Appendix 4E

ASX Preliminary Final Report

Name of entity	**Data#3 Limited**
ABN	**31 010 545 267**
Reporting period	**Year ended 30 June 2023 (FY23)**
Previous corresponding period	**Year ended 30 June 2022 (FY22)**

Results for announcement to the market

Results				**$**
Revenues from ordinary activities	up	16.9%	to	$2,564,570,000
Profit from ordinary activities after tax attributable to members	up	22.4%	to	$37,030,000
Net profit for the period attributable to members	up	22.4%	to	$37,030,000

Dividends	**Amount per security**	**Franked amount per security**
Current period		
Interim dividend	10.00 cents	10.00 cents
Final dividend	11.90 cents	11.90 cents
Previous corresponding period		
Interim dividend	7.25 cents	7.25 cents
Final dividend	10.65 cents	10.65 cents

The Record Date for determining entitlements to the dividend is 15 September 2023.

Brief explanation of the figures reported above

In a competitive and transforming technology market, Data#3 has achieved strong revenue and profit growth, delivering record FY23 results. The company has also continued to enhance its financial position through strong cash flow and diligent management of its balance sheet.

Please refer to the attached audited Annual Financial Report for FY23 for the following information:

- consolidated statement of profit or loss
- consolidated statement of other comprehensive income
- consolidated balance sheet
- consolidated statement of changes in equity
- consolidated statement of cash flows
- notes to the consolidated financial statements

Retained profits

	Current year $'000	Previous year $'000
Retained profits at the beginning of financial period	51,268	46,859
Net profit attributable to members	37,030	30,262
Net transfers to and from reserves	-	-
Dividends provided for or paid	(31,925)	(25,853)
Other	-	-
Retained profits at end of financial period	56,373	51,268

Additional dividend information

Details of dividends declared or paid during or subsequent to the year ended 30 June 2023 are as follows:

Record date	Payment date	Type	Amount per security	Franked amount per security	Total dividend $'000
15/09/2022	29/09/2023	Final	11.90 cents	11.90 cents	18,397
17/03/2023	31/03/2023	Interim	10.00 cents	10.00 cents	15,460
16/09/2022	30/09/2022	Final	10.65 cents	10.65 cents	16,465

Total dividend per security (interim plus final)

	Current year	Previous year
Ordinary securities	21.9 cents	17.9 cents

Dividend reinvestment plan

Not applicable.

Net tangible assets per security

	Current year	Previous year
Net tangible asset backing per ordinary security	$0.34	$0.29

Right-of-use assets accounted for in accordance with AASB 16 have been included in the calculation of net tangible assets.

Control gained over entities having a material effect

Not applicable.

Loss of control of entities having a material effect

Not applicable.

Details of aggregate share of profits (losses) of associates and joint venture entities

Not applicable.

Compliance with IFRS

The attached Annual Financial Report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IFRS).

Commentary on the results for the period

The results for FY23 reflect another record performance, with basic earnings per share increasing by 22.2% to 23.96 cents, and total fully franked dividends increasing by 22.3% to 21.90 cents per share.

Please refer to the attached Operating and Financial Review for further information in relation to the results for the period.

Compliance statement

This report is based on financial statements that have been audited.

Signed:

Richard Anderson
Director

Date: 22 August 2023

Operating and Financial Review

The IT market globally and locally has seen much change during the FY23 period. Despite the pandemic lifting, we experienced severe supply chain constraints combined with high staff turnover at the beginning of FY23. Like all sectors, IT also saw high wage growth, inflation and rising interest rates.

These challenges, however, did not hinder the Australian IT market which grew between 5% and 6%. In particular, the large corporate and government customers of Data#3 continued to increase their technology spend on digital transformation projects. Our core business includes connectivity, collaboration, modern workplace, end-user computing, multi-cloud and enterprise security offerings. These solutions have been, and continue to be, a high priority for our customers, and their investment in IT infrastructure, software and services forms an essential part of Australia's economic development.

As the financial year progressed, we saw improvements in supply chain and staff turnover returned to pre-pandemic levels. Our customers' spend continued to grow with higher growth in the education, health and resource sectors.

These projects extend across our solutions portfolio and include infrastructure, software and services. Our aim is to provide a full lifecycle of services from advisory to implementation and recurring support services. Typically, these projects span multiple financial years. The innovative digital network for the Queen's Wharf development in Brisbane is an example of such a project, where we are designing, building, installing and supporting the entire digital network. Our market leadership, full lifecycle service offering, strength of vendor relationships and track record put us in a competitive position for these major projects and there are other similar projects currently underway or in the pipeline.

The global computer chip shortage and supply chain constraints and delays, which impacted our hardware vendor partners and almost the entire industry in recent years, eased further in the second half of this financial year, and the supply chain is returning to a pre-pandemic normal. However, the backlog in infrastructure is higher than pre-pandemic and is commensurate with the 40% growth we have achieved in the last four years.

FY23 also saw the launch of ChatGPT and Generative Artificial Intelligence (Gen AI) truly entered the mainstream. The CEO of Microsoft, Satya Nadella has commented that we are at the beginning of a new era of IT and that generative AI will be as impactful as cloud or the internet. Looking beyond the hype of Gen AI, we are already starting to see it applied across each of our solutions and internally in our systems.

We see scope for integration in existing solution categories as customers transform their environments to be more competitive or efficient. For the most part, technology innovation is iterative and incremental, as we find new ways to use existing technologies and improve on what's come before.

It is becoming apparent that we are at the start of a major 'step' change for the global IT market. We are yet to determine the potential financial impact on our business.

Equally, security solutions are growing in demand as customers respond to the ever evolving and increasing threat of cyber breaches, seen by many as their number one business and risk management imperative.

Operational overview

Performance against strategic priorities

We have made steady progress against all our strategic objectives and priorities in FY23, as summarised below:

- **Accelerating Services** – Services growth continued to be a high priority in our FY23 strategic plan. We continued to expand our offerings across the service lifecycle (including consulting, implementation and support), with particular emphasis on growing the high value Consulting and Managed Services businesses to improve our overall services margins. Further investments were made in growing our Managed Services business, primarily in our people, and we onboarded many new customers during the year. We are pleased with the strong revenue growth that has been achieved in both of these businesses. We expect to realise the benefits of the Managed Services investment from FY24 onwards, and to improve profitability post the initial transition phase. Managed Services contracts are typically five years, and profitability generally increases from year two onwards. The growth in Services also aligns with the new global vendor incentive programs which are increasingly shifting towards services solutions.

- **Solutions** – we have continued to enhance our solutions to adapt to changing market demands. Every customer has a business strategy that includes digital technologies, and all digital technologies require a foundation of multi-cloud, networks, end-user computing and security. In FY23 we saw particularly high growth in our software licensing. We have continued to help our customers build their digital foundation and partnered with specialist providers to our targeted industry sectors. We have also continued to expand our solutions across the customer lifecycle, encompassing consulting, design, deployment and then support services.

- **Customer experience** – building on our customer success framework, we continued to gain competitive advantage by utilising data and telemetry within our solutions for customers. This strategic priority focused on consistently achieving successful customer outcomes and incremental revenue streams. Our objective is to understand and measure every customer touchpoint and to continue to invest in technology to help us improve the overall customer experience. We continue to work jointly with our major vendors on embedding our data analysis into customer contracts and service level agreements. In addition, the lifecycle of services for our solutions continues to provide opportunities to expand our relationship with existing customers, as well as attract new ones. We appointed a Chief Technology Officer, specifically to build and strengthen our relationships with world-leading technology partners and to ensure we are ahead of the technology curve. We also appointed a Chief Customer Officer to further leverage our customer success teams and to optimise services opportunities across all functional areas.

- **People and community** – our employee value proposition continues to be enhanced so that we can attract, develop and retain the best talent. In conjunction with our People Solutions business, we have strengthened our talent sourcing strategy with a focus on our graduate recruitment program, traineeships and industry placements.

  We have also selectively adopted greater offshoring for non-customer facing services where it makes strategic and economic sense. We are committed to a sustainable social responsibility framework that supports our business, customers, partners and other stakeholders and continue to refine our environmental, social and governance (ESG) goals and initiatives as we strive to improve our performance in this important area.

- **Operational excellence** – we continued to enhance our operational efficiency across a range of projects. The most significant project was the implementation of our new ERP system based on the Microsoft Dynamics 365 cloud platform. This project was completed successfully and involved considerable upfront investment during FY22 and ongoing system enhancements during FY23. We expect it to generate a solid return on investment over time with longer-term productivity improvements, in addition to other benefits such as additional security features. $6 million of capitalised development costs are being amortised over a five-year period and there will be ongoing costs as we continue to enhance the new platform. There are many other internal digital transformation projects underway that will further enhance our scalability, security, reporting and productivity.

In addition to the above strategic priorities, there are other indicators we utilise to determine the health of the business. These include our customer survey, people satisfaction survey and independent external awards and certifications. We are especially pleased with our performance in each of these areas.

Customer satisfaction

Our annual customer satisfaction survey produced another very high overall rating consistent with prior years. Our customers’ top priorities as identified in the annual survey are security (the number one priority for the eighth year in a row), cloud and networking.

The regular “customer pulse” surveys continued to provide instant customer feedback on projects, service desk calls and services in general. These surveys have proved to be very useful sources of information for insight into areas of improvement and investment to ensure we are delivering enhanced customer experiences. The regular pulse surveys help us to remain agile as customer needs change.

People satisfaction

We ended FY23 with 1,447 people in the group, up from 1,378 people at the end of FY22. This includes a combination of permanent, contracted and casual staff. For the past 16 years we have surveyed our people’s satisfaction, and the summary for FY23 was as follows:

- strong participation in the survey
- another outstanding result, matching the previous year’s record overall satisfaction score
- 98% of our people recommend Data#3 as an excellent company to work for
- 98% of our people said they feel they belong at Data#3
- 97% of all new starters have stayed with the business for more than 12 months

- 15% of our people were promoted internally during FY23

Vendor relationships and external awards

We continue to strengthen our partnerships with key vendors, the most significant relationships being with Microsoft, Cisco, HP, Adobe and Dell. These are leading global vendors that account for a large proportion of the addressable market in large corporate and public sector organisations.

In FY23 we achieved significant market share growth with each of our vendors, consolidating our position as their leading partner in the region. This growth is largely the result of our considerable investment in the vendors' technologies with specialist certifications for our services businesses. One example is the Microsoft Azure Expert Managed Services Provider (MSP) certification which Data#3 is one of few organisations in Australia to have attained. Many vendor certifications require considerable investment which limits the number of partners that are endorsed by the global vendors, further strengthening our competitive position.

It is recognised that the major vendors prefer working with fewer, larger partners that can deliver critical mass in their target markets. Customers, meanwhile, prefer to concentrate their IT spend with a single provider as they transition from legacy systems. This significantly enhances the value of established solution providers such as Data#3 that can deliver a full breadth of services.

In addition to Microsoft, Cisco, HP and Dell, we work with hundreds of other vendors such as Citrix, Lenovo, Palo Alto, Mimecast, Fortinet, Apple, Veeam Software and VMware. Our vendor management and solutions team constantly scan the market for new and emerging vendors that complement our existing solutions and offerings.

Increasingly the vendor channel programs are focusing on the adoption and usage of their technologies. Many vendor programs have a customer experience emphasis which focuses on the full lifecycle of their products combined with our specialist services. The programs are, therefore, promoting longer-term, ongoing customer engagement rather than short-term initial transactions. This translates into greater opportunities for organisations with services teams that are skilled in the associated technologies.

Each year we receive national and international recognition from our global partners, and we are delighted to have been recognised with the following prestigious global awards for 2023:

- Cisco Global Partner of the Year – Security
- Microsoft Surface PC Reseller Worldwide Partner of the Year
- Microsoft Surface+ Worldwide Partner of the Year

Cisco has more than 60,000 partners globally, and the 2023 award is the fifth consecutive year we have succeeded in winning a global award.

There are over 500,000 Microsoft partners globally, and for an Australian company to win global awards is a significant achievement.

The Surface PC Reseller Worldwide Partner of the Year Award recognised Data#3 as the Surface PC reseller that has demonstrated outstanding leadership in delivering Microsoft Surface PC device solutions to our customers. The award recognised the partner that delivered the highest-quality service to Microsoft Surface customers, with strong growth in new customer additions while maintaining and growing our existing Surface customer base.

The Microsoft Surface+ Worldwide Partner award recognises the Surface partner that has brought the best of Microsoft together by pairing Surface PC and/or Hub with Microsoft modern solutions including Microsoft 365, Autopilot and Device as a Service.

Data#3 is also the number one Microsoft security reseller in Australia and number five globally, which aligns with our strategic priority of growing our security business.

In addition, we are pleased to have been acknowledged with the following regional awards over the past year:

- HRD Employer of Choice Award
- Microsoft Surface Reseller of the Year for Asia
- Schneider Electric IT Solution Provider of the Year
- TasICT Best Security Initiative
- ARN Enterprise Partner Innovation Award

Operating and Financial Review (continued)

- Cisco ANZ Partner of the Year
- Enlightened Growth Leadership Award by the Frost & Sullivan Institute for ESG & CSR
- Hewlett Packard Enterprise (HPE) Platinum Partner of the Year
- Aruba GreenLake Partner of the Year
- Aruba As a Service Partner of the Year for the Asia Pacific and Japan (APJ) Region
- HP Services Partner of the year
- HP AMD Greater Asia Reseller of the Year
- Palo Alto Networks Security Growth Partner of the Year
- Delinea APAC Enterprise Partner of the Year
- Delinea APAC Marketing Event of the Year
- Jabra APAC Top Public Sector Sales Award

Our Group Manager of Organisational Development and Human Resources was also named as winner of the Australian Reseller News (ARN) Achievement Award for 2023 for her outstanding contributions to the ICT industry.

Financial overview

The Data#3 group delivered another strong financial performance in FY23 off the back of continued investment by our customers in digital transformation, enterprise security, networking, and multi-cloud, together with record levels of demand for our major vendors. We benefited from improvements in the global supply chain in the second half, which in turn reduced our inventory holdings and aged debtors.

