 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 2014	Other changes*	Balance 30 June 2015	Other changes*	Balance 30 June 2016
Directors:					
Anderson, R.	600,000	-	600,000	-	600,000
Boreham, G. (1)	138,361	-	138,361	(138,361)	-
Grant, J. (1)	4,666,450	-	4,666,450	(4,666,450)	-
Johnston, I.	600,000	-	600,000	-	600,000
Powell, W.T.	3,700,000	(160,000)	3,540,000	(190,000)	3,350,000
Other executives:					
Baynham, L.	475,360	-	475,360	-	475,360
Bowser, M. (2)	-	-	-	116,650	116,650
Colledge, B. (2)	-	-	-	202,936	202,936
Hill, B.	516,650	-	516,650	-	516,650
	10,696,821	(160,000)	10,536,821	(4,675,225)	5,861,596

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

(1) The amount in other changes is the individual's shareholding at the date he ceased to be a key management person, in addition to the individual's on-market trading during the year.

(2) The amount in other changes is the individual's shareholding at 1 July 2015, the date he became a key management person, in addition to the individual's on-market trading during the year.

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 2011 total shareholder return was a loss of 1.6%, due to the high share price at 30 June 2011. Shareholder return for FY16 was 41.4%. Our net profit in 2011 was a best-ever result, 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 1.6% since 2011. Over the same period average executive remuneration has increased by a compounded average rate of 6.2% 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.

	Earned	Forfeited
Name	**$**	**$**
Baynham, L.	100%	0%
Bowser, M.	100%	0%
Colledge, B.	100%	0%
Grant, J. *	97%	3%
Hill, B.	100%	0%

* Mr Grant's bonus calculations are for the period up to 31 December 2015, the date of his termination.

2015 Annual General Meeting
We received 98% "yes" and open proxy votes on our Remuneration Report for the 2015 financial year, and the vote at the AGM was a unanimous "yes".

Other transactions with key management personnel
There were no transactions during the 2016 financial year with key management personnel or their personally related entities. Mr J E Grant, formerly an executive director, is a director of Wood Grant & Associates Pty Ltd and has the capacity to significantly influence decision making of that entity. Until 2015 we engaged Wood Grant & Associates Pty Ltd to assist with design and production of our annual financial reports. These transactions were made at arms' length on normal commercial terms and conditions and at market rates. In 2015 $19,400 was recognised in the profit and loss.

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 $34,658 to insure the directors and members of the executive management team against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. Our executive officers are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings involving them as such officers if judgement is given in their favour or if they are acquitted or granted relief.

14. Environmental regulation and performance

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

15. Rounding

The company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating to the "rounding off" of amounts in the directors' report and financial report. We have rounded off amounts in the directors' report and financial report to the nearest thousand dollars, or in certain cases to the nearest dollar, in accordance with that instrument.

16. Auditor independence and non-audit services

Pitcher Partners continued as our auditor in 2016. 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:

	2016	2015
	$	$
Audit and other assurance services		
Audit and review of financial statements	160,000	145,000
Non-audit services		
Acquisition due diligence services	-	60,600
Tax compliance services	21,830	7,000
Other business advice	4,450	-
	26,280	67,600
Total remuneration	186,280	212,600

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
22 August 2016

PITCHER PARTNERS
ACCOUNTANTS • AUDITORS • ADVISORS

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

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of Data#3 Limited for the year ended 30 June 2016, 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
22 August 2016


SAMSUNG
SAMSUNG

Financial Report

Consolidated statement of comprehensive income

for the year ended 30 June 2016

	Notes	2016 $'000	2015 $'000
Revenue			
Sale of goods	2	793,950	709,196
Services	2	187,365	160,247
Other	5	1,908	1,027
		983,223	870,470
Expenses			
Changes in inventories of finished goods		8,623	1,321
Purchase of goods		(729,413)	(644,362)
Employee and contractor costs directly on-charged (cost of sales on services)		(57,270)	(51,585)
Other cost of sales on services		(56,681)	(45,333)
Internal employee and contractor costs		(105,031)	(97,781)
Telecommunications		(1,814)	(1,493)
Rent	6	(8,198)	(6,175)
Travel		(1,847)	(1,784)
Professional fees		(1,024)	(655)
Depreciation and amortisation	6	(3,538)	(2,644)
Finance costs	6	(100)	(196)
Other		(7,448)	(5,138)
Share of net profits of associate accounted for using the equity method	14	-	548
		(963,741)	(855,277)
Profit before income tax expense		19,482	15,193
Income tax expense	7	(5,881)	(4,589)
Profit for the year		13,601	10,604
Other comprehensive income, net of tax		-	-
Total comprehensive income		13,601	10,604
Profit and comprehensive income is attributable to:			
Owners of Data#3 Limited		13,830	10,604
Non-controlling interests		(229)	-
		13,601	10,604
Earnings per share for profit attributable to the ordinary equity holders of the company:		Cents	Cents
Basic earnings per share	8	8.98	6.89
Diluted earnings per share	8	8.98	6.89

