

Data#3

Annual Report

20 23

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Message to Shareholders

Dear Shareholders,

We're pleased to report that financial year 2023 was another successful year for our customers and people. This was in an environment of heightened inflation, geopolitical instability and ongoing supply chain constraints, all of which have directly and indirectly impacted the Australian economy.

We were also confronted with some of the highest staff turnover the industry has ever witnessed as the IT sector saw its own "great resignation" with excess demand for staff and an under supply of candidates. We were fortunate to maintain levels of staff turnover well under industry averages, reflective of our core focus on our people.

The business performed remarkably well against this backdrop, significantly outperforming IT market growth rates. This shows the resilience of the Data*3 business model and strength of our long-standing supplier relationships and customer base, particularly among large enterprise and government customers.

FY23 results overview

Despite the uncertain operating environment creating volatility, especially early in the year, our FY23 revenue grew to a record \$2.5 billion, up 17% on FY22. This was driven by our customers continuing to invest in digital transformation, enterprise security, networking, and multi-cloud, together with record levels of demand for our major vendors.

This flowed through to net profit before tax of \$53.2 million, up 20.7% on FY22. Earnings per share of 23.96 cents were up 22.2%, and the board declared a fully franked total dividend for the year of 21.90 cents per share, an increase of 22.3% on FY22, representing a payout ratio of 91.4%. Data*3 has traditionally experienced a skew in its earnings towards the second half of the financial year due to a concentration of sales orders in May and June. Pleasingly, this is lessening as our business becomes more predictable and we grow our recurring revenue base, now at 65% of total revenue.

It was also pleasing to see a return to more in-person engagement, with COVID-19 impacts now largely behind us. The team has been returning to the office and increasing face-to-face attendance at several industry conferences. Our own JuiceIT conference in February saw over 1,500 customers across Brisbane, Adelaide and Perth, demonstrating the expanding national reach of our business.

We continue to see strong growth across public and private sector customers, with a focus on the education, healthcare and resources sectors, which have demonstrated consistently strong growth. In line with our strategy to grow more rapidly in the two largest Australian IT markets, Victoria and New South Wales, we made excellent progress in these regions.

We saw strong revenue growth across our business divisions, particularly across most of our Services business as we continued to deliver on our Services growth strategy. This will help to grow our margins and recurring revenue base. 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. Following a competitive tender during the year, we secured a major Enterprise Managed Services contract with the Future Fund Management Agency, our largest to date, to manage its entire IT environment including providing services remotely and providing a growing team onsite in its Melbourne offices.

At the forefront of a growing IT market

The IT market continues to grow both domestically and internationally, as decision makers increasingly seek automation and opportunities for driving greater efficiencies. Gartner has forecast Australian IT spending to grow 8.4% in 2023 to almost \$118 billion, led by digital investment programs.

This year, Artificial Intelligence (AI) has truly entered the mainstream as a business priority. While it is early stages for the industry and difficult to quantify the potential impact, we are assessing widespread applications across our customers' transformation projects. AI is becoming a major digital milestone with operational technologies like robotics becoming integral to our transformation solutions, and we are already seeing rapid product development incorporating cloud, hybrid work, security, connectivity and data analytics.

We are aligning ourselves with the global market leaders in AI especially through our partnership with Microsoft, so we are at the forefront of this change as our customers' enabling technology is increasingly AI driven. We are also looking at opportunities to apply AI within our own business to further improve operational efficiencies.

Customer success continues to be a key differentiator with Data*3 at the front of the curve, having developed deep expertise in our lifecycle approach. Our vendor relationships continue to be a significant focus especially though our commitment to customer success, which is reflected in the multitude of awards we received this year.

In FY23 Data*3 was awarded a significant number of vendor accolades, including three worldwide partner awards and more than 15 regional awards. This is a real testament to our business and reflects the recognition of Data*3 among our partners. Notably, we were named as the winner of the 2023 Microsoft Surface PC Reseller Worldwide Partner of the Year, demonstrating excellence in innovation and implementation of customer solutions.

Management changes

During the year, as part of our succession program, we farewelled Brem Hill who retired as CFO at the end of March 2023 and will leave at the end of 2023 after 32 years with Data*3. Brem, who joined Data*3 in 1991, then still a small private business valued at less than \$10 million, has seen it grow to a market capitalisation today of nearly \$1.2 billion. On behalf of the Board, we would like to thank Brem for his incredible service and wish him well in his well-earned retirement.