During FY23 we realised the excess backlog from FY22 as previously reported. The unrealised backlog at the end of June 2023 has largely normalised; however, in absolute terms, the value of the backlog is commensurate with the over 40% growth in our Infrastructure business achieved in the last four years.

Total revenue increased by 16.9% from $2,193.0 million to $2,564.6 million, fuelled by the continued strong growth in multi-cloud revenue and revenue from the sale of products that facilitate our customers' investments in cloud solutions, such as storage and networks. Pleasingly, we also saw strong revenue growth across most of our Services business, as we continued to drive our Services growth strategy.

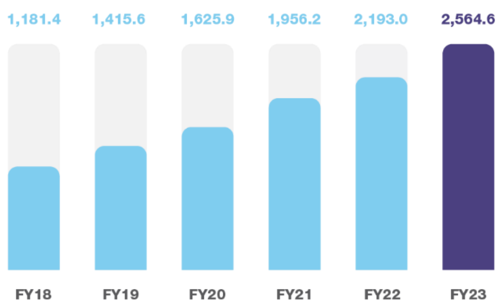
We saw solid growth across most of our business areas and regions, as detailed in the 'Operating results by functional area' section and are well placed to continue growing our Services business in FY24 and increasing returns on investments made this financial year.

Approximately 65% of our total revenue is recurring, derived from multi-year contracts with government and large corporate customers to fulfil their essential IT requirements. Recurring revenue mostly relates to software and services and represents locked-in spend, typically on three to five-year contracts. It does not include any other revenue where customer spend is not committed.

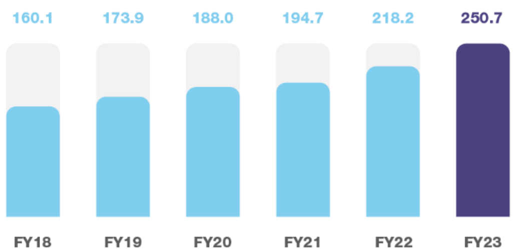
The longer the customer relationships, the more revenue and gross profit they usually generate, which is why we continue to focus on driving our recurring revenue base. This also helps improve visibility and predictability of earnings and should, over time, lesson the profit skew towards the second half, as we saw in FY23.

Total gross profit (excluding other revenue) increased by 14.9% from $218.2 million to $250.7 million, with total gross margin of 9.8% (FY22: 10.0%). The pleasing improvement in the Services gross margin from 31.4% to 36.4% was offset by proportionately stronger growth in the lower margin Infrastructure and Software businesses, a continuation of what we saw in the first half. Product gross margins decreased from 6.3% to 5.7% due to the relative mix of higher volume, lower margin and more competitive deals such as end user computing, and a slight reduction in vendor rebate percentages compared to prior year as rebate recognition gradually shifts to services.

Total revenue ($M):



Total gross profit ($M):



Operating and Financial Review (continued)

Internal staff costs increased by 15.7% from $153.0 million to $176.9 million, representing an increase in headcount and general remuneration increases. We have continued to recruit new staff to increase our capacity, particularly in our Services business units, and our total headcount (excluding contractors) increased by 15.4% during FY23. In addition, we have experienced general wage inflation in FY23, however, there has been no material impact on profit as the increased costs have been built into our cost base and reflected in pricing, which varies across different contracts.

Other operating expenses increased by 12.2% from $21.7 million to $24.3 million, reflecting the amortisation of costs incurred on our Dynamics 365-based ERP replacement project in the previous financial year and an increase in travel and other expenses as in-person business activities returned to more normal levels post pandemic.

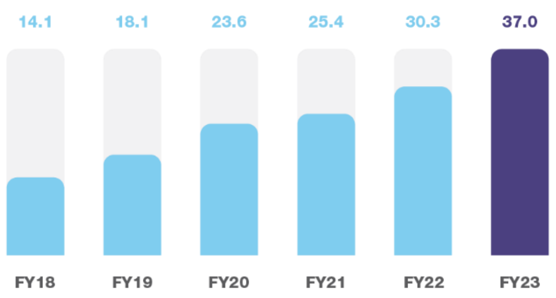
Our internal cost ratio (staff and operating expenses as a percentage of gross profit) increased slightly from 80.1% to 80.3% representing continued investment in people and systems, predominately in our Managed Services business. We are confident in our ability to deliver operating leverage while continuing to invest in the business and should start to realise the benefits of our updated ERP system and related process improvements in FY24, as well as improved profitability as our Managed Services contracts mature post their transition phase.

The group's total profit before tax increased by 20.7% from $44.1 million to $53.2 million, with the pre-tax profit margin increasing from 2.01% to 2.08%, and profit after tax attributable to shareholders increased by 22.4% from $30.3 million to $37.0 million. This represented basic earnings per share of 23.96 cents, an increase of 22.2% from 19.61 cents in the previous year.

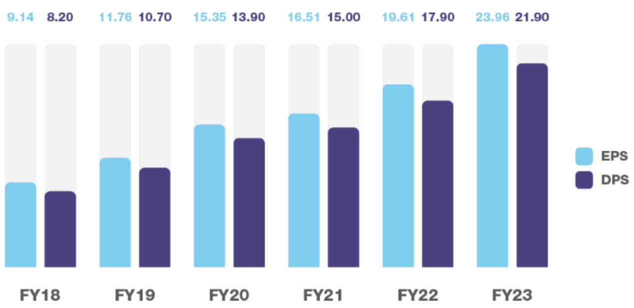
The board declared fully franked dividends of 21.90 cents per share for the full year, an increase of 22.3%, representing a payout ratio of 91.4%.

Return on equity was 54.2% (FY22 49.0%).

Profit after income tax ($M):



Basic earnings per share & dividends per share (cents):



Balance sheet and cash flow

Our balance sheet at 30 June remains strong and debt-free, with significant improvements in inventory holdings and trade receivables, resulting from continued easing of global supply chain constraints in the second half.

The cash balance increased from $149.5 million at 30 June 2022 to $404.8 million at 30 June 2023, reflecting our typical 30 June temporary cash surplus driven by early customer receipts prior to supplier payments falling due. The temporary cash surplus at 30 June is greater than the prior year and unusually inflated due to more customers electing to pay invoices early, combined with the growth in sales in FY23.

Trade receivables and payables are relatively high at year end due to the typical May/June sales peak. Trade and other current receivables at 30 June 2023 were $454.8 million and trade and other current payables $775.6 million, reflecting the timing differences in the collections from customers and payments to suppliers around 30 June.

The key trade receivables indicator of average days' sales outstanding (DSOS) increased from 28 days in FY22 to 33 days in FY23, mostly due to collection delays caused by supply chain constraints and partial deliveries in prior periods; however, DSOS remains ahead of industry best practice and is starting to improve as we see a continued reduction in partial shipments.

Operating and Financial Review (continued)

Total inventory holdings decreased from $33.1 million to $19.4 million with the continued easing of global supply chain constraints. Importantly, all inventory is committed to customer contracts, therefore we carry no inventory risk.

The net cash flow from operating activities was an inflow of $291.0 million, predominately due to the traditional May/June sales peak and the spike in collections and early customer payments before the end of June. These collections generate temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur.

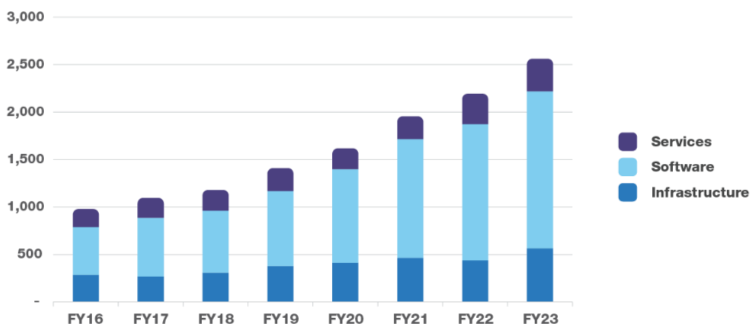
Despite the material cyclical fluctuations in our cash position, we continue to manage working capital efficiently and remain self-funding with no external debt. Excluding the end of financial year spike in cash held, “free cash” flow is typically around $15 million, however this was reduced temporarily as a result of the inflated inventory balance held for most of FY23.

Operating results by functional area

The core Data#3 business is structured around three functional areas – Software Solutions, Infrastructure Solutions and Services – operating across eight regions. Business Aspect operates independently but within the Data#3 group structure.

Pleasingly, we experienced moderate to strong revenue growth in all areas of the business during the year, except for Maintenance Services which saw a relative decline against a particularly strong FY22.

Revenue trend by functional area ($M):



Software Solutions

Software Solutions achieved strong revenue growth, increasing by 15.3% to $1,652.5 million.

The Software Solutions business helps customers maximise business value from their software investments through effective procurement, deployment, management and optimisation. Software Solutions delivered exceptional performance in FY23 underpinned by our market leading position in Public Sector verticals as well as customer acquisition in the commercial sectors. Customers are continuing to invest in public cloud offerings with subscription services for Microsoft Azure and Office 365 delivering consistent and annuity-based growth, particularly in security.

Software Advisory Services, including Software Asset Management services and related consultancy services, have become increasingly popular as customers seek to drive efficiency across their software portfolio. Software Advisory provides excellent links between the customer’s software licensing agreements and Data#3’s Project and Support Services, which help with the deployment, adoption, and management of the software.

Services has expanded its lifecycle, and packaged services offerings are being attached to software sales and drive customer outcomes and loyalty throughout the product lifecycle. This is consistent with our approach to align with major global vendors who are rewarding partners for delivering on customer success and overall long-term customer experience.

Operating and Financial Review (continued)

Infrastructure Solutions

The Infrastructure Solutions business achieved strong revenue growth of 28.6% to $566.2 million during the year, and pleasingly saw the easing of global supply shortages and delays in the second half.

The Infrastructure Solutions business engages with customers across a broad range of business outcomes. It provides the technology to support those outcomes, by providing notebook computers through to networking, collaboration, data centre, and multi-cloud solutions. The business helps customers procure and maximise returns from their infrastructure investments. It also leverages Data#3's warehouses, digital customer platforms, and customer success teams to provide industry-leading solutions to customers.
The past year has seen continued customer investment in security, networking, and multi-cloud solutions. Customers have increased confidence in moving to As-a-Service or consumption-based solutions, which supports our strategy of increasing recurring revenue. Data#3's continued focus on customer success has contributed to customer confidence in our ability to provide these solutions throughout the lifecycle of solutions.

There is continued movement in technology spending as customers refine their approach and policies to hybrid work, deal with rising security concerns, and continue to expand networks across broader footprints. We have also seen a resumption in large scale infrastructure projects, particularly in the public sector.

Data#3 continues to out-perform market growth rates, with revenue in the Infrastructure Solutions business growing over 40% since FY19. While industry demand for end-user computing reduced, Data#3 was still able to grow its devices sales by 6%. Customers are still challenged by the management and orchestration of moving between public and private clouds, which provides further opportunity for Data#3 to provide support to customers in the management of their applications.

We received an unprecedented number of awards, being recognised by key partners for security and As-a-Service, which aligns with our ability to deliver on our customers' priorities through our solutions strategy.

Data#3 retained its position on the HP Global Partner Advisory Board, Microsoft Surface Global Advisory Board and remained a member of the Cisco, HPE/Aruba, Dell and Lenovo Advisory Boards for Asia Pacific.

The company's relationships with its major global vendor partners at this level continue to be a significant differentiator.

Services

Growing our Services business is central to Data#3's growth strategy as it is integral to our Software and Infrastructure businesses while continuing to support higher margins and recurring revenues.
The Services function has a wide portfolio of services and capabilities including:

- Consulting (through Business Aspect) for management and information technology consulting services
- Project Services for the design and implementation of technology solutions
- Support Services (comprising Managed Services and Maintenance Services) for annuity-based contracts
- People Solutions for the provision of contractors and permanent staff.

Consulting
Business Aspect has extensive consulting skills, experience and expertise in digital transformation, cloud strategy, architecture, security, risk, control, planning, design and governance. In delivering its services, Business Aspect addresses all layers of the business, including people, organisational change, process change and information management.

We were pleased to see revenue increase by 25.0% to $33.2 million in FY23, with improved growth in Queensland and the ACT.

Business Aspect remains strategically important, and we continue to see increased interaction and joint engagements between Business Aspect and Data#3 teams.

Project Services
Project Services had another strong performance and benefited from the steady increase in larger infrastructure-related projects, growing revenues by 11.9% to $74.5 million in FY23. The services associated with these larger infrastructure-related projects typically span multiple years, and the business enters FY24 with a solid pipeline of work and high utilisation levels.

Support Services (Managed and Maintenance Services)
Support Services revenues increased overall by 2.6%, comprised of a strong performance in Managed Services which was up by 31.1% to $39.3 million, offset by an underperformance in Maintenance Services, which was down by 3.9% to $125.0 million against a particularly strong prior year.

We are pleased with the success of our Managed Services offerings, fuelled by our Microsoft Expert Azure Managed Services Provider accreditation. This certification places Data#3 among the elite ranks of Microsoft Azure Managed Services Providers globally.

We have continued to invest in the Managed Services business and onboarded many new customers in FY23. We expect to realise the benefits of this investment as contracts mature following their initial transition phase and profitability generally increases from year two onwards of typically five-year contracts.

We will continue to align our Support Services to the flow of work from our Project Services team, and to work closely with our key vendors to provide complementary support services.

People Solutions
People Solutions delivered another record result with revenues increasing by 9.3% to $68.1 million, as we continued to adapt our offerings to the changing employment market and increased our focus on accelerating services with strategic augmentation.

Multi-cloud

Multi-cloud is a mixed computing environment where applications are run using a combination of computing, storage, and services in different environments including:

- public clouds
- private clouds
- on-premises data centres
- active “edge” locations

Multi-cloud is inherent in most of our solutions, which means there is little value in reporting on it separately. Multi-cloud is now viewed as the new normal rather than on-premises vs cloud.
Data#3 is Microsoft’s largest reseller in Australia, and our cloud services strategy contains major elements of Microsoft’s product offerings such as Azure, Office 365 and Dynamics 365. Major vendors want IT services providers to take the customer on a journey, to help them generate efficiencies and adopt greater cloud usage.