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

Consolidated balance sheet

as at 30 June 2016

	Notes	2016 $'000	2015 $'000
Current assets			
Cash and cash equivalents	10	102,279	108,966
Trade and other receivables	11	170,684	153,667
Inventories	12	12,571	3,915
Other	13	4,740	2,997
Total current assets		290,274	269,545
Non-current assets			
Other receivables	11(d)	2,895	-
Investment accounted for using the equity method	14	-	3,057
Property and equipment	15	6,320	6,458
Deferred tax assets	7	2,553	2,332
Intangible assets	16	15,798	12,264
Total non-current assets		27,566	24,111
Total assets		317,840	293,656
Current liabilities			
Trade and other payables	17	239,651	234,051
Borrowings	18	157	402
Current tax liabilities		2,787	1,186
Provisions	19	2,826	2,763
Other	20	26,416	15,606
Total current liabilities		271,837	254,008
Non-current liabilities			
Trade and other payables	17	1,344	-
Borrowings	18	330	-
Provisions	19	3,340	2,880
Other	20	363	395
Total non-current liabilities		5,377	3,275
Total liabilities		277,214	257,283
Net assets		40,626	36,373
Equity			
Contributed equity	22	8,278	8,278
Retained earnings		31,564	28,095
Equity attributable to owners of Data#3 Limited		39,842	36,373
Non-controlling interests		784	-
Total equity		40,626	36,373

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 2016

	Attributable to owners of Data#3 Limited				
	Contributed Equity	Retained Earnings	Total	Non-controlling interests	Total Shareholders' Equity
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2014	8,278	25,344	33,622	-	33,622
Profit for the year	-	10,604	10,604	-	10,604
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income	-	10,604	10,604	-	10,604
Payment of dividends	-	(7,853)	(7,853)	-	(7,853)
Balance at 30 June 2015	8,278	28,095	36,373	-	36,373
Profit for the year	-	13,830	13,830	(229)	13,601
Other comprehensive income, net of tax	-	-	-	-	-
Total comprehensive income	-	13,830	13,830	(229)	13,601
Transactions with owners in their capacity as owners:					
Finalisation of provisional accounting for the Business Aspect acquisition	-	(45)	(45)	-	(45)
Payment of dividends	-	(10,316)	(10,316)	-	(10,316)
Non-controlling interest on acquisition of subsidiary	-	-	-	917	917
Non-controlling interest – accretion of share options	-	-	-	96	96
Balance at 30 June 2016	8,278	31,564	39,842	784	40,626

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 2016

	Notes	2016 $'000	2015 $'000
Cash flows from operating activities			
Profit for the year		13,601	10,604
Depreciation and amortisation		3,817	3,376
Share of net profit from equity-accounted investment		-	(548)
Unwinding of discount on provisions		45	100
Bad and doubtful debts		232	10
Accretion of options to minority interest in subsidiary		96	-
Other		29	-
Change in operating assets and liabilities			
(Increase) in trade receivables		(10,284)	(3,615)
(Increase) in other receivables		(3,440)	-
(Increase) in inventories		(8,613)	(1,389)
(Increase) in other operating assets		(7,117)	(506)
(Increase) in net deferred tax assets		(398)	(430)
Increase in trade payables		5,936	14,267
Increase in unearned income		10,719	399
Increase in other operating liabilities		255	68
Increase in current tax liabilities		1,601	1,140
Increase in provision for employee benefits		339	786
Net cash inflow from operating activities		6,818	24,262
Cash flows from investing activities			
Payment for purchase of subsidiaries, net of cash acquired	29	554	(5,298)
Payment for investment in associate	14	-	(2,509)
Payments for property and equipment	15	(1,094)	(2,103)
Payments for software assets	16	(2,240)	(204)
Proceeds from sale of property and equipment	15	13	-
Net cash (outflow) from investing activities		(2,767)	(10,114)
Cash flows from financing activities			
Payment of dividends	9	(10,316)	(7,853)
Finance lease payments	24	(422)	(756)
Net cash (outflow) from financing activities		(10,738)	(8,609)
Net increase/(decrease) in cash and cash equivalents held		(6,687)	5,539
Cash and cash equivalents, beginning of financial year		108,966	103,427
Cash and cash equivalents, end of financial year	10	102,279	108,966

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 2015. 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.