We welcomed Cherie O'Riordan as our new CFO after an extensive search process. Cherie joined Data*3 from Cardno Limited (ASX:CDD) where she was CFO and Company Secretary. Cherie has more than 20 years' experience in corporate accounting roles with numerous ASX-listed companies, and we are already benefiting from her extensive financial and strategic business leadership, governance, compliance and complex project delivery experience.

Environmental, Social and Governance (ESG)

One of our key objectives is to lead our industry in ethical business practices.

We received the 2023 Enlightened Growth Leadership Award by the Frost & Sullivan Institute for the second year running, in recognition of our commitment to harnessing the power of people and technology for a better future. This is the only award that considers the synergy between financial growth, corporate social responsibility and ESG.

Additionally, this year our Reconciliation Action Plan (RAP) working group was firmly up and running, and we presented our first milestone achievement – our Reflect RAP, which details Data*3's vision and direction for reconciliation. The working group is responsible for developing and implementing meaningful measures to advance reconciliation and reflects an ongoing commitment that will evolve and grow as we learn and progress on our reconciliation journey.

Addressing our environmental impact is among the most pressing priorities facing today's world, and we take this duty seriously. Working with external consultants and following comprehensive analysis of our business operations, we have set a firm target to be net zero by 2032, before the Brisbane Olympic Games, and are pleased to report that phase one of our three-phase process for net zero was completed this year.

Another priority has been overcoming the key barriers faced by women when entering and progressing their careers in the sector. Data*3 is proud of the steady progress made towards a more diverse workforce, with female representation across our workforce at 33% – well above an industry average of 29%.

During FY23 we also continued to support several key local, national, and international charities, both financially and by promoting volunteering activities for our employees.

Outlook

Our strategic priorities remain the same with our focus on solutions, people and community, customer experience, and operational excellence.

We expect technology, and specifically digital transformation, to continue to play the leading role in Australia's economic future. The trend to digital transformation is systemic and long term, and we will continue to accelerate growth of our Services businesses and further cement our leadership position.

The growth in our Services business aligns with our global vendor incentive programs, and we expect to see increasing profitability from the many new Managed Services contracts secured during FY23 as they mature.

The excess backlog as previously reported was realised during the year. Our strong growth in FY23 from higher volumes saw us carry a further backlog into the year-end, although this has returned to pre-pandemic levels as a percentage of revenue. We also continued to refine our supply chain processes and controls to better deal with product delays.

We continue to experience a steady increase in the pipeline of large integration project opportunities across our corporate and public sector customers, and our Services growth strategy will improve our overall margin profile while complementing our growing Software and Infrastructure business units. For example, the Brisbane Olympics in 2032 presents a significant opportunity especially given the Queensland Government's procurement policy to favour Queensland-based providers.

With our leading market position, strong supplier relationships, long-term customer base and experienced team we are confident in our outlook as we enter FY24, despite an expected slowdown in general economic activity. The industry is rapidly progressing and we are well positioned to benefit.

Thank you for your continued loyalty and support. We look forward to updating you on our progress throughout the year.



Richard Anderson
Chairman



Laurence Baynham
CEO and Managing Director

Data#3 Customer Story

Teachers Mutual Bank Limited

Teachers Mutual Bank Limited earns time and focus through investment in a DaaS solution from Data#3

Teachers Mutual Bank Limited is one of Australia's largest mutual banks. In its 56th year of operation it has over 230,000 members and more than \$10.4 billion in assets. Teachers Mutual Bank Limited is a Certified B Corporation, aligned with its purpose to provide banking for good, for those who do good. Providing the best return means the organisation must play to its strengths. Already, the IT team had begun a sustained effort to reduce admin-heavy tasks in order for its skilled resources to focus on projects that drive better services and deliver meaningful outcomes. To make the most of available skilled resources, Teachers Mutual Bank Limited wanted an end-user computing solution that would eliminate administrative burden.

Teachers Mutual Bank Limited sees the smart use of technology as a way to continually build on the service it offers to Members. Given the technology skills shortage affecting all industry sectors, it was vital to enable the bank's valued IT team to focus on these high value tasks. Additionally, the bank wanted to switch from the capital expenditure of device acquisition to an operational expenditure model.

Teachers Mutual Bank Limited opted for a 'pay-as-you-go' Dell end-user computing (EUC) solution, with devices and services provisioned via a customised DaaS portal hosted by Data#3. This allows for streamlined procurement, and a decreased IT workload. When a new device is needed, a request is entered in the portal, and the assigned Data#3 DaaS Customer Success Manager fulfils the order from local strategically cached stock, without taking the bank's IT staff away from their priority tasks and delivering a zero-touch deployment.