At the base level, cloud services annuity revenue with Microsoft subscription licenses is a substitute for our traditional license business. Our role is to help our customers migrate applications to the most appropriate cloud solution. This may include private or multi-cloud where customers can use a mixture of cloud services and software and manage both with a common set of tools. Vendors such as Cisco, Microsoft, HP and Dell Technologies are major players in this market segment, and Data#3 is a dominant reseller for each of these global vendors.

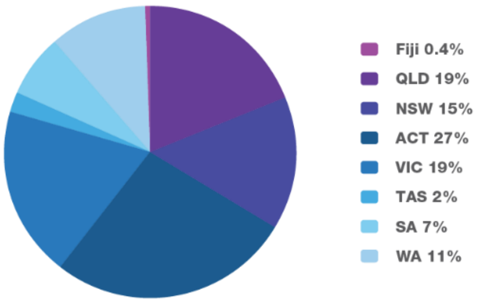
An ideal engagement would see us provide services at every stage of our solution lifecycle: consulting, design and implementation, and managed or support services for both public and private clouds, and this continues to be an area of significant focus. The more we grow our cloud business the more access we have to customer data and insights, which in turn allows us to enhance our overall lifecycle services. It also helps determine where we focus our ongoing investment.

Performance by region

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

Operating and Financial Review (continued)

FY23 Revenue split by region (Total $2,561M):



- Queensland – returned to a strong performance as supply chain issues were resolved, with 19% growth on FY22.
- New South Wales – benefited from continued focus and investment, delivering strong market gains and 15% revenue growth in FY23.
- ACT – again achieved strong revenue growth across in FY23, up 27% which was even higher than prior years.
- Victoria – our team continued to drive its growth strategy with 13% growth on FY22.
- Tasmania – delivered a solid result, however revenue decreased 10% on a particularly strong prior year.
- South Australia – continued to make excellent progress, delivering a 17% increase in revenue.
- Western Australia – continued its strong performance, achieving 8% revenue growth.
- Fiji and the Pacific Islands – FY23 proved to be another difficult year for Fiji and the Pacific Islands as the region's economy recovered from pandemic lockdowns and reduced tourism, however we finished the year with revenue growth of 19%.

ESG

Our vision is to harness the power of people and technology for a better future, and we are committed to an ESG framework that makes a meaningful difference. We're delighted to share that we've made some further progress in FY23, which will be outlined in full in our ESG Report.

In addition to awards for our solutions and technical expertise, Data#3 was delighted to be named recipient of the Enlightened Growth Leadership Award by the Frost & Sullivan Institute in FY23. Representing approximately the top 1% of all companies globally, the award recognises organisations that are committed to making the world a better place and that are part of the solution to challenges the world faces today. This is the only award that considers the synergy between financial growth, corporate social responsibility (CSR) and ESG.

We were also proud to have been named as a winner of the 5-Star Employer of Choice Award for 2023 (500+ employees) by Human Resources Director Magazine (HRD) for the eighth year in a row. This award is not limited to the IT sector; it covers all industries and includes many multinational entries.

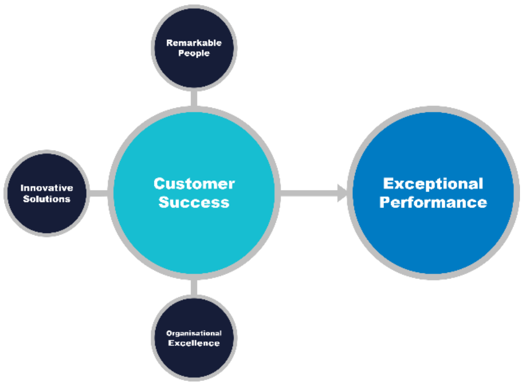
As the largest Australian IT services and solutions company, we have a responsibility to contribute to the reconciliation of the nation. Last year, we formed a Reconciliation Action Plan (RAP) working group consisting of committed staff who are passionate about reconciliation and who understand the cultural importance of reconciliation. Following significant work and engagement across the business, the working group successfully launched its Reflect RAP in July 2023.

Addressing our environmental impact is among the most pressing priorities facing today's world, and we take this duty seriously. We have been actively pursuing environmentally sound practices to incorporate into our daily business activities, such as choosing to support suppliers with a strong environmental track record and repurposing ageing equipment, with which we also support our customers. Data#3 is building on our work to reduce the impact of our operations. We are ambitious in our pursuit of net zero and are focussed on defining and improving our Net Zero Strategy.

As we continue to grow our business financially, we believe we have an increased obligation to do what is right for the communities in which we operate. During FY23 we continued to support several key local, national, and international charities, both financially and by promoting volunteering activities for our employees.

Strategy and outlook

Our strategy is the pathway to enabling our customers' success. It unites innovative solutions, remarkable people and organisational excellence through our solutions framework. We believe making our customers more successful consistently over time will deliver exceptional and sustainable performance.



Our plan is to deliver technology to support our customers' business objectives, utilising our core technology solutions across the following categories:

These solutions are delivered using our Customer Solutions Lifecycle (PDO^2) methodology, comprising Position, Plan, Design, Deploy, Operate and Optimise phases. Each customer's business objectives may have multiple solutions, and each solution may apply to multiple business objectives. Our solution categories contain over two hundred specific solution offerings.

Our strategic priorities for FY24 include the following:

- Solutions – accelerating Data#3's services and optimising vendor programs
- People and Community – connecting Data#3 with its people and the communities in which it operates
- Customer experience – differentiating Data#3 through the experiences we deliver to our customers
- Organisational excellence – connecting and simplifying Data#3 to deliver an agile and efficient business

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 2023. 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 solutions are broadly categorised into the following areas:

- Cloud – highly secure data centre solutions to improve business efficiency, reduce costs and scale customers' technology requirements in hybrid IT environments
- Modern Workplace – solutions to optimise our customers' IT environment and assist them to realise the full value of their technology assets
- Security – solutions designed to help our customers navigate the complexities of cyber security and a changing threat landscape
- Data and Analytics – solutions designed to enhance visibility and control over customers' data to enable them to make faster, more accurate business decisions
- Connectivity – solutions to enable customers to seamlessly connect to business networks and information – anywhere, any time and on any device

Our service capabilities include

- consulting,
- project services,
- support services and
- recruitment.

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

2. Dividends

	Cents	$'000
Final dividend declared for FY23 subsequent to year end	11.90c	18,397
Dividends paid in the year:		
Interim for FY23	10.00c	15,460
Final for FY22	10.65c	16,465
	20.65c	31,925

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:

Directors' report (continued)

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 13 of the attached Operating and Financial Review.

5. Earnings per share

	2023 Cents	2022 Cents
Basic earnings per share	23.96	19.61
Diluted earnings per share	23.88	19.55

6. Significant changes in the state of affairs

There was no significant change in the state of the group's affairs during the year.

7. Significant events after the balance date

The directors declared a dividend in relation to FY23 subsequent to year end (see item 2 above). No other matter or circumstance has arisen since 30 June 2023 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 page 13.

9. Directors

The names and details of Data#3 Limited's directors are set out below. All 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. Mr Anderson was formerly a partner with PricewaterhouseCoopers, the firm's Managing Partner in Queensland, and a member of the firm's National Committee. He was 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 one other public company: Lindsay Australia Limited (until 31 August 2021). Mr Anderson is also president of Guide Dogs Queensland.

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

Directors' report (continued)

9. Directors (continued)

L C Baynham, BBus (Honours), FAICD (*Managing Director)*
Managing Director since November 2016. Serving as Chief Executive Officer since 2014, Mr Baynham has served Data#3 in various roles since 1994, including as Group General Manager for ten years. Prior to joining Data#3, Mr Baynham gained a broad range of international IT industry experience. Mr Baynham is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy and sits on a number of global advisory boards for key strategic partners representing Data#3 and the wider Australian IT channel community.

M R Esler, FAICD (*Non-executive Director)*
Independent non-executive director since August 2019. Mr Esler has extensive experience in IT, first in a number of roles with IBM before joining the Data#3 group in 1984 as an executive director. Mr Esler served as an executive director of Data#3 Limited from 1997 to 2002, and performed senior management roles in Sales and Marketing, Operations and Supply Chain before retiring from his role as Queensland General Manager in 2014. Mr Esler has been actively involved in many IT-related forums and was a member of both the Asia Pacific and Worldwide Hewlett-Packard Global Partner Advisory Boards from 2011 until 2014. He has also been recognised as a 30-year Fellow of the Australian Institute of Company Directors.

Special responsibilities:
Member of the audit and risk committee

S M Forrester AM, BA, LLB (Hons), EMBA, FAICD (*Non-executive Director)*
Independent non-executive director since her appointment on 30 March 2022. Ms Forrester is a highly respected company director with an executive career spanning over 25 years in large professional services firms, covering law, finance, human resources and corporate governance. Bringing a wealth of experience having served as chair and non-executive director on multiple ASX listed companies for over a decade, Susan has a particular focus on strategy and governance within industries that are undergoing rapid change, often as a result of technology. Susan is a Member (AM) in the General Division of the Order of Australia for significant service to business through governance and strategic roles as an advocate for women. In addition, Ms Forrester serves on the Diligent Institute Advisory Board in New York as a corporate governance specialist representing Asia Pacific and is a Queensland Councillor with the AICD.

Ms Forrester is currently serving as non-executive chair of Jumbo Interactive Limited (since 2020), and non-executive director of Plenti Group Limited (since 2020).

During the past three years Ms Forrester has also served as non-executive director of Over the Wire Holdings Limited (2015 - 2022), G8 Education Limited (2011- 2021) and Viva Leisure Limited (2018 - 2021).

Special responsibilities:
Member of the remuneration and nomination committee

A M Gray, DUniv, B.Econ (Hons), FAICD, SF (FINSIA) (*Non-executive Director)*
Independent non-executive director since August 2017. Mr Gray is Chairman of Sugar Terminals Limited, Deputy Chairman of Queensland Urban Utilities and a non-executive director of the Northern Australia Infrastructure Facility, the Royal Flying Doctor Service of Australia (Queensland), and Queensland Cricket. Previous senior executive appointments include Under Treasurer of the Queensland Treasury Department, Chief Executive Officer of the Queensland Competition Authority and the Queensland Independent Commission of Audit, Office Head (Queensland) at Macquarie Group and Executive Director with BDO.

During the past three years, Mr Gray has served as a non-executive director of one other public company: Sugar Terminals Limited (director since 2017).

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

9. Directors (continued)

L M Muller, BCom, CA, GradDip App Fin and Inv, GAICD (*Non-executive Director)*
Independent non-executive director since February 2016. Ms Muller has extensive experience in finance with a 30-year career in senior corporate financial management roles and professional advisory services roles. Ms Muller has previously held Chief Financial Officer (or equivalent roles) with 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 Sugar Terminals Limited and Guide Dogs Queensland.

During the past three years, Ms Muller has served as a non-executive director of one other public company: Sugar Terminals Limited (director since 2017).

Special responsibilities:
Chair of the audit and risk committee

Meetings of directors
The number of meetings of our board of directors (including meetings of the board committees) held during the year, and the numbers of meetings attended by each director are shown below:

Name	***Full meetings of directors***		***Meetings of audit and risk committee***		***Meetings of remuneration and nomination committee***	
	Meetings attended	**Meetings held ***	**Meetings attended**	**Meetings held ***	**Meetings attended**	**Meetings held ***
R A Anderson	14	15	**	**	3	3
L C Baynham	14	15	**	**	**	**
M R Esler	15	15	3	3	**	**
S M Forrester	15	15	**	**	2	3
A M Gray	15	15	2	3	3	3
L M Muller	15	15	3	3	**	**

* *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 T W Bonner, LLB, BComm, AGIA, was appointed to the position of Joint Company Secretary in 2007 and is sole company secretary from 1 April 2023. He has served as our General Counsel since 2005 and is a member of the Queensland Law Society and the Governance Institute of Australia.

Mr B I Hill was Company Secretary from 1997 until 31 March 2023, the date of his resignation from the position.

11. Remuneration report – audited

The remuneration report sets out the following, in accordance with section 300A of the *Corporations Act 2001* (Corporations Act):

- the company's governance relating to remuneration;
- the policy for determining the nature and amount or value of remuneration of key management personnel (KMP);
- the various components or framework of that remuneration;
- the prescribed details relating to the amount or value paid to KMP, as well as a description of any performance conditions; and
- the relationship between the policy and the performance of the company.

11. Remuneration report – audited (continued)

Persons covered by this report
KMP are the non-executive directors, executive directors, and employees who have the authority and responsibility for planning, directing and controlling the activities of the consolidated entity. On that basis, the individuals classified as KMP are set out below:

Name	Title
Directors:	
Richard Anderson	Chairman, Non-executive Director
Laurence Baynham	Managing Director/Chief Executive Officer
Mark Esler	Non-executive Director
Susan Forrester	Non-executive Director
Mark Gray	Non-executive Director
Leanne Muller	Non-executive Director
Other executives:	
Michael Bowser	Executive General Manager – Operations
Brad Colledge	Executive General Manager – Software, Infrastructure & Services
Brem Hill	Former Chief Financial Officer (until 31 March 2023)[(1)]
Cherie O'Riordan	Chief Financial Officer (from 1 April 2023)

[(1)] Mr Hill finished as Chief Financial Officer on 31 March 2023 but remains an employee (on long service leave) until 31 December 2023.

Overview of Data#3's remuneration governance framework and strategy
The Data#3 board has delegated certain remuneration and nomination responsibilities to a committee to review and report back to the Data#3 board. The ultimate responsibility for remuneration and nomination policy matters rests with the Data#3 board.

Remuneration and nomination committee
The remuneration and nomination committee is a separate committee of the board and in relation to remuneration 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
- set remuneration at levels that are intended to attract and retain executives capable of managing our operations, achieving our strategic objectives, and increasing shareholder wealth;
- motivate senior executives to pursue the long-term growth and success of Data#3;
- demonstrate a clear relationship between senior executives' performance and remuneration;
- consider prevailing market conditions;
- be reflective of the company's short-term and long-term performance objectives; and
- be transparent and acceptable to shareholders.