Note 1. Summary of significant accounting policies (continued)

(d) Revenue recognition

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

(i) Sale of goods

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

(ii) Rendering of services

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

(iii) Bundled sales

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

(iv) Interest income

Revenue is recognised as interest accrues using the effective interest method.

(v) Dividends

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

(e) Income tax

Income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

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

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

Note 1. Summary of significant accounting policies (continued)

(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

Group as lessee

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.

Group as lessor

Leases in which the group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

(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.

Note 1. Summary of significant accounting policies (continued)

(i) Inventories

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

(j) Business combinations

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

We record as goodwill the excess of the consideration of the acquisition and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired (refer to Note 1(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 reevaluate this designation at each reporting date where appropriate. As at balance sheet date we have no financial assets at fair value through profit or loss or held-to-maturity investments or available for sale financial assets and have not entered any significant derivative contracts.

Recognition and derecognition

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

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)).

Note 1. Summary of significant accounting policies (continued)

(o) Intangible assets (continued)

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.

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.

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.

(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.

Note 1. Summary of significant accounting policies (continued)

(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 22 August 2016. 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 2016, 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 16 *Leases*	1 January 2019	1 July 2019
AASB 1057 *Application of Australian Accounting Standards*	1 January 2016	1 July 2016
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* (with the application date as amended by AASB 2015-10)	1 January 2018	1 July 2018
AASB 2015-2 *Disclosure Initiative: Amendments to AASB 101*	1 January 2016	1 July 2016

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

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

Note 1. Summary of significant accounting policies (continued)

(w) Accounting standards not yet effective (continued)

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 standard will not have a material impact on our financial statements as it is not significantly different from our method of recognising revenue for the largest components of our revenue, but we have not yet assessed the full impact of the standard.

AASB 16

This new standard replaces AASB 17 and some lease-related Interpretations. It requires all leases to be accounted for "on balance sheet" by lessees, other than for short-term and low value assets leases. The standard also provides new guidance on the definition of a lease and on sale and leaseback accounting and requires new and different disclosures about leases. The accounting requirements for lessors remains largely unchanged from AASB 17. We expect the adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, specifically:

- lease assets and financial liabilities on the balance sheet will increase, but the amounts have yet to be determined
- reported equity will be reduced because the carrying value of the assets will reduce more quickly than the carrying amount of the lease liabilities.

AASB 1057

This new standard contains the application paragraphs previously contained in each Australian Accounting Standard, unchanged. This standard will have no impact on our financial statements when it is adopted.

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. There will be no impact on our financial statements, as we do not prepare separate financial statements. We do not expect any impact on disclosures of the parent entity as we currently have no equity-accounted investments.

Note 1. Summary of significant accounting policies (continued)

(w) Accounting standards not yet effective (continued)

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 2016 (2015: 99%).

We report operating segments in a manner consistent with the internal reporting provided to the chief operating decision maker (CODM). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors. We do not allocate income tax, assets or liabilities to each segment because management does not include this information in its measurement of the performance of the operating segments. Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an arm's-length basis and are eliminated on consolidation.

We have identified two reportable segments, as follows:

- Product - providing hardware and software licenses for our customers' desktop, network and data centre infrastructure
- 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 2016 and 2015.

Note 2. Segment information (continued)

	Product		Services		Total	
	2016	2015	2016	2015	2016	2015
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue						
Total revenue	794,128	709,196	198,506	168,416	992,634	877,612
Inter-segment revenue	(178)	-	(11,141)	(8,169)	(11,319)	(8,169)
External revenue	793,950	709,196	187,365	160,247	981,315	869,443
Costs of sale						
Cost of goods sold	(720,790)	(643,041)	-	-	(720,790)	(643,041)
Employee and contractor costs directly on-charged	-	-	(57,270)	(51,585)	(57,270)	(51,585)
Other costs of sales on services	-	-	(56,681)	(45,333)	(56,681)	(45,333)
Gross profit	73,160	66,155	73,414	63,329	146,574	129,484
Other expenses	(50,567)	(46,763)	(68,200)	(59,418)	(118,767)	(106,181)
Segment profit	22,593	19,392	5,214	3,911	27,807	23,303
Unallocated corporate items						
Share of net profit of equity-accounted investment					-	548
Interest and other revenue					1,908	1,027
Other employee and contractor costs					(5,146)	(4,548)
Rent					(1,374)	(1,310)
Depreciation and amortisation					(1,849)	(2,230)
Other					(1,864)	(1,597)
					(8,325)	(8,110)
Profit before income tax					19,482	15,193
Reconciliation of revenue:						
External revenue					981,315	869,443
Unallocated corporate revenue: Interest and other revenue					1,908	1,027
Revenue					983,223	870,470

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 2016 and 2015 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 2016		30 June 2015	
	Weighted average interest rate	Balance	Weighted average interest rate	Balance
	%	$'000	%	$'000
Cash at bank and on hand	1.5%	14,865	2.0%	8,966
Deposits at call	1.5%	87,414	2.7%	100,000
Cash and cash equivalents	1.5%	102,279	2.6%	108,966

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)	
	2016	2015	2016	2015
	$000	$000	$000	$000
-0.25% (25 basis points) (2015: -0.25%)	(179)	(190)	(179)	(190)
-0.50% (50 basis points) (2015: +0.25%)	(358)	190	(358)	190

(b) Credit risk

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

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

- Cash and cash equivalents are maintained at one large financial institution.
- During the 2016 year, sales to one government customer comprised 7% of revenue (2015: 7%).
- At 30 June 2016, no single debtor comprised a material portion of total debtors (2015: 13% for one government customer), and the ten largest debtors comprised approximately 41% of total debtors (2015: 47%), of which 87% were accounts receivable from a number of government customers (2015: 84%).
- Our customers generally do not have independent credit ratings. Our risk control procedures assess the credit quality of the customer taking into account its financial position, past experience and other factors. We set individual risk limits based on internal or external ratings in accordance with limits set by the board. Our credit management department regularly monitors compliance with credit limits. Management believes the credit quality of our customers is high based on the very low level of bad debt write-offs experienced historically. In 2016 bad debt write-offs as a percent of the trade receivables carrying amount was 0.02%, (2015: 0.11%).

(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 $8,181,000 (2015: 2,609,000) 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:

	2016	2015
	$'000	$'000
Multi-option bank facility	6,309	8,391

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 2016 was 5.8% (2015: 6.1%).

Maturity of financial liabilities

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

	Less than 6 months	6 – 12 months	Between 1 and 2 years	Between 2 And 3 years	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2016						
Trade and other payables	239,651	-	672	672	240,995	240,995
Finance lease liabilities	91	91	183	168	533	487
	239,742	91	855	840	241,528	241,482
At 30 June 2015						
Trade and other payables	234,051	-	-	-	234,051	234,051
Finance lease liabilities	412	-	-	-	412	402
	234,463	-	-	-	234,463	234,453

(d) Fair values

The carrying amounts of financial assets (net of any provision for impairment) and current financial liabilities approximate fair value primarily because of their short maturities. The carrying amount of the non-current borrowing approximates fair value because the interest rate applicable to the borrowing approximates current market rates.

	2016	2015
	$'000	$'000
Note 5. Other revenue		
Interest	713	1,012
Reversal of payable for deferred consideration (Note 29)	1,173	-
Other recoveries	22	15
	1,908	1,027
Note 6. Expenses		
Depreciation and amortisation of property and equipment (Note 15)		
Depreciation and amortisation of property and equipment included in depreciation and amortisation expense	1,760	1,703
Depreciation of equipment recorded in cost of sales	59	-
Depreciation of equipment capitalised to internally generated software assets	18	-
	1,837	1,703
Amortisation of intangibles (Note 16)		
Amortisation of intangibles included in depreciation and amortisation expense	1,478	691
Amortisation of intangibles recorded in cost of sales	220	732
Amortisation of customer relationships	300	250
	1,998	1,673
	3,835	3,376
Employee benefits expense	96,587	90,671
Termination benefits expense	1,492	227
Defined contribution superannuation expense	10,217	7,276
Other charges against assets		
Impairment of trade receivables (Note 11)	232	10
Rental expenses on operating leases		
Minimum lease payments	5,296	5,064
Straight lining lease rentals	79	270
Rental expenses – other	2,823	841
	8,198	6,175
Finance costs		
Interest and finance charges paid/payable	55	96
Unwinding of discount on provisions and other payables	45	100
	100	196

Note 7. Income tax

	2016	2015
	$'000	$'000
Income tax expense		
The major components of income tax expense are		
Current income tax expense	6,308	4,984
Deferred income tax relating to the origination and reversal of temporary differences	(419)	(388)
Adjustments for current tax of prior years	(8)	(7)
Income tax expense	5,881	4,589
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	19,482	15,193
Income tax calculated at the Australian tax rate: 30% (2015: 30%)	5,844	4,558
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-assessable income	(112)	(164)
Non-deductible items	157	202
	5,889	4,596
Under/(over) provision in prior year	(8)	(7)
Income tax expense	5,881	4,589
	%	%
Effective tax rate (income tax expense as a percentage of profit before tax)	30.2	30.2

We paid income taxes of $4,325,000 during financial year 2016 (2015: $3,694,000).