The committee is authorised to investigate any matter brought to its attention with full access to all records and personnel of the company and has the authority to engage independent counsel and other advisers as it determines necessary to carry out its duties. The committee seeks input regarding the governance of KMP remuneration from the following sources:
- shareholders
- remuneration and nomination committee members
- external remuneration consultants
- tax advisors and lawyers
- managers within the company

As at the end of the reporting period the committee comprised only independent non-executive members of the board.

11. Remuneration report – audited (continued)

Executive remuneration

The executive remuneration structure is set by taking the following factors into account:

- the group's remuneration policies
- the level and structure of remuneration paid to executives of other publicly listed Australian companies of similar size
- the position and responsibilities of each executive
- appropriate targets and key performance indicators (KPIs) to reward executives for group and individual performance
- remuneration is reviewed annually and the total remuneration package comprises the following:
  - base package, including superannuation, allowances, benefits and any applicable fringe benefits tax (FBT), and any salary sacrifice arrangements
  - short-term incentives (STI) which provide rewards for performance against annual targets
  - long-term incentives (LTI) which provide equity-based rewards for performance against targets indicative of shareholder benefit over a three-year period
- market practices and the circumstances of the company
- both internal relativities and external market factors
- exceptions are managed separately for occasions where particular expertise must be retained or acquired
- termination benefits are generally limited to the amount allowed for under the Corporations Act and will be specified in employment contracts.

Non-executive remuneration

Remuneration to non-executive directors is set by taking the following factors into account:

- the responsibilities and workload of each director
- the level of fees paid to non-executive directors of other publicly listed Australian companies of similar size and industry
- operational and regulatory complexity
- non-executive remuneration is reviewed annually and comprises
  - board and committee fees
  - statutory superannuation.

Board fees reflect the demands which are made on, and the responsibilities of, the directors. Board committee fees are structured to recognise the differing responsibilities and workload associated with chairing the board and each of the committees. 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 $900,000 per annum in total for salary and fees, to be divided among the non-executive directors in such a proportion and manner as they agree. Non-executive directors do not receive bonus payments or share options and are not provided with retirement benefits other than statutory superannuation. The board is composed of five non-executive directors in addition to the Managing Director/CEO. The board undertakes a periodic review of its performance and the performance of the board committees.

Short-term incentive (STI) policy

Incentives under the group's current STI plan are at-risk components of remuneration for executives provided in the form of cash. Under the plan executives can earn an annual cash bonus payment if predefined targets are met. The STI is linked to the achievement of financial and non-financial objectives that are relevant to meeting the company's business objectives. A major part of the STI is determined by the actual performance against planned company and divisional profit targets relevant to each individual. A smaller portion of the STI is set with reference to the executive's non-financial performance objectives which are agreed annually.

Long-term incentive (LTI) policy

Incentives under the group's current LTI plan are at-risk components of remuneration for executives provided in the form of equity in the company to ensure executives

- hold a stake in the company,
- align their interests with those of shareholders, and
- share risk with shareholders.

The LTI is based on performance rights that vest based on assessment against company objectives. The measurement period is three years, and the measure used is as deemed best by the board to drive value creation for shareholders.

11. Remuneration report – audited (continued)

Fixed executive remuneration
Fixed executive remuneration comprises a combination of cash and prescribed non-cash benefits at the executive's discretion, plus statutory superannuation. There are no guaranteed fixed remuneration increases included in any executives' contracts.

Variable executive remuneration – the short-term incentive (STI) plan

Feature	Description		
Purpose	The STI plan aims to provide an incentive for executives to deliver and outperform annual business objectives that will lead to sustainable, superior returns for shareholders. The STI is composed of financial and non-financial elements as follows: ▪ Managing Director/CEO – 70% financial and 30% non-financial ▪ Executive General Manager – Software, Infrastructure & Services – 71% financial and 29% non-financial ▪ Executive General Manager – Operations – 74% financial and 26% non-financial ▪ Chief Financial Officer – 74% financial and 26% non-financial. ▪ Former Chief Financial Officer – 72% financial and 28% non-financial. Using a profit target for the financial component ensures variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan.		
Award opportunities	Role	Base offer	Maximum offer
	Managing Director/CEO	42% of total fixed remuneration	57% of total fixed remuneration
	Executive General Manager – Software, Infrastructure & Services	59% of total fixed remuneration	78% of total fixed remuneration
	Executive General Manager – Operations	50% of total fixed remuneration	69% of total fixed remuneration
	Chief Financial Officer	41% of total fixed remuneration	56% of total fixed remuneration
	Former Chief Financial Officer	31% of total fixed remuneration	42% of total fixed remuneration
Performance metrics	For the financial component of the STI, the STI is earned based on the following: ▪ targets set equate to budgeted net profit before tax plus bonus value ▪ bonuses are earned in linear proportion to the profit target achieved – for example, achievement of 90% of the financial target will equate to earning 90% of the financial STI bonus and so on up to a maximum of 150% achievement of the financial target. For the non-financial component of the STI, the STI is earned based on the individual's achievement against personal performance objectives, which are driven by the company's annual strategic goals.		
Award determination and payment	Financial component – calculated and paid subsequent to the end of each quarter. Non-financial component – calculated and paid subsequent to the end of each half year. Payments are made in cash net of PAYG withholding.		
Cessation of employment	If the executive's employment is terminated for cause, all entitlements in relation to the measurement period are forfeited. If an executive's employment is terminated for some other reason and the minimum term of three months of employment has not been satisfied, all entitlements in relation to the measurement period are forfeited unless determined otherwise by the board.		
Board discretion	The board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes, including reducing (down to zero, if appropriate) any STI awards.		

11. Remuneration report – audited (continued)

Variable executive remuneration – the long-term incentive (LTI) plan

Feature	Description
Purpose	The aim of the LTI remuneration element is to provide compensation based solely on earnings per share (EPS) performance by Data#3 Limited over a long-term period, as the board believes EPS is the best measure to drive long-term value creation for shareholders given the specific circumstances of the company.
Form of equity and exercise price	The LTI plan is in the form of a performance rights plan. The rights are subject to vesting, and each right entitles the holder to one ordinary share in Data#3 Limited for no consideration. There is no entitlement to dividends during the measurement period.
Award allocation	FY23 offers MD/CEO: $314,000; Executive General Managers and Former CFO: $150,000 each. The award value was divided by the relevant volume weighted average share price for the five trading days following the release of the FY22 audited financial statements to determine the number of performance rights granted. FY22 offers MD/CEO: $256,000; Executive General Managers and Former CFO: $150,000 each. The award value was divided by the relevant volume weighted average share price for the five trading days following the release of the FY21 audited financial statements to determine the number of performance rights granted. FY21 offers MD/CEO: $160,000; Executive General Managers and Former CFO: $150,000 each. The award value was divided by the relevant volume weighted average share price for the five trading days following the release of the FY20 audited financial statements to determine the number of performance rights granted.
Measurement period	Three years unless otherwise determined by the board. FY23 offers – Three years from 1 July 2022 to 30 June 2025 FY22 offers – Three years from 1 July 2021 to 30 June 2024 FY21 offers – Three years from 1 July 2020 to 30 June 2023
Vesting conditions	Vesting of the grants in both plans is based on a sliding scale of cumulative EPS performance. The full amount of these grants will only be earned upon achievement of stretch target performance outcomes. The target for the LTI is not disclosed as this is considered sensitive information. Performance rights that do not vest will lapse.
Conversion of vested performance rights	FY23 offers Vested rights are settled via the issue of ordinary shares within 60 days following release of the FY25 financial report, except where the board exercises its discretion to settle in the form of cash. FY22 offers Vested rights are settled via the issue of ordinary shares within 60 days following release of the FY24 financial report, except where the board exercises its discretion to settle in the form of cash. FY21 offers Vested rights are settled via the issue of ordinary shares within 60 days following release of the FY23 financial report, except where the board exercises its discretion to settle in the form of cash.

11. Remuneration report – audited (continued)

Variable executive remuneration – the long-term incentive (LTI) plan (continued)

Feature	Description
Cessation of employment	Under the plan performance rights do not vest until the end of the relevant three-year period. Cessation of employment during this period will cause the performance rights to lapse unless the board determines otherwise, such as in the case of retirement due to injury, disability, death or redundancy.
Board discretion	The board retains discretion to adjust the EPS performance condition to ensure participants are not penalised nor provided a windfall benefit arising from matters outside of management's control. The board also has discretion over the vesting and settlement of performance rights in the event of a change in control of the company.

Planned executive remuneration

Short-term incentives
In FY23 the proportion of the planned short-term executive remuneration (i.e. excluding changes in leave accruals, non-cash fringe benefits and long-term incentives) for executive key management personnel that was performance related was 32% (FY22: 33%). In FY23 actual short-term bonuses as a proportion of planned short-term executive remuneration was 31% due primarily to slight underachievement of profit-related performance metrics (FY22: 34%).

In FY23 the planned profit-related component represented 71% of the short-term bonuses (FY22: 72%). The balance of the short-term bonus is determined by performance against agreed non-financial objectives relevant to each individual.

Long-term incentives
LTI remuneration is based solely on the basic earnings per share (EPS) performance of Data#3 Limited.

Remuneration expenses for KMP

Compensation paid, payable, or provided by the company or on behalf of the company to key management personnel as calculated in accordance with applicable accounting standards is set out in the following table.

Directors' report (continued)

11. Remuneration report – audited (continued)

		Fixed remuneration							
		Cash salary and fees (e) $	Post-employment benefits (b) $	Short-term bonus (c) (e) $	Non-monetary (e) $	LTI (d) (f) $	Total reward $	Performance related %	Change in accrued leave (a) (e) $
Non-executive directors									
Anderson, R.A.	2023	148,281	15,569	-	-	-	163,850	-	-
Chairman	2022	140,000	14,000	-	-	-	154,000	-	-
Esler, M. R.	2023	87,511	9,189	-	-	-	96,700	-	-
	2022	80,000	8,000	-	-	-	88,000	-	-
Forrester, S. M. (from 30/03/2022)	2023	87,511	9,189	-	-	-	96,700	-	-
	2022	20,923	2,092	-	-	-	23,015	-	-
Gray, A.M.	2023	97,941	10,284	-	-	-	108,225	-	-
	2022	90,000	9,000	-	-	-	99,000	-	-
Muller, L.M.	2023	97,941	10,284	-	-	-	108,225	-	-
	2022	90,000	9,000	-	-	-	99,000	-	-
Subtotals – non-executive directors	2023	519,185	54,515	-	-	-	573,700	-	-
	2022	420,923	42,092	-	-	-	463,015	-	-
Executive director									
Baynham, L.C.	2023	628,983	25,292	272,233	2,000	237,301	1,165,809	43.7	60,140
Chief Executive Officer/MD	2022	546,833	23,568	290,042	2,000	198,384	1,060,827	46.0	44,971
Other key management personnel									
Bowser, M.J.	2023	372,590	25,292	198,495	2,000	143,484	741,861	46.1	13,911
Executive General Manager	2022	350,000	23,568	193,642	2,000	161,056	730,266	48.6	27,472
Colledge, B.D.	2023	436,832	25,292	259,099	2,000	143,484	866,707	46.4	26,787
Executive General Manager	2022	392,000	23,568	266,732	2,000	161,056	845,356	50.6	12,515
Hill, B.I. (until 31/03/2023)	2023	277,753	25,292	93,762	2,000	143,484	542,291	43.7	(41,922)
Former Chief Financial Officer	2022	339,000	23,568	141,482	2,000	161,056	667,106	45.4	20,224
O'Riordan, C.E. (from 1/04/2023)	2023	74,795	7,853	33,275	-	-	115,923	28.7	11,614
Chief Financial Officer									
Subtotals – other key management personnel	2023	1,161,970	83,729	584,631	6,000	430,452	2,266,782	44.8	10,390
	2022	1,081,000	70,704	601,856	6,000	483,168	2,242,728	48.4	60,211
Totals – key management personnel	2023	2,310,138	163,536	856,864	8,000	667,753	4,006,291	38.1	70,530
	2022	2,048,756	136,364	891,898	8,000	681,552	3,766,570	41.8	105,182

11. Remuneration report – audited (continued)

The above table was revised to reflect the change in accrued leave separately from total reward, as we believe the variability in accrued leave results in skewed reporting of the performance-related portion of total reward. The comparatives have been restated to conform with the FY23 presentation.

(a) This is the change in accrued annual and long service leave and is measured in accordance with AASB 119 *Employee Benefits*.
(b) Post-employment benefits comprise statutory superannuation.
(c) Short-term bonus is composed of STI.
(d) LTI comprises share-based incentives.
(e) This is a short-term benefit.
(f) This is a long-term benefit.

Contractual arrangements with executive KMP

Terms of employment for the Managing Director/CEO 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. The CEO and former CFO roles are 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, as these positions are considered more likely to be subject to early termination in the event of a significant business combination. The terms of employment for the current CFO include standard redundancy terms consistent with all other executive KMPs. Other major provisions of the contracts relating to remuneration of the Managing Director/CEO and the other key management personnel are as follows:

L.C. Baynham (Managing Director/CEO)

- The LTI granted in FY23 was 50,722 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY22 was 47,067 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY21 was 27,510 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY20 was 65,574 performance rights, subject to vesting at the end of three years.
- Termination notice of up to 12 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 is required.

All other executive KMPs

- The LTI granted in FY23 was 24,230 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY22 was 27,580 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY21 was 25,790 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY20 was 61,475 performance rights, subject to vesting at the end of three years.
- Termination notice of three months is required.

11. Remuneration report – audited (continued)

Share-based LTI compensation

FY23 grants

Performance rights were granted to key management personnel as compensation during FY23 for no consideration as follows:

Key management person	Performance rights granted Number	Date of grant Date	Fair value per right $	Fair value of rights $	FY23 employee benefits expense of FY23 rights $	FY23 rights expense as a percentage of KMP's total remuneration %
Baynham, L.C.	50,722	18/11/2022	6.40	324,621	108,207	9.3
Bowser, M.J.	24,230	18/11/2022	6.40	155,072	51,691	7.0
Colledge, B.D.	24,230	18/11/2022	6.40	155,072	51,691	6.0
Hill, B.I.	24,230	18/11/2022	6.40	155,072	51,691	9.5
	123,412			789,837	263,280	7.9

FY22 grants

Performance rights were granted to key management personnel as compensation during FY22 for no consideration as follows:

Key management person	Performance rights granted Number	Date of grant Date	Fair value per right $	Fair value of rights $	FY23 employee benefits expense of FY22 rights $	FY22 rights expense as a percentage of KMP's total remuneration %
Baynham, L.C.	47,067	30/11/2021	5.30	249,455	83,152	7.1
Bowser, M.J.	27,580	30/11/2021	5.30	146,174	48,725	6.6
Colledge, B.D.	27,580	30/11/2021	5.30	146,174	48,725	5.6
Hill, B.I.	27,580	30/11/2021	5.30	146,174	48,725	9.0
	129,807			687,977	229,327	6.9

FY21 grants

Performance rights were granted to key management personnel as compensation during FY21 for no consideration as follows:

Key management person	Performance rights granted Number	Date of grant Date	Fair value per right $	Fair value of rights $	FY23 employee benefits expense of FY21 rights $	FY21 rights expense as a percentage of KMP's total remuneration %
Baynham, L.C.	27,510	12/11/2020	5.01	137,825	45,942	3.9
Bowser, M.J.	25,790	12/11/2020	5.01	129,208	43,069	5.8
Colledge, B.D.	25,790	12/11/2020	5.01	129,208	43,069	5.0
Hill, B.I.	25,790	12/11/2020	5.01	129,208	43,069	7.9
	104,880			525,449	175,149	5.3

At 30 June 2023 and the date of this report all the performance rights granted in FY23, FY22, and FY21 were outstanding, and the FY21 grants have vested and will be settled via the issue of ordinary shares following the release of the FY23 financial report.

No rights or options lapsed during the year (FY22: nil); 249,999 rights (nil options) were exercised during the year (FY22: 374,235 rights; nil options).

11. Remuneration report – audited (continued)

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

	Balance 30 June 2021	Received upon exercise of rights	Other changes*	Balance 30 June 2022	Received upon exercise of rights	Other changes*	Balance 30 June 2023
Directors:							
Anderson, R.A.	660,000	-	10,000	670,000	-	-	670,000
Baynham, L.C.	136,591	98,160	-	234,751	65,574	-	300,325
Esler, M.R.	2,814,330	-	-	2,814,330	-	(15,000)	2,799,330
Forrester, S.M. (from 30/03/2022)[1]	-	-	5,000	5,000	-	21,705	26,705
Gray, A.M.	6,000	-	12,500	18,500	-	1,500	20,000
Muller, L.M.	50,000	-	-	50,000	-	-	50,000
Other executives:							
Bowser, M.J.	175,153	92,025	-	267,178	61,475	(36,500)	292,153
Colledge, B.D.	261,439	92,025	-	353,464	61,475	(41,000)	373,939
Hill, B.I. (until 31/03/2023)[1]	475,153	92,025	-	567,178	61,475	(628,653)	-
O'Riordan, C.E.	-	-	-	-	-	-	-
	4,578,666	374,235	27,500	4,980,401	249,999	(697,948)	4,532,452

* 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 the person commenced or ceased to be a key management person, as applicable, in addition to the individual's on-market trading.

There was no movement in shares held directly, indirectly or beneficially from 30 June 2023 up to the date of this report.

None of the shares in the preceding table are held nominally by the directors or any of the other key management personnel.

Performance outcomes
Company performance
Measures of the group's performance during FY23 and the previous four years, as required by the Corporations Act, is set out below.

	Revenue	Profit after tax to members of Data#3 Limited	Basic earnings per share	Share price at 30 June	Dividends paid per share	Change in shareholder value each year*
	$'000	$'000	Cents	$	Cents	Cents
FY23	2,564,570	37,030	23.96	7.20	20.65	274.65
FY22	2,192,997	30,262	19.61	4.66	16.75	(78.25)
FY21	1,956,188	25,414	16.51	5.61	14.30	121.30
FY20	1,625,941	23,636	15.35	4.54	12.20	254.20
FY19	1,415,569	18,112	11.76	2.12	10.20	62.20

* calculated as the share price increase or decrease plus dividends paid per share during the financial year

11. Remuneration report – audited (continued)

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 2018 the group's net profit has grown at an average compounded rate of 21.3% per year, the average executive remuneration has increased by an average compounded rate of 1.8% per year, and total shareholder return increased by an average compounded rate of 58.7%. The board is satisfied with the level of executive remuneration that is at risk and based on group performance and believes the group's executives are remunerated fairly and in line with the long-term performance of the group. The equity-based LTI plan ensures significant focus is maintained on the group's long-term performance, as each year's LTI offering is subject to three-year vesting.

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

Name	Earned %	Forfeited %
Baynham, L.C.	99%	1%
Bowser, M.J.	99%	1%
Colledge, B.D.	94%	6%
Hill, B.I.	99%	1%
O'Riordan, C.E.	99%	1%

Remuneration in FY23 reflected slight underachievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY22: overachievement).

Long-term incentives
For long-term incentives the percentage of the planned incentive (being one-third of the incentives granted, as they vest at the end of three years) that was actually earned in the financial year, and the percentage that was forfeited because the group did not meet the relevant EPS target, are set out below.

	FY23 incentives		FY22 incentives		FY21 incentives	
Name	Earned %	Forfeited %	Earned %	Forfeited %	Earned %	Forfeited %
Baynham, L.C.	100%	0%	100%	0%	100%	0%
Bowser, M.J.	100%	0%	100%	0%	100%	0%
Colledge, B.D.	100%	0%	100%	0%	100%	0%
Hill, B.I.	100%	0%	100%	0%	100%	0%

The long-term targets for all LTI offers were fully met in FY23 (FY22: fully met).

For the LTI share rights granted in FY21, the cumulative three-year basic EPS target was a minimum 36.25 cents and a maximum 51.15 cents. The actual cumulative three-year basic EPS achieved was 60.08 cents.

2022 Annual General Meeting
We received a 96.01% vote in support of the adoption of our Remuneration Report for the 2022 financial year.

Other transactions with key management personnel
There were no transactions during FY23 with key management personnel or their personally related entities other than compensation and transactions in relation to shares and performance rights as discussed in this report.

This is the end of the audited remuneration report.

12. Shares under option and share rights

Unissued shares
As at the date of this report 532,218 share rights over ordinary shares were outstanding (532,218 at reporting date). Holders of share rights do not have any right to participate in any share issue of the company by virtue of the share rights. Refer to Note 26 for further information on the share rights outstanding.

Shares issued on settlement of share rights
During the year 249,999 fully paid ordinary shares in Data#3 Limited were issued at a weighted average share price of $6.191 in settlement of vested share rights. Refer to Note 26 for further information on the share rights settled during the year.

Share options
No options were granted, lapsed, forfeited, settled or exercised during the year or up to the date of this report.

13. Indemnification and insurance of directors and officers

During the financial year, we paid a premium to insure the directors and members of the executive management team (officers) against any claims raised or liability incurred by them in their Data#3 role capacity. Subject to typical terms of D&O insurance policies, our directors and officers are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings. The amount of the premium is not disclosed in accordance with the terms of the policy.

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. Proceedings on behalf of the company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

17. Auditor independence and non-audit services

Pitcher Partners continued as our auditor in FY23. 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:

	2023 $	2022 $
Audit and other assurance services		
Audit and review of financial statements	175,000	175,000
Non-audit services		
Tax compliance services	20,314	23,750
Other business advice	-	1,000
	20,314	24,750
Total remuneration	195,314	199,750

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 (including Independence Standards)*.

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

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

R A Anderson

R A Anderson
Director

Brisbane
22 August 2023

Level 38, 345 Queen Street
Brisbane, QLD 4000

Postal address
GPO Box 1144
Brisbane, QLD 4001

p. +61 7 3222 8444

The Directors
Data#3 Limited
555 Coronation Drive
TOOWONG QLD 4066

Auditor's Independence Declaration

In relation to the independent audit for the year ended 30 June 2023, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001*; and

(ii) No contraventions of APES 110 *Code of Ethics for Professional Accountants (including Independence Standards).*

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

Pitcher Partners

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
22 August 2023

Brisbane Sydney Newcastle Melbourne Adelaide Perth

bakertilly
NETWORK MEMBER

Pitcher Partners is an association of independent firms.
An Independent Queensland Partnership ABN 84 797 724 539. Liability limited by a scheme approved under Professional Standards Legislation.
Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.

Financial report 2023

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Consolidated statement of profit or loss and other comprehensive income

for the year ended 30 June 2023

	Notes	2023 $'000	2022 $'000
Revenue			
Revenue from contracts with customers	3	2,560,700	2,192,421
Other revenue	3	3,870	576
		2,564,570	2,192,997
Expenses			
Change in inventory		(13,665)	19,206
Purchase of goods		(2,078,047)	(1,774,938)
Employee and contractor costs directly on-charged (cost of sales on services)		(99,148)	(88,789)
Other cost of sales on services		(119,189)	(129,682)
Internal employee and contractor costs		(176,941)	(152,996)
Telecommunications		(2,073)	(2,216)
Rent		(1,780)	(1,717)
Travel		(1,299)	(258)
Professional fees		(1,304)	(1,023)
Depreciation and amortisation	4	(6,280)	(5,288)
Finance costs	4	(1,247)	(1,376)
Other		(10,363)	(9,827)
		(2,511,336)	(2,148,904)
Profit before income tax expense		53,234	44,093
Income tax expense	5	(16,204)	(13,831)
Profit for the year attributable to the ordinary equity holders of the company		37,030	30,262
Other comprehensive income, net of tax:			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		231	214
Total comprehensive income attributable to the ordinary equity holders of the company		37,261	30,476
Earnings per share for profit attributable to the ordinary equity holders of the company:		**Cents**	**Cents**
Basic earnings per share	16	23.96	19.61
Diluted earnings per share	16	23.88	19.55

The accompanying notes form part of these financial statements.

Consolidated balance sheet

as at 30 June 2023

	Notes	2023 $'000	2022 $'000
Current assets			
Cash and cash equivalents	6	404,766	149,459
Trade and other receivables	7	454,788	527,888
Contract assets	8	5,855	5,776
Inventories	9	19,413	33,078
Other	10	5,214	3,955
Total current assets		890,036	720,156
Non-current assets			
Trade and other receivables	7	217	1,072
Property and equipment	11	3,202	3,388
Right-of-use assets	19	21,064	23,585
Deferred tax assets	5	5,879	5,292
Intangible assets	12	15,207	17,394
Total non-current assets		45,569	50,731
Total assets		935,605	770,887
Current liabilities			
Trade and other payables	13	775,582	622,698
Contract liabilities	14	52,120	49,710
Lease liabilities	19	3,587	3,002
Current tax liabilities		4,159	705
Provisions	15	7,806	7,236
Total current liabilities		843,254	683,351
Non-current liabilities			
Lease liabilities	19	20,296	22,643
Provisions	15	3,710	3,196
Total non-current liabilities		24,006	25,839
Total liabilities		867,260	709,190
Net assets		68,345	61,697
Equity			
Contributed equity	18	11,861	10,313
Share-based payments reserve	26	323	559
Foreign currency translation reserve		(212)	(443)
Retained earnings		56,373	51,268
Total equity		68,345	61,697

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2023

		Attributable to owners of Data#3 Limited				
		Contributed equity	Share-based payment reserve	Foreign currency translation reserve	Retained earnings	Total shareholders' equity
	Notes	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2021		8,278	1,825	(657)	46,859	56,305
Profit for the year		-	-	-	30,262	30,262
Other comprehensive income, net of tax		-	-	214	-	214
Total comprehensive income		-	-	214	30,262	30,476
Transactions with owners in their capacity as owners:						
Payment of dividends	17	-	-	-	(25,853)	(25,853)
Issue of shares under employee share scheme	26	2,035	(2,035)	-	-	-
Employee share schemes – value of employee services	26	-	830	-	-	830
Employee share schemes – movement in deferred tax	5	-	(61)	-	-	(61)
		2,035	(1,266)	-	(25,853)	(25,084)
Balance at 30 June 2022		10,313	559	(443)	51,268	61,697
Profit for the year		-	-	-	37,030	37,030
Other comprehensive income, net of tax		-	-	231	-	231
Total comprehensive income		-	-	231	37,030	37,261
Transactions with owners in their capacity as owners:						
Payment of dividends	17	-	-	-	(31,925)	(31,925)
Issue of shares under employee share scheme	26	1,548	(1,548)	-	-	-
Employee share schemes – value of employee services	26	-	1,009	-	-	1,009
Employee share schemes – movement in deferred tax	5	-	303	-	-	303
		1,548	(236)	-	(31,925)	(30,613)
Balance at 30 June 2023		11,861	323	(212)	56,373	68,345

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2023

	Notes	2023 $'000	2022 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		2,886,667	2,313,048
Payments to suppliers and employees (inclusive of GST)		(2,555,014)	(2,291,312)
GST paid		(29,162)	(29,364)
Interest received		2,777	245
Interest and other borrowing costs paid		(1,219)	(1,334)
Income tax paid (net of refunds)		(13,033)	(13,906)
Net cash inflow (outflow) from operating activities	6	291,016	(22,623)
Cash flows from investing activities			
Payments for property and equipment	11	(981)	(997)
Payments for software assets	12	-	(2,878)
Proceeds from sale of equipment		13	-
Net cash (outflow) from investing activities		(968)	(3,875)
Cash flows from financing activities			
Payment of dividends	17	(31,925)	(25,853)
Proceeds from issue of shares	26	1,548	2,035
Payments for shares acquired by the Data#3 Employee Share Trust	26	(1,548)	(2,035)
Lease liability payments	19	(3,047)	(2,727)
Net cash (outflow) from financing activities		(34,972)	(28,580)
Net increase/(decrease) in cash and cash equivalents held		255,076	(55,078)
Cash and cash equivalents, beginning of financial year		149,459	204,323
Effect of exchange rate changes on cash and cash equivalents		231	214
Cash and cash equivalents, end of financial year	6	404,766	149,459

The accompanying notes form part of these financial statements.