	2016	2015
	$'000	$'000
Deferred income tax assets and liabilities are attributable to the following temporary differences:		
Accrued liabilities	2,305	2,180
Provisions	2,012	1,721
Lease incentive liabilities	144	150
Depreciation	894	718
Other	741	13
Total deferred tax assets	6,096	4,782
Intangible assets	(877)	(375)
Lease incentive assets	(28)	(42)
Accrued income	(2,638)	(2,030)
Other	-	(3)
Total deferred tax liabilities	(3,543)	(2,450)
Net deferred tax assets	2,553	2,332

Note 7. Income tax (continued)

Movements in deferred tax assets

	Accrued liabilities	Provisions	Lease incentive liabilities	Depreciation	Other	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2014	1,965	1,310	194	447	16	3,932
(Charged)/credited						
- to profit or loss	200	257	(44)	226	-	639
- to current tax liability	-	-	-	45	(3)	42
Acquisition of subsidiary	15	154	-	-	-	169
Balance at 30 June 2015	2,180	1,721	150	718	13	4,782
(Charged)/credited						
- to profit or loss	125	198	(6)	203	655	1,175
- to current tax liability	-	-	-	(28)	-	(28)
Acquisition of subsidiary	-	93	-	2	72	167
Balance at 30 June 2016	2,305	2,012	144	895	740	6,096

Movements in deferred tax liabilities

	Intangible assets	Lease incentive assets	Accrued income	Other	Total
	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 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)
Charged/(credited) to profit or loss	(180)	14	(585)	3	(748)
Acquisition of subsidiary	(322)	-	(23)	-	(345)
Balance at 30 June 2016	(877)	(28)	(2,638)	-	(3,543)

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 (2015: nil).

	2016	2015
	Number	Number

Note 8. Earnings per share

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

(b) Other information concerning earnings per share

- Earnings for the purpose of the calculation of basic earnings per share and also diluted earnings per share is the profit for the year.
- Rights and options granted are considered to be potential ordinary shares. Details relating to rights and options are set out in Note 28. No rights or options were on issue during 2016 or 2015; therefore there was no impact on the calculation of diluted earnings per share.

Note 9. Dividends

	$'000	$'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for 2015: 4.2c per share (2014: 3.0c)	6,467	4,619
Interim fully franked dividend for 2016: 2.5c per share (2015: 2.1c)	3,849	3,234
	10,316	7,853
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for 2016: 5.5c (2015: 4.2c)	8,469	6,467

The tax rate at which dividends paid have been franked is 30% (2015: 30%). Dividends declared will be franked at the rate of 30% (2015: 30%).

Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (2015: 30%)	18,917	17,580

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 $3,629,000 (2015: $2,772,000).

Note 10. Cash and cash equivalents

Cash at bank and on hand	14,865	8,966
Deposits at call	87,414	100,000
	102,279	108,966

	2016	2015
	$'000	$'000
Note 11. Trade and other receivables		
Current		
Trade receivables	152,467	141,272
Allowance for impairment (a)	(213)	(6)
	152,254	141,266
Finance lease receivable (b)	545	
Other receivables (c)	17,885	12,401
	170,684	153,667
Non-current		
Trade receivables on deferred payment terms (d)	2,895	-

(a) Allowance for impairment

We recognised an impairment loss of $232,000 in the current year (2015: $10,000). 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 2014	152
Impairment loss recognised during the year	10
Receivables written off during the year	(156)
Carrying amount at 30 June 2015	6
Impairment loss recognised during the year	232
Receivables written off during the year	(25)
Carrying amount at 30 June 2016	213

Our ageing of overdue trade receivables as at 30 June 2016 is as follows:

	2016		2015	
	Considered impaired	Past due but not impaired	Considered impaired	Past due but not impaired
	$'000	$'000	$'000	$'000
31-60 days	-	6,615	-	9,707
61-90 days	-	2,908	-	3,229
91-120 days	20	1,225	-	1,839
+120 days	214	1,763	6	1,000
	234	12,511	6	15,775

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.

	2016	2015
	$'000	$'000

Note 11. Trade and other receivables (continued)

	2016 $'000	2015 $'000
Within one year	613	-
Later than one year but not later than five years	1,079	-
	1,692	-
Less: future finance charges	(175)	
	1,517	

The present value of finance lease receivables is as follows:

	2016 $'000	2015 $'000
Within one year	545	-
Later than one year but not later than five years	972	-
	1,517	-

(c) Other receivables

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

(d) Trade receivables on deferred payment terms

Non-current trade receivables are unsecured, non-interest bearing and payable within two years. None of these receivables are past due.

Note 12. Inventories

	2016 $'000	2015 $'000
Goods held for sale – at cost	12,571	3,915

Inventories recognised as expense in cost of goods sold during the year ended 30 June 2016 amounted to $254,378,000 (2015: $196,052,000).

Note 13. Other current assets

	2016 $'000	2015 $'000
Prepayments	4,613	2,896
Security deposits	127	101
	4,740	2,997

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 in July 2015 (please refer to Note 29) and has consolidated Discovery Technology within the Data#3 consolidated financial statements for financial year 2016. 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
	2015
	$'000
Assets	1,658
Liabilities	619
Revenues	2,935
Net profit and total comprehensive income	548

	2016	2015
	$'000	$'000
Movement in carrying amount of investment		
Carrying amount at beginning of financial year	3,057	-
Acquisition of associate	-	2,509
Share of profit after income tax	-	548
Transfer on consolidation	(3,057)	-
Carrying amount at end of financial year	-	3,057

Note 15. Property and equipment

	2016	2015
Leasehold improvements – at cost	10,178	10,518
Accumulated amortisation	(6,362)	(5,599)
	3,816	4,919
Equipment – at cost	3,865	2,407
Accumulated depreciation	(1,361)	(868)
	2,504	1,539
	6,320	6,458

Leased assets

Property and equipment include the following amounts where we are a lessee under a finance lease:

	2016	2015
Cost	502	3,380
Accumulated depreciation	(14)	(1,549)
Carrying amount	488	1,831

Note 15. Property and equipment (continued)

	Leasehold improvements	Equipment	Total
	$'000	$'000	$'000
Carrying amount at 1 July 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
Additions	53	1,543	1,596
Acquisition of subsidiaries (Note 29)	-	118	118
Disposals	-	(15)	(15)
Depreciation and amortisation (Note 6)	(1,156)	(681)	(1,837)
Carrying amount at 30 June 2016	3,816	2,504	6,320

Note 16. Intangible assets

	2016	2015
	$'000	$'000
Goodwill – at cost	11,843	9,811
Accumulated impairment	(587)	(587)
	11,256	9,224
Software assets – at cost	3,487	2,617
Accumulated amortisation and impairment	(2,392)	(2,132)
	1,095	485
Internally generated software assets – at cost	5,605	3,232
Accumulated amortisation and impairment	(3,108)	(1,927)
	2,497	1,305
Customer relationships	1,500	1,500
Accumulated amortisation and impairment	(550)	(250)
	950	1,250
	15,798	12,264

Note 16. Intangible assets (continued)

	Goodwill	Software assets	Internally generated software	Customer relationships	Total
	$'000	$'000	$'000	$'000	$'000
Carrying amount at 1 July 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
Additions	-	1,127	1,113	-	2,240
Acquisition of subsidiaries (Note 29)	2,077	-	1,260	-	3,337
Finalisation of provisional accounting for the Business Aspect acquisition	(45)	-	-	-	(45)
Amortisation (Note 6)	-	(517)	(1,181)	(300)	(1,998)
Carrying amount at 30 June 2016	11,256	1,095	2,497	950	15,798

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	3,421
Services	7,835
	11,256

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 (2015: 12%). We have extrapolated cash flows beyond the 2016 financial year using an average growth rate of 3.5% (2015: 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.

	2016	2015
	$'000	$'000

Note 17. Trade and other payables

	2016 $'000	2015 $'000
Current		
Trade payables – unsecured	210,438	204,056
Other payables – unsecured	29,213	29,995
	239,651	234,051
Non-current		
Trade payables on deferred payment terms	1,344	-

Current trade and other payables are unsecured and are usually paid within 30 to 60 days of recognition. Non-current trade payables are unsecured, non-interest bearing, subject to a default rate of 18%, and payable within two years.

Note 18. Borrowings

	2016 $'000	2015 $'000
Current		
Finance lease liabilities – secured (Note 24(b))	157	402
Non–current		
Finance lease liabilities – secured (Note 24(b))	330	-

Note 19. Provisions

	2016			2015		
	Current	Non-current	Total	Current	Non-current	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Employee benefits	2,748	2,916	5,664	2,702	2,472	5,174
Lease remediation (Note 1(f))	78	424	502	61	408	469
	2,826	3,340	6,166	2,763	2,880	5,643

Note 19. Provisions (continued)

Movements in provisions other than employee benefits are as follows:

	Lease remediation
	$'000
Balance at 1 July 2014	340
Arising during the year	104
Increase to present value	25
Balance at 30 June 2015	469
Increase to present value	33
Balance at 30 June 2016	502

	2016	2015
	$'000	$'000
Note 20. Other liabilities		
Current		
Unearned income	26,301	15,501
Lease incentives	115	105
	26,416	15,606
Non–current		
Lease incentives	363	395

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

	2016	2015
Note 21. Secured liabilities		
Secured liabilities (current and non-current)		
Finance lease liabilities (Note 24(b))	487	402
Total secured liabilities	487	402

Assets pledged as security

All our assets are pledged as security for bank facilities (refer to Note 4). Equipment 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 2016 and 2015.