Notes to consolidated financial statements

About this report

The principal accounting policies we have adopted in the preparation of our financial report are set out in the following notes to the financial statements. 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").

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 are presented in Australian dollars and have been prepared under the historical cost convention. The functional currency is also Australian dollars. Data#3 Limited is a for-profit entity for the purpose of preparing the financial statements.

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
We adopted all the new and revised accounting standards and interpretations issued by the Australian Accounting Standards Board that are relevant to our operations and effective for an accounting period that begins on or after 1 July 2022. Please refer to Note 1 for further information.

Critical estimates, judgements and errors
The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management must also exercise judgement in applying the group's accounting policies. Following is an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes together with information about the basis of calculation for each affected line item in the financial statements. The areas involving significant estimates or judgements are as follows:

- recognition of revenue and allocation of purchase price (note 3)
- impairment of financial assets (notes 7(b), 8)
- estimation of goodwill impairment (note 12)
- estimation uncertainties and judgements made in relation to lease accounting (note 19)

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

Rounding of amounts
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.

Goods and Services Tax
We recognise revenues, gains, expenses and assets net of the amount of GST except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the revenue or expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST receivable from, or payable to, the taxation authority is included with other receivables or payables in the consolidated balance sheet.

We present cash flows on a gross basis. The GST components arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are presented as operating cashflows.

Notes to consolidated financial statements

About this report (continued)

Corporate information
The financial report was authorised for issue in accordance with a resolution of the directors on 22 August 2023. Data#3 Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business follows:

Level 1
555 Coronation Drive
TOOWONG QLD 4066

Note 1. Changes in accounting standards

We adopted the following new accounting standards on 1 July 2022, none of which had a material effect on the consolidated financial statements for FY23:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*
- IASB Amendments to IFRS 3 *Business Combinations*
  IASB Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
  The adoption of this accounting standard had no material effect on the consolidated financial statements for FY23.
- IASB Annual Improvements to IFRS 9 *Financial Instruments* and the Illustrative Examples accompanying IFRS 16 *Leases*
- AASB 2023-2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules*, which provides temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's (OECD's) international tax reform

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 99.5% of external sales for FY23 (FY22: 99.6%).

The sale of product and services is highly integrated into the IT solutions that each of our business units delivers to its customers. Each business unit services a similar customer base, applies similar methods to distribute those products and services to customers, and operates within a similar economic and regulatory environment. On this basis, we have determined that separate reporting of our business units does not add significantly to the understanding of them because there is significant overlap of product and services within each business unit, and there are frequent changes between the business units, resulting in the business units having characteristics that are so similar that they are expected to have the same future outcome. As a result, we have concluded that the company has only one reportable segment, which is that of value-added IT reseller and IT solutions provider. These solutions typically comprise a combination of infrastructure, software and service elements.

The company's revenue, results and assets for this reportable segment can be determined by reference to the Consolidated Statement of Profit or Loss and the Consolidated Balance Sheet.

Notes to consolidated financial statements (continued)

Note 3. Revenue

We derive revenue from contracts with customers and other revenue as follows:

Business unit	2023 $'000	2022 $'000
Infrastructure Solutions (a)	566,187	440,324
Software Solutions (b)	1,652,453	1,433,710
Business Aspect (c)	33,204	26,563
Project Services (d)	74,549	66,610
Support Services (e)	164,330	160,121
People Solutions (f)	68,091	62,283
Discovery Technology (g)	1,886	2,810
Total revenue from contracts with customers	2,560,700	2,192,421
Other revenue		
Interest	3,508	273
Other recoveries	362	303
	3,870	576
Total revenue	2,564,570	2,192,997

(a) Infrastructure Solutions includes sales of hardware, device as a service and managed print services.
(b) Software Solutions includes volume licensing and public cloud subscription services.
(c) Business Aspect provides management and information technology consulting services.
(d) Project Services include the design and implementation of technology solutions.
(e) Support Services include managed services and maintenance services.
(f) People Solutions includes the provision of contractors and permanent staff.
(g) Discovery Technology provides wi-fi analytic services and wi-fi infrastructure.

Management exercises judgment in determining the categorisation of revenues as there is an increasing tendency for manufacturers to bundle various elements in the products and services that we resell – for example, some infrastructure offerings include software and/or bundled vendor services, and vendor maintenance offerings in Support Services can include software licenses.

We recognise revenue for major business activities as follows:

Revenue from contracts with customers

Sale of goods
We recognise revenue from the sale of goods at a point in time 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.

Rendering of services
We recognise revenue from services over time based on our achievement of milestones, if specified in the contract, or labour hours worked as a percentage of total estimated hours, for each contract where we have an enforceable right to payment for performance completed. 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. Services revenue recognised over time comprises less than 10% of our total revenue.

Other revenue
Interest revenue is recognised as it accrues using the effective interest method.

Notes to consolidated financial statements (continued)

Note 4. Expenses

	2023 $'000	2022 $'000
Depreciation and amortisation of property and equipment (Note 11)	1,161	977
Depreciation of right-of-use assets (Note 19)	3,806	3,743
Amortisation of software recorded in depreciation and amortisation (Note 12)	1,313	568
Depreciation and amortisation - recorded in depreciation and amortisation expense	6,280	5,288
Amortisation of software - recorded in cost of sales (Note 12)	874	875
Total depreciation and amortisation	7,154	6,163
Finance costs		
Interest on lease liabilities (Note 19)	1,188	1,254
Other interest and finance charges paid/payable	31	80
Unwinding of discount on provisions and other payables (Note 15)	28	42
	1,247	1,376
Employee benefits expense	157,555	140,359
Termination benefits expense	304	147
Defined contribution superannuation expense (a)	18,447	15,467
Other charges against assets - Impairment of trade receivables (Note 7(b))	7	66

(a) Post-employment benefits
We make contributions to defined contribution superannuation funds. We charge these contributions to expense as they are incurred.

Note 5. Income tax

	2023 $'000	2022 $'000
The major components of income tax expense are		
Current income tax expense	16,440	12,687
Deferred income tax relating to the origination and reversal of temporary differences	(310)	579
Adjustments for current tax of prior years	74	565
Income tax expense	16,204	13,831

Note 5. Income tax (continued)

	2023 $'000	2022 $'000
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	53,234	44,093
Income tax calculated at the Australian tax rate: 30% (FY22: 30%)	15,970	13,228
Tax effect of amounts which are not deductible in calculating taxable income:		
Non-deductible items	183	131
	16,153	13,359
Difference in overseas tax rates	(23)	(93)
Under/(over) provision in prior year	74	565
Income tax expense	16,204	13,831

	%	%
Effective tax rate (income tax expense as a percentage of profit before tax)	30.4	31.4

We paid income taxes (net of refunds in relation to the prior year, if any) of $13,033,000 during FY23 (FY22: $13,906,000).

Deferred income tax assets and liabilities are attributable to the following temporary differences:	$'000	$'000
Lease liabilities	7,165	7,693
Accrued liabilities	3,098	2,936
Provisions	3,473	3,164
Depreciation	303	180
Share-based payments	688	547
Other	31	41
Total deferred tax assets	14,758	14,561
Right-of-use assets	(6,319)	(7,076)
Intangible assets	(589)	(282)
Contract assets	(1,988)	(1,747)
Other	17	(164)
Total deferred tax liabilities	(8,879)	(9,269)
Net deferred tax assets	5,879	5,292

Note 5. Income tax (continued)

Movements in deferred tax assets are as follows:

	Lease liabilities $'000	Accrued liabilities $'000	Provisions $'000	Depreciation $'000	Share-based payments $'000	Other $'000	Total $'000
Balance at 30 June 2021	8,060	2,761	2,970	249	969	194	15,203
(Charged)/credited							
- to profit or loss	(367)	175	194	(127)	(361)	(28)	(514)
- to current tax liability	-	-	-	58	-	(125)	(67)
- to equity	-	-	-	-	(61)	-	(61)
Balance at 30 June 2022	7,693	2,936	3,164	180	547	41	14,561
(Charged)/credited							
- to profit or loss	(528)	162	309	132	(162)	7	(80)
- to current tax liability	-	-	-	(9)	-	(17)	(26)
- to equity	-	-	-	-	303	-	303
Balance at 30 June 2023	7,165	3,098	3,473	303	688	31	14,758

Movements in deferred tax liabilities are as follows:

	Right-of-use assets $'000	Intangible assets $'000	Contract assets $'000	Other $'000	Total $'000
Balance at 30 June 2021	(7,709)	(199)	(1,098)	(299)	(9,305)
(Charged)/credited					
- to profit or loss	633	(83)	(738)	123	(65)
- to current tax liability	-	-	89	12	101
Balance at 30 June 2022	(7,076)	(282)	(1,747)	(164)	(9,269)
(Charged)/credited					
- to profit or loss	757	(307)	(241)	181	390
Balance at 30 June 2023	(6,319)	(589)	(1,988)	17	(8,879)

Note 5. Income tax (continued)

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 or R&D tax offsets.

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.

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 in the tax-consolidated group have also 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 instalments. 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 (FY22: nil).

Note 6. Cash and cash equivalents

	2023 $'000	2022 $'000
Cash at bank and on hand	35,752	49,445
Deposits at call	369,014	100,014
	404,766	149,459

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.

Reconciliation of net profit to net cash flow from operations

	Notes	2023 $'000	2022 $'000
Profit for the year		37,030	30,262
Loss (gain) on disposal of property, equipment and software		(7)	7
Depreciation and amortisation	4	7,154	6,163
Unwinding of discount on provisions	4	28	42
Bad and doubtful debts	4	7	66
Excess and obsolete inventory		98	355
Non-cash employee benefits expense – share-based payments	26	1,009	830
Other		(52)	(125)
Change in operating assets and liabilities			
Decrease/(increase) in receivables and contract assets		73,918	(113,101)
Decrease/(increase) in inventories		13,570	(19,561)
Decrease/(increase) in other operating assets		(1,259)	63
Decrease/(increase) in net deferred tax assets [(1)]		(284)	545
Increase in payables		152,884	61,219
Increase in contract liabilities		2,410	10,398
Increase/(decrease) in current tax liabilities		3,454	(622)
Increase in provision for employee benefits		1,056	836
Net cash inflow (outflow) from operating activities		291,016	(22,623)

(1) The movement in deferred tax assets is net of the tax effect of $303,000 related to the share-based payments equity reserve (FY22: $61,000).

Non-cash transactions
During FY23 we entered into new leases resulting in the recognition of additional lease assets of $1,285,000 (FY22: $1,630,000) and corresponding lease liabilities of $1,285,000 (FY22: $1,612,000 lease liabilities and $18,000 lease remediation provision). These transactions are excluded from the consolidated statement of cash flows.

Note 7. Trade and other receivables

	2023 $'000	2022 $'000
Current		
Trade receivables (a)	436,480	511,420
Allowance for impairment (b)	(62)	(111)
	436,418	511,309
Other receivables (c)	18,370	16,580
	454,788	527,889
Non-current		
Trade receivables on deferred payment terms (d)	217	1,072

We carry loans and receivables 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. We establish an allowance for impairment of loans and receivables using the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, we group trade receivables based on shared credit risk characteristics and the days past due. The expected loss rates are based on the historical credit losses experienced over the previous ten years. We adjust historical loss rates to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

(a) 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.

(b) Allowance for impairment

We recognised an impairment loss of $7,000 in the current year (FY22: $66,000). Impairment amounts are included in profit or loss within other expenses. Movements in the provision for impairment loss were as follows:

	$'000
Carrying amount at 1 July 2021	288
Impairment loss recognised during the year	66
Receivables written off during the year	(224)
Unused provision reversed during the year	(19)
Carrying amount at 30 June 2022	111
Impairment loss recognised during the year	7
Receivables written off during the year	(7)
Unused provision reversed during the year	(49)
Carrying amount at 30 June 2023	62

Note 7. Trade and other receivables (continued)

Our ageing of trade receivables, receivables past due not impaired, and the expected loss percentage applied to each ageing category at 30 June 2023, is as follows:

	2023				2022			
	Expected loss %	Trade receivables $'000	Credit loss allowance $'000	Past due but not impaired $'000	Expected loss %	Trade receivables $'000	Credit loss allowance $'000	Past due but not impaired $'000
Current	-	428,775	-	-	-	492,317	-	-
31-60 days	-	1,872	-	1,872	-	9,482	-	9,482
61-90 days	0.5%	2,197	11	2,186	0.5%	1,926	11	1,915
91-120 days	1.0%	720	7	713	1.0%	3,833	40	3,793
+120 days	1.5%	2,916	44	2,872	1.5%	3,862	60	3,802
		436,480	62	7,643		511,420	111	18,992

For trade receivables that are past due, each customer's account has been placed on hold where deemed necessary until full payment is made.

(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 8. Contract assets

	2023 $'000	2022 $'000
Contract assets	5,855	5,776

Contract assets arise from revenue contracts when billing under the contract occurs subsequent to the delivery of the goods or services, and an enforceable right to collect the amount from the customer exists. We establish an allowance for impairment of contract assets using the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the assets.

To measure the expected credit losses, contract assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates that apply to each ageing category are set out in Note 7(b). None of the contract assets were past due at 30 June 2023.

Notes to consolidated financial statements (continued)

Note 9. Inventories

	2023 $'000	2022 $'000
Goods held for sale – at cost	19,413	33,078

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.

Inventories recognised as expense in cost of goods sold during FY23 amounted to $498,540,000 (FY22: $413,558,000).

Note 10. Other assets

	2023 $'000	2022 $'000
Prepayments	5,125	3,866
Security deposits	89	89
	5,214	3,955

Note 11. Property and equipment

	2023 $'000	2022 $'000
Leasehold improvements – at cost	4,014	4,047
Accumulated amortisation	(2,961)	(2,807)
	1,053	1,240
Equipment – at cost	7,629	6,719
Accumulated depreciation	(5,480)	(4,571)
	2,149	2,148
	3,202	3,388

Property and equipment is stated at cost, less accumulated depreciation and amortisation. We depreciate our equipment using the straight-line method or diminishing value method to allocate cost, net of residual values, over the estimated useful lives of the assets, being three to 15 years. We calculate amortisation on leasehold improvements using the straight-line method over their estimated useful lives of two to 15 years or the lease term, whichever is shorter. If an asset is impaired, we immediately write down its carrying amount to its recoverable amount.