(b) Ordinary shares
All ordinary shares issued as at 30 June 2016 and 2015 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 2016 (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 2016, the board paid dividends of $10,316,000 (2015: $7,853,000). 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 2016 we had provided bank guarantees totalling $2,198,000 (2015: $2,117,000) to lessors as security for premises we lease and $5,733,000 (2015: $211,000) 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

	2016	2015
	$'000	$'000
(a) Non-cancellable operating leases		
Future minimum lease payments under non-cancelable operating leases are as follows:		
Within one year	5,461	4,875
Later than one year but not later than five years	14,831	14,452
Later than five years	3,874	5,271
	24,166	24,598
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	183	412
Later than one year but not later than five years	351	-
	534	412
Less: future finance charges	(47)	(10)
Recognised as a liability	487	402
The present value of finance lease liabilities is as follows:		
Within one year	157	402
Later than one year but not later than five years	330	-
	487	402
(c) Trade payables		
Trade payables on deferred payment terms are payable as follows:		
Within one year	672	-
Later than one year but not later than five years	672	-
	1,344	-

The carrying value is not materially different from the total of the commitments for trade payables.

Note 25. Key management personnel

Key management personnel compensation is set out below.

	2016	2015
	$	$
Short-term employee benefits	2,858,161	1,954,389
Long-term employee benefits	606,990	161,444
Post-employment benefits	122,539	85,467
	3,587,690	2,201,300

The group of key management personnel increased in 2016 with the addition of two executive general managers. Remuneration in 2016 reflected over-achievement of profit targets, while in 2015 profit targets were not met.

Transactions with key management personnel

Mr J E Grant, who was Managing Director until 31 December 2015, is a director of Wood Grant & Associates Pty Ltd and has the capacity to significantly influence decision making of that entity. We engaged Wood Grant & Associates Pty Ltd to assist with design and production of our annual financial reports in financial year 2015. These transactions were 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. There were no transactions during the 2016 financial 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

	Country of formation or incorporation	Equity holding (ordinary shares) 2016	2015
Name of entity		%	%
Business Aspect Group Pty Ltd	Australia	100.0	100.0
Business Aspect (Australia) Pty Ltd	Australia	100.0	100.0
Business Aspect Pty Ltd	Australia	100.0	100.0
Business Aspect (ACT) Pty Ltd	Australia	100.0	100.0
CTG Consulting Pty Ltd	Australia	100.0	100.0
Discovery Technology Pty Ltd	Australia	61.6	46.2
People Aspect Pty Ltd	Australia	100.0	100.0

Note 26. Related parties (continued)

	2016	2015
	$'000	$'000
Summarised financial information for the parent entity is as follows:		
As at 30 June		
Current assets	284,369	267,002
Total assets	311,181	292,267
Current liabilities	266,760	252,978
Total liabilities	271,448	256,038
Shareholders' equity		
Contributed equity	8,278	8,278
Retained earnings	31,455	27,951
Total equity	39,733	36,229
For the year ended 30 June		
Net profit and total comprehensive income	13,820	10,459

Note 27. Remuneration of auditor

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

	2016	2015
Audit and other assurance services	$	$
Audit and review of financial statements	160,000	145,000
Non-audit services		
Acquisition due diligence services	-	60,600
Tax compliance services	21,830	7,000
Other business advice	4,450	-
	26,280	67,600
Total remuneration	186,280	212,600

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 2016 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 2016 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 2016 (2015: nil).

Note 29. Business combinations

Discovery Technology

On 20 August 2014 Data#3 Limited (Data#3) acquired 46.2% of the issued capital of Discovery Technology Pty Ltd ("Discovery Technology"), a company specialising in Wi-Fi analytics, at a cost of $2.5 million. On 3 July 2015 Data#3 exercised its option to acquire a further 15.4% shareholding in Discovery Technology for $0.5 million, bringing Data#3's total shareholding to 61.6%. As a result of obtaining control, Discovery Technology has been consolidated in Data#3's consolidated financial statements from 3 July 2015. We have recognised the non-controlling interest in Discovery Technology at the non-controlling interest's proportionate share of Discovery Technology's net identifiable assets. The equity-accounted carrying value of Data#3's investment immediately before the acquisition date approximated fair value, therefore no gain or loss resulted from remeasurement at the date of acquisition.