Note 11. Property and equipment (continued)

	Leasehold improvements $'000	Equipment $'000	Total $'000
Carrying amount at 30 June 2021	1,428	1,947	3,375
Additions	11	986	997
Depreciation and amortisation (Note 4)	(199)	(778)	(977)
Disposals	-	(7)	(7)
Carrying amount at 30 June 2022	1,240	2,148	3,388
Additions	4	977	981
Depreciation and amortisation (Note 4)	(191)	(970)	(1,161)
Disposals	-	(6)	(6)
Carrying amount at 30 June 2023	1,053	2,149	3,202

Note 12. Intangible assets

	2023 $'000	2022 $'000
Goodwill – at cost	11,843	11,843
Accumulated impairment	(1,787)	(1,787)
	10,056	10,056
Software assets – at cost	7,740	7,740
Accumulated amortisation and impairment	(3,347)	(2,034)
	4,393	5,706
Internally generated software assets – at cost	8,471	8,471
Accumulated amortisation and impairment	(7,713)	(6,839)
	758	1,632
	15,207	17,394

	Goodwill $'000	Software assets $'000	Internally generated software $'000	Total $'000
Carrying amount at 1 July 2021	10,056	3,396	2,507	15,959
Additions	-	2,878	-	2,878
Amortisation (Note 4)	-	(568)	(875)	(1,443)
Carrying amount at 30 June 2022	10,056	5,706	1,632	17,394
Amortisation (Note 4)	-	(1,313)	(874)	(2,187)
Carrying amount at 30 June 2023	10,056	4,393	758	15,207

Note 12. Intangible assets (continued)

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 below).

Software
Software assets include those we have developed ourselves and those we have purchased. We capitalise costs incurred in purchasing or developing software where the software will provide a future financial benefit to the group and we have control over the use of the software. 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.

Impairment testing
Goodwill is not subject to amortisation; we test it annually for impairment or more frequently if events or changes in circumstances indicate it 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.

We have allocated goodwill to our cash-generating units (CGUs) according to business unit, unless that unit did not exist at the time of the business acquisition which generated the goodwill. Goodwill summarised by business unit is shown below:

Cash generating unit (CGU)	Carrying amount at 1 July 2021 $'000	Carrying amount at 30 June 2022 $'000	Reallocation of goodwill during FY23 $'000	Impairment recognised during FY23 $'000	Carrying amount at 30 June 2023 $'000
Infrastructure Solutions	847	847	877	-	1,724
Software Solutions	2,013	2,013	-	-	2,013
Business Aspect	1,532	1,532	-	-	1,532
Project Services	1,211	1,211	-	-	1,211
Support Services	2,396	2,396	-	-	2,396
People Solutions	1,180	1,180	-	-	1,180
Discovery Technology	877	877	(877)	-	-
	10,056	10,056	-	-	10,056

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. We determined the recoverable amount of each cash generating unit based on a value-in-use calculation using cash flow projections based on financial projections approved by senior management for FY24. In FY23, following the integration of Discovery Technology operations into the Infrastructure Solutions CGU, the goodwill associated with Discovery Technology was reallocated to Infrastructure Solutions. For all cash generating units (except Discovery Technology in FY22), we applied a 12% before-tax discount rate to cash flow projections (FY22: 12%) and extrapolated cash flows for the four years beyond the FY24 financial year using an average growth rate of 3.5% (FY22: 3.5%) and a terminal value growth rate thereafter of 3.0% (FY22: 3.0%). No impairment was identified on these cash generating units at 30 June 2023 (FY22: nil).

Note 12. Intangible assets (continued)

In FY22 for the separate Discovery Technology cash generating unit, we determined the recoverable amount based on a value-in-use calculation using cash flow projections based on financial projections approved by senior management for FY23. We applied a 14% before-tax discount rate to cash flow projections and extrapolated cash flows for the four years beyond the FY23 financial year using an average growth rate of 7.5% and a terminal value growth rate thereafter of 3.0%. No impairment was identified at 30 June 2022.

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 have considered and assessed reasonably possible changes to these key assumptions and have not identified any instances that could cause the carrying amount of goodwill to exceed its recoverable amount.

Note 13. Trade and other payables

	2023 $'000	2022 $'000
Current		
Trade payables – unsecured	728,721	591,727
Other payables – unsecured (a)	46,861	30,971
	775,582	622,698

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

(a) Other payables

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.

Bonus plans

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

Note 14. Contract liabilities

	2023 $'000	2022 $'000
Contract liabilities	52,120	49,710

Contract liabilities arise primarily from revenue contracts when customers pay us amounts due under the contracts before the goods or services identified in the contracts are delivered and from rebates received in advance from vendors on multi-year contracts. The contract liabilities primarily relate to contracts where the revenue is recognised at a point in time, and revenue is normally recognised within one to three years. We recognised revenue of $46,344,000 that was included in the contract liability balance at 1 July 2022 in relation to customer and related vendor contracts for the provision of IT products and services (FY22: $31,983,000).

Note 15. Provisions

	2023 Current $'000	2023 Non-current $'000	2023 Total $'000	2022 Current $'000	2022 Non-current $'000	2022 Total $'000
Employee benefits (long service leave)	7,806	2,684	10,490	7,010	2,424	9,434
Lease remediation	-	1,026	1,026	226	772	998
	7,806	3,710	11,516	7,236	3,196	10,432

Movements in provisions other than employee benefits are as follows:

	Lease remediation $'000
Balance at 1 July 2021	938
Increase to present value	18
Used during the year	42
Balance at 30 June 2022	998
Increase to present value	28
Balance at 30 June 2023	1,026

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 profit or loss net of any reimbursement.

Lease remediation
We are required to restore the premises we lease to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remediate the premises in accordance with the lease agreements. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease and the useful life of the assets.

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.

Notes to consolidated financial statements (continued)

Note 16. Earnings per share

	2023	2022
Basic earnings per share (cents)	23.96	19.61
Diluted earnings per share (cents)	23.88	19.55
Earnings used in the calculation of basic and diluted earnings per share ($000)	37,030	30,262
Weighted average number of ordinary shares for basic earnings per share (number)	154,556,033	154,284,591
Adjustment for dilutive elements (share rights)	499,183	547,193
Weighted average number of ordinary shares for diluted earnings per share (number)	155,055,216	154,831,784

During FY23 249,999 shares were issued under the Data#3 Long Term Incentive Plan (FY22: 374,235). Please refer to Note 26 for further detail.

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 17. Dividends

	2023 $'000	2022 $'000
Dividends paid on ordinary shares during the year		
Final fully franked dividend for FY22: 10.65c per share (FY21: 9.5c)	16,465	14,663
Interim fully franked dividend for FY23: 10.00c per share (FY22: 7.25c)	15,460	11,190
	31,925	25,853
Dividends declared (not recognised as a liability at year end)		
Final fully franked dividend for FY23: 11.90c (FY22: 10.65c)	18,397	16,438

The tax rate at which dividends paid have been franked is 30% (FY21: 30%).
Dividends declared will be franked at the rate of 30% (FY21: 30%).

Franking credit balance		
Franking credits available for subsequent financial years based on a tax rate of 30% (FY21: 30%)	34,086	31,165

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 declared 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 $7,885,000 (FY22: $7,045,000).

Notes to consolidated financial statements (continued)

Note 18. Contributed equity

(a) Movements in ordinary share capital	Number of shares
Ordinary shares on issue at 1 July 2021	153,974,950
Ordinary shares issued during the year (Note 26)	374,235
Ordinary shares on issue at 30 June 2022	154,349,185
Ordinary shares issued during the year (Note 26)	249,999
Ordinary shares on issue at 30 June 2023	154,599,184

(b) Ordinary shares
All ordinary shares issued as at 30 June 2023 and 2022 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. Every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote per share. 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 2023 (2022: nil).

(d) Share rights
Please refer to Note 26.

(e) Capital management
When managing capital (equity), the board's objectives are 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 FY23 the board paid dividends of $31,925,000 (FY22: $25,853,000). The board's intent is to maintain the historical dividend payout ratio; however, market conditions and funding requirements are taken into consideration prior to the declaration of each dividend.

We are not subject to any externally imposed capital requirements.

Note 19. Leases

Right-of-use assets

	2023 $'000	2022 $'000
Right-of-use assets – premises leases	32,989	31,971
Accumulated amortisation	(12,154)	(8,386)
	20,835	23,585
Right-of-use assets – equipment leases	239	-
Accumulated depreciation	(10)	-
	229	-
	21,064	23,585

Note 19. Leases (continued)

The movement in right-of-use assets follows:

	Right-of-use assets (premises) $'000	Right-of-use assets (equipment) $'000	Total right-of-use assets $'000
Carrying amount at 1 July 2021	25,698	-	25,698
Additions	1,630	-	1,630
Depreciation (Note 4)	(3,743)	-	(3,743)
Carrying amount at 30 June 2022	23,585	-	23,585
Additions	1,046	239	1,285
Depreciation (Note 4)	(3,796)	(10)	(3,806)
Carrying amount at 30 June 2023	20,835	229	21,064

Lease liabilities

	2023 $'000	2022 $'000
Current lease liabilities	3,587	3,002
Non-current lease liabilities	20,296	22,643
Total lease liabilities	23,883	25,645
Total payments for leases during the year comprise the following:		
Principal payments	3,047	2,727
Interest expense	1,188	1,194
Payments made in relation to lease liabilities	4,235	3,921
Payments made for low-value leases	350	418

The future payments of lease liabilities, including interest, are set out in Note 21(c).

We lease various offices, warehouses and office equipment under rental contracts that normally range from three to eight years, with many contracts containing extension options, normally for two to three years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Under the relevant lease agreements (mainly premises) the rentals are subject to periodic review to market and/or for CPI increases. Generally the premises lease agreements require us to maintain a bank guarantee (please refer to Note 21(c)) as security for the lease agreement. All our significant premises leases allow assignment of the lease or sublease of the premises with the approval of the landlord. All leases are under normal commercial lease terms and conditions.

Note 19. Leases (continued)

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis unless the lease transfers ownership of the underlying asset to us by the end of the lease term or the cost of the right-of-use asset reflects that we will exercise a purchase option; in these instances we depreciate the right-of-use asset over the useful life of the asset.

We initially measure assets and liabilities arising from a lease on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable, unless those lease incentives relate to fitout payments that are immediately the property of the lessor
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Where we expect to exercise options to extend the terms of leases, lease payments in the extended term are included in the calculation of the lease liability. Term extensions are normally done at market value; at the commencement of each lease we estimate the lease payments for the extension period based on the annual increases set out in the initial period of the lease.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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.

We did not receive any rent concessions in connection with COVID-19 during FY23 (FY22: nil).

Note 20. Net cash/(debt) reconciliation

An analysis of net cash/(debt) and the movements in net debt are set out below.

Net cash/(debt)	**2023 $'000**	**2022 $'000**
Cash and cash equivalents	404,766	149,459
Leases	(23,883)	(25,645)
Net cash	380,883	123,814

Movement in net cash/(debt)	**Cash $'000**	**Leases $'000**	**Total $'000**
Net cash/(debt) at 1 July 2021	204,323	(26,866)	177,457
Cash flows	(54,864)	2,727	(52,137)
Acquisition – leases	-	(1,612)	(1,612)
Other	-	106	106
Net cash/(debt) at 30 June 2022	149,459	(25,645)	123,814
Cash flows	255,307	3,047	258,354
Acquisition – leases	-	(1,285)	(1,285)
Net cash/(debt) at 30 June 2023	404,766	(23,883)	380,883

Note 21. 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 except cash and cash equivalents are within the loans and receivables category at amortised cost, 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. We make sales via our Fiji branch to customers who require the currency of settlement to be in Fiji dollars.

At 30 June 2023 if the foreign exchange rates had changed, as illustrated in the table below, with all other variables remaining constant, other comprehensive income and equity would have been affected as follows:

	Other comprehensive income Higher/(lower)		Equity Higher/(lower)	
	2023 $000	2022 $000	2023 $000	2022 $000
-3.5% (FY22: -4.0%)	(603)	(555)	(603)	(555)
+4.0% (FY22: +3.0%)	743	446	743	446

The rate changes above are based on economic forecasts of major banks for FY23 together with the variation in rates experienced during the current year. Profit or loss would not be affected by a movement in the exchange rates as calculated in the table above because the foreign exchange gain or loss is unrealised and is recorded in other comprehensive income until such time as the gain or loss is realised.

(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 surplus cash position fluctuates regularly, and ongoing liquidity needs mean most of our funds are maintained in at-call accounts. Our borrowings are not material, and our lease liabilities are fixed rate instruments which do not expose us to fair value interest rate risk. At balance date we maintained the following variable rate accounts:

	30 June 2023		30 June 2022	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Cash at bank and on hand	1.3%	35,752	0.0%	49,445
Deposits at call	2.1%	369,014	0.1%	100,014
Cash and cash equivalents	1.9%	404,766	0.1%	149,459

Note 21. 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		Equity	
	Higher/(lower)		Higher/(lower)	
	2023 $000	2022 $000	2023 $000	2022 $000
-0.50% (50 basis points) (FY22: +0.75%)	(1,354)	712	(1,354)	712
+0.25% (25 basis points) (FY22: +1.50%)	677	1,424	677	1,424

The rate changes above are based on economic forecasts of major Australian banks for FY23.

(b) Credit risk

Credit risk arises from the financial assets of our group, which comprise cash and cash equivalents, contract assets, 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 two large financial institutions with high credit ratings.
- During the FY23 year, sales to one government customer comprised 6.9% of revenue (FY22: 6.7%).
- At 30 June 2023, one debtor comprised 12% of total debtors (FY22: 13%), and the ten largest debtors comprised approximately 48% of total debtors (FY22: 51%), of which 89% were accounts receivable from government customers (FY22: 100%).
- Our customers generally do not have independent credit ratings. Our risk control procedures assess the credit quality of the customer considering 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 FY23 total bad debt write-offs as a percent of the trade receivables carrying amount as at 30 June 2023 was 0.00% (FY22: 0.04%).

(c) Liquidity risk

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

At reporting date we had used $8,143,000 (FY22: $9,647,000) 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:

	2023 $'000	2022 $'000
Multi-option bank facility	16,857	15,353

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 FY23 was 6.8% (FY22: 4.0%).

Note 21. Financial risk management (continued)

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	More than 5 years	Total contractual cash flows	Carrying amount
	$'000	$'000	$'000	$'000	$'000	$'000
At 30 June 2023						
Trade and other payables	765,350	-	-	-	765,350	765,350
Lease liabilities	4,669	4,747	10,789	7,813	28,018	23,883
	770,019	4,747	10,789	7,813	793,368	789,233
At 30 June 2022						
Trade and other payables	613,310	-	-	-	613,310	613,279
Lease liabilities	4,152	4,144	11,776	10,723	30,795	25,645
	617,462	4,144	11,776	10,723	644,105	638,924

(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 receivables approximates fair value because the interest rate applicable to the receivables approximates current market rates.

Note 22. Business combinations

Accounting policy
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 12). 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.

Notes to consolidated financial statements (continued)

Note 23. Related parties

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

Name of entity	Country of formation or incorporation	Equity holding (ordinary shares) 2023 %	2022 %
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
Discovery Technology Pty Ltd	Australia	100.0	100.0

Principles of consolidation
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.

Parent entity
Summarised financial information for the parent entity is as follows:

	2023 $'000	2022 $'000
As at 30 June		
Current assets	879,329	713,822
Total assets	929,016	767,407
Current liabilities	840,296	682,057
Total liabilities	864,146	707,699
Shareholders' equity		
Contributed equity	11,861	10,313
Share-based payments reserve	323	559
Foreign currency translation reserve	(212)	(443)
Retained earnings	52,898	49,279
Total equity	64,870	59,708
For the year ended 30 June		
Net profit for the year	35,545	28,542
Other comprehensive income, net of tax:		
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	231	214
Total comprehensive income	35,776	28,756

Note 24. Contingent liabilities

At 30 June 2023 we had provided bank guarantees totalling $2,952,000 (FY22: $2,880,000) to lessors as security for premises we lease and $5,117,000 (FY22: $6,712,000) 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 25. Key management personnel

Key management personnel compensation is set out below.

	2023 $	2022 $
Short-term employee benefits (including change in current employment provisions)	3,243,465	3,053,836
Share-based compensation (long-term employee benefits)	667,753	681,552
Change in non-current employment provisions (long-term employee benefits)	2,067	-
Post-employment benefits	163,536	136,364
	4,076,821	3,871,752

For additional information refer to the remuneration table on page 23.

<u>Short-term employee benefits</u>
Remuneration in FY23 reflected slight underachievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY22: overachievement).

<u>Long-term employee benefits</u>
The long-term targets for the FY21, FY22 and FY23 LTI offers were fully met in FY23 (FY22: fully met for the applicable plans).

Transactions with key management personnel
There were no transactions during FY23 or FY22 with key management personnel or their personally related entities other than compensation and transactions in relation to shares and performance rights as discussed in this report (refer to Note 26).

The following table shows the rights granted and outstanding at the beginning and end of the reporting period in relation to key management personnel:

	Fair value per right granted $	Share rights Number
Balance 30 June 2021		729,114
Share rights granted	5.30	129,807
Share rights settled	1.32	(374,235)
Balance 30 June 2022		484,686
Share rights granted	6.40	123,412
Share rights settled	3.17	(65,574)
Share rights settled	3.38	(184,425)
Balance 30 June 2023		358,099

Note 25. Key management personnel (continued)

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

	Ordinary shares
	Number
Balance 30 June 2021	4,578,666
Received upon exercise of rights	374,235
Other changes*	27,500
Balance 30 June 2022	4,980,401
Received upon exercise of rights	249,999
Other changes*	(697,948)
Balance 30 June 2023	4,532,452

* Other changes refer to the individual's on-market trading plus the individual's shareholding at the date the person commenced or ceased to be a key management person, as applicable.

None of the shares in the preceding table are held nominally by the directors or any of the other key management personnel.

Note 26. Share-based payments

The Data#3 Long Term Incentive Plan (LTIP) was approved by shareholders at the 2018 Annual General Meeting. The LTIP has been designed to align the interests of eligible employees with the interests of shareholders of the company by enabling directors and employees to have involvement with, and share in the future and growth of, the company and to assist the company to attract, reward and retain high quality staff. Under the LTIP participants are granted rights or options which only vest if certain performance conditions are met. The exercise price, vesting conditions and vesting period are set by the board in its discretion. Participation in the LTIP is at the board's discretion, and no individual has a contractual right to participate in the LTIP or to receive any guaranteed benefits. Rights or options are granted under the LTIP for no consideration and carry no dividend or voting rights. Vested rights are exercisable for 60 days.

The number of rights to be granted is determined based on the currency value of the board-approved LTI divided by the volume weighted average share price for the five trading days following the release of the preceding year's audited financial statements.

The following table shows the rights granted and outstanding at the beginning and end of the reporting period:

	Fair value per right granted	Share rights
	$	Number
Balance at 30 June 2021		729,114
Settled on 1 September 2021		(374,235)
Granted on 30 November 2021	5.30	219,897
Cancelled on 4 May 2022	5.30	(6,435)
Balance at 30 June 2022		568,341
Settled on 1 September 2022		(249,999)
Granted on 18 November 2022	6.40	213,876
Balance at 30 June 2023		532,218

At 30 June 2023 104,880 of the performance rights vested (FY22: 249,999). No rights were forfeited during FY23. (FY22: 6,435 forfeited). The 249,999 rights granted in FY20 were settled during the year (nil exercise price) (FY22: 374,235 rights and nil exercise price). No options were granted, lapsed, forfeited, settled or exercised during the year (FY22: nil).

Note 26. Share-based payments (continued)

Settlement of FY20 rights
On 1 September 2022 ordinary shares were issued to the Data#3 Employee Share Trust ("the share trust"), which in turn provided the shares to executives whose rights vested under the Data#3 Long Term Incentive Plan. Data#3 Limited provided the funds to the share trust to enable the acquisition of shares. The rights were granted on 21 October 2019 and 13 November 2019 and fully vested on 30 June 2022. Other details of the share issuance are set out below.

Number of rights converted to shares	249,999
Share price of shares issued	$6.191

Refer to the table below for the amounts recorded in the financial statements in relation to the performance rights.

Fair value of performance rights granted
The assessed fair value at grant date of performance rights granted was calculated using the Black Scholes Model that takes into account the following inputs:

	Date of rights grant		
	FY21	**FY22**	**FY23**
	12 November 2020	**30 November 2021**	**18 November 2022**
Exercise price per share	Nil	Nil	Nil
Expiry date	30 June 2023	30 June 2024	30 June 2025
Share price at grant date	$5.33	$5.68	$6.85
Expected dividend yield	2.32%	2.65%	2.63%
Risk-free interest rate	0.25%	0.10%	2.85%

Amounts recorded in the financial statements in relation to the performance rights are set out below.

	$000
Share based payments reserve at 1 July 2021	1,825
Issue of shares for performance rights under employee share scheme (offsets contributed equity)	(2,035)
Employee benefits expense in relation to performance rights	830
Movement in deferred tax related to performance rights	(61)
Share based payments reserve at 30 June 2022	559
Issue of shares for performance rights under employee share scheme (offsets contributed equity)	(1,548)
Employee benefits expense in relation to performance rights	1,009
Movement in deferred tax related to performance rights	303
Share based payments reserve at 30 June 2023	323

Accounting policy
We provide equity-settled share-based payments to employees through the Long-term Incentive Plan (LTIP).

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

Notes to consolidated financial statements (continued)

Note 26. Share-based payments (continued)

At each balance sheet date, we revise the estimated number of rights/options that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate. Where the share-based payments give rise to the issue of new share capital, the proceeds we receive are credited to share capital when the share entitlements are exercised. Where the share-based payments give rise to the re-issue of shares from treasury shares, the proceeds of issue are credited to share capital.

The group does not operate any cash-settled share-based payment schemes or share-based payment transactions with cash alternatives.

Note 27. Remuneration of auditor

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

	2023 $	2022 $
Audit and other assurance services		
Audit and review of financial statements	175,000	175,000
Non-audit services		
Tax compliance services	20,314	23,750
Other business advice	-	1,000
	20,314	24,750
Total remuneration	195,314	199,750

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. 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 2023, are as follows:

Standard/Interpretation	**Application date of Standard** (1)	**Application date for the group** (1)
AASB 2020-1 and 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	1 January 2024	1 July 2024
AASB 2021-2 and 2021-6 *Amendments to Australia Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates*	1 January 2023	1 July 2023
AASB 2021-5 *Amendments to Australia Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*	1 January 2023	1 July 2023

(1) 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 28. Accounting standards not yet effective (continued)

AASB 2020-1 – the standard amends AASB 101 *Presentation of Financial Statements* to clarify that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. When this Standard is first adopted for the year ending 30 June 2025, we do not expect there will be any changes to the classification of liabilities within our financial report, as we do not have any material borrowings.

AASB 2021-2 – the amendments provide a definition of and clarifications on accounting estimates and clarify the concept of materiality in the context of disclosure of accounting policies. When this Standard is first adopted for the year ending 30 June 2024, we expect there will be no material impact on the financial statements, although accounting policies for immaterial transactions may be removed.

AASB 2021-5 – the amendments narrow the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal and offsetting temporary differences and clarify that the exemption does not apply to transactions such as leases and decommissioning obligations. When this Standard is first adopted for the year ending 30 June 2024, we expect there will be no material impact on the financial statements as the primary impact will be to leases, for which we already recognise deferred tax, but reclassifications will be made in the disclosure of deferred tax assets and liabilities in the notes to the financial statements.

Directors’ declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 32 to 63 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 2023 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.

The notes to the consolidated financial statements confirm that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

R A Anderson

R A Anderson
Director

Brisbane
22 August 2023

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Independent Auditor's Report
To the Members of Data#3 Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Data#3 Limited ("the Company") and its controlled entities ("the Group"), which comprises the consolidated balance sheet as at 30 June 2023, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes to the financial statements including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Group, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the key audit matter
Revenue recognition *(Refer to Note 3: Revenue)*	
Given the nature of the Group's operations, the performance at the end of the financial year has a significant impact on the Group's overall year-end result. Due to the quantum of transactions occurring near year-end, we have focused on this area as a key audit matter.	Our procedures included, amongst others: • Understanding and evaluating the design and implementation of controls over the revenue recognition and invoicing process; • Testing the operating effectiveness of key controls that are relevant to the recognition of revenue; • Selecting a sample of transactions prior to year-end and agreeing to supporting documentation to obtain evidence that the goods have been delivered and accepted at a customer's specified location (sales recognised at a point in time), a specified project milestone had been achieved (sales recognised over time) or labour hours had been worked (sales recognised over time), in the same period to which the revenue is recognised; • Performing substantive tests of detail on receivables, contract assets and contract liabilities recognised at year end to obtain evidence on the existence / completeness of the assets / liabilities at year-end and the corresponding revenue being recognised in the correct period; and • Assessing the adequacy of the disclosures in the financial report.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors of the Group 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 preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PITCHER PARTNERS

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 17 to 27 of the directors' report for the year ended 30 June 2023. In our opinion, the Remuneration Report of Data#3 Limited, for the year ended 30 June 2023, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group 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.

Pitcher Partners

PITCHER PARTNERS

J. Evans

JASON EVANS
Partner

Brisbane, Queensland
22 August 2023

Shareholder information

The shareholder information set out below was applicable as at 28 July 2023.

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	912,792	0.59	2,079
1,001 to 5,000	5,183,326	3.35	1,895
5,001 to 10,000	6,566,118	4.25	839
10,001 to 50,000	24,507,678	15.85	1,076
50,001 to 100,000	11,470,489	7.42	155
100,001 and over	105,958,781	68.54	112
	154,599,184	100.00	6,156

(b) There were 169 holders of less than a marketable parcel of ordinary shares.

2. Twenty largest quoted equity security holders

Name	Ordinary shares	
	Number held	% of issued shares
Citicorp Nominees Pty Limited	22,879,706	14.80
HSBC Custody Nominees (Australia) Limited	19,638,424	12.70
J P Morgan Nominees Australia Pty Limited	16,927,629	10.95
National Nominees Pty Limited	9,590,931	6.20
Anacacia Pty Limited (Wattle Fund A/C)	4,169,951	2.70
Oakport Pty Ltd	2,124,360	1.37
Powell Clark Trading Pty Ltd (Data3 Prof Serv S/F A/C)	2,100,000	1.36
BNP Paribas Nominees Pty Ltd (DRP)	1,858,337	1.20
J T Populin	1,661,379	1.07
Citicorp Nominees Pty Limited (Colonial First State Inv A/C)	1,213,286	0.78
BNP Paribas Nominees Pty Ltd ACF Clearstream	1,067,698	0.69
Thomson Associates Pty Ltd	1,000,000	0.65
Elterry Pty Ltd	760,000	0.49
U Pty Ltd (Andelise Super Fund A/C)	753,880	0.49
Banksia Administration Services Pty Ltd (Ron Gilbert Homes S/F A/C)	637,000	0.41
R A & M I Anderson (RAAMIA Retirement Fund A/C)	600,000	0.39
Elterry Super Pty Ltd (Elterry Superannuation A/C)	540,000	0.35
BNP Paribas Nominees Pty Ltd HUB24 Custodial Serv Ltd (DRP A/C)	508,466	0.33
L M Minz	500,000	0.32
Densley Pty Ltd (Litvin Gamble Unit A/C)	498,000	0.32
	89,029,047	57.59

Shareholder information (continued)

3. Substantial shareholders

Not applicable.

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 as follows:

(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.