Details of the acquisition are as follows:

	$'000s
Total purchase consideration	
Cash paid (total purchase consideration)	3,000
Purchase consideration – cash outflow	
Cash consideration	3,000
Less: cash acquired	(1,054)
Outflow of cash to acquire subsidiary, net of cash acquired	1,946

Assets acquired and liabilities assumed	Fair value $'000s
Cash and cash equivalents	1,054
Receivables	1,011
Other current assets	77
Plant and equipment	118
Software assets	1,260
Payables	(667)
Employee benefit liabilities	(288)
Deferred tax liability (net)	(177)
Net identifiable assets acquired	2,388
Add: goodwill	2,077
Less: non-controlling interest	(917)
share of previously equity-accounted profits (Note 14)	(548)
	3,000

The goodwill is attributable to application development capability and expertise and is allocated between the product and services segments in proportion to the revenue generated by each segment. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition-related costs of $41,000 were included in profit and loss for the year ended 30 June 2015.

Data#3 retains a further option to acquire the balance of the shares in the company at market price by 30 June 2017.

Note 29. Business combinations (continued)

Business Aspect

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.

We had previously accounted for the assets acquired and liabilities assumed on a provisional basis and finalised the accounting during financial year 2016, resulting in a $45,000 reduction of the goodwill previously recorded.

Contingent consideration

At 30 June 2015 Data#3 had recorded $1.1 million in contingent consideration in other payables (current liabilities) in connection with an agreement with the previous owners of Business Aspect to pay additional consideration subject to achievement of earnings before taxes, depreciation and amortisation (EBTDA) hurdles in financial years 2015 and 2016. The agreed financial hurdles were not met as at 30 June 2016, and as a result the $1.1 million previously recorded as a contingent liability was recorded as other income in the profit and loss in financial year 2016. We carried out impairment testing of the goodwill recorded in connection with the acquisition and determined there to be no impairment of goodwill as at 30 June 2016.

Directors' declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 38 to 73 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 2016 and of its performance for the financial year ended on that date; and

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

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

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

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

R A Anderson
Director

Brisbane
22 August 2016

PITCHER PARTNERS
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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 2016, 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.

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 2016 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 2016. 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 2016 complies with Section 300A of the Corporations Act 2001.

PITCHER PARTNERS

J J Evans
Partner

Brisbane, Queensland
22 August 2016

Shareholder Information

The shareholder information set out below was applicable as at 18 August 2016.

1. Distribution of equity securities

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

	Number of shares	% of issued capital	Number of holders
1 to 1,000	319,776	0.21	505
1,001 to 5,000	3,664,500	2.38	1,156
5,001 to 10,000	6,872,712	4.46	827
10,001 to 50,000	34,320,575	22.29	1,432
50,001 to 100,000	18,560,380	12.05	247
100,001 and over	90,237,007	58.61	157
	153,974,950	100.00	4,324

(b) There were 106 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
J P Morgan Nominees Australia Limited	10,739,167	6.97
Citicorp Nominees Pty Limited	10,367,642	6.73
HSBC Custody Nominees (Australia) Limited	10,263,654	6.67
Citicorp Nominees Pty Limited	4,230,000	2.75
RBC Investor Services Australia Pty Ltd	3,644,646	2.37
Powell Clark Trading Pty Ltd	2,985,370	1.94
Oakport Pty Ltd	2,690,593	1.75
Wood Grant & Associates Pty Ltd	2,092,300	1.36
Thomson Associates Pty Ltd	2,000,000	1.30
J E Grant	1,791,000	1.16
Elterry Pty Ltd	1,700,000	1.10
J T Populin	1,690,140	1.10
Portfolio Services Pty Ltd	1,451,785	0.94
W T & E M Powell	1,000,000	0.65
Albany Braithwaite Holdings Limited	849,226	0.55
M G & J T Populin	782,280	0.51
JHG Super Pty Ltd	763,150	0.50
HGT Investments Pty Ltd	750,000	0.49
J D & C E Densley	702,730	0.46
M T Pitt	658,260	0.43
	61,151,943	39.72

3. Substantial shareholders

Substantial shareholders in the company are set out below:

Name	Number held	% of issued shares
Celeste Funds Management Limited	12,746,353	8.28
Commonwealth Bank of Australia	11,672,861	7.58

4. Unquoted equity securities

Not applicable.

5. Voting rights

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

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

Options have no voting rights.

Financial Calendar

2016		2017	
August 22	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 16	Annual General Meeting	June 30	Year end

Corporate Directory

Corporate Head Office

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