With the DaaS solution now in place, Teachers Mutual Bank Limited is considering further outsourcing options that will complement their IT team's strengths. As well as the benefits of predictable costs and simpler cashflow that arise from shifting from a capital to operational expenditure model where possible, the increased time and focus enable the team to build on their excellent work through the pandemic.



My view is that, like us, Data#3 is an organisation that does what it says it will do and if we work with them, we can get rid of components that bog us down, so we can do other things without hindrance.

Gerard Smith, Chief Information Officer,
Teachers Mutual Bank Limited.

Data#3 in FY23

Revenue

\$2.5B



People

1,400+



Listed on the ASX in

1997

Years in business

45+

Facilities across Australia + Fiji

12



Transacting customers

5,000+

Project hours

554,900



Professional services projects

2,500+



Customers

- Public sector and large corporate
- Health, education and resources industries

Key awards + certifications

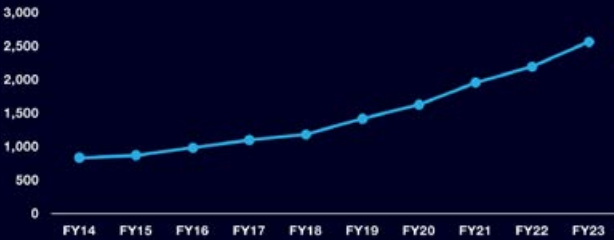
- HRD Employer of Choice – 8th year in a row
- Cisco Global Partner of the Year – Security
- Microsoft Surface PC Reseller Worldwide Partner of the Year
- Microsoft Surface+ Worldwide Partner of the Year

ESG update

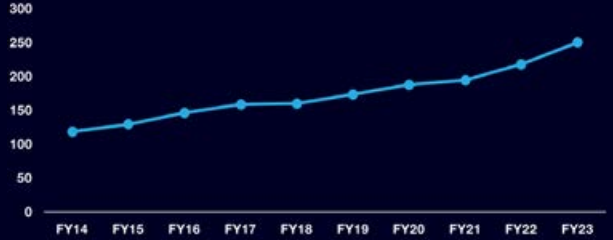
- Recipient of the Enlightened Growth Leadership Award by the Frost & Sullivan Institute
- Creation of Reflect Reconciliation Action Plan

Financial Summary

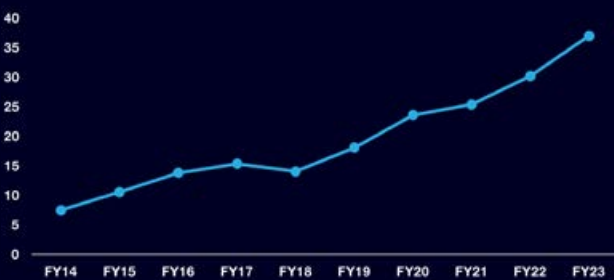
Total revenue (\$M)



Total gross profit (\$M)



Net profit after tax to members of Data#3 Limited (\$M)



Basic earnings per share and dividends per share (cents)



The following table sets out our performance in FY23 compared with previous years:

	FY17	FY18	FY19	FY20	FY21	FY22	FY23	%
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	change
Total revenue	1,098,221	1,181,411	1,415,569	1,625,941	1,956,188	2,192,997	2,564,570	+16.9%
Total gross profit	158,879	160,112	173,907	187,979	194,746	218,218	250,651	+14.9%
Total gross margin %	14.5%	13.6%	12.3%	11.6%	10.0%	10.0%	9.8%	
Earnings before interest (net) & tax	21,665	19,498	25,758	34,079	37,664	45,196	50,973	+12.8%
Profit before income tax	22,402	20,399	26,564	34,066	36,943	44,093	53,234	+20.7%
Profit after tax attributable to members of Data#3	15,375	14,078	18,112	23,636	25,414	30,262	37,030	+22.4%
Net profit margin %	1.40%	1.19%	1.27%	1.45%	1.30%	1.38%	1.44%	
Return on equity %	37.0%	31.6%	38.5%	45.2%	45.1%	49.0%	54.2%	
Basic earnings per share	9.99 cents	9.14 cents	11.76 cents	15.35 cents	16.51 cents	19.61 cents	23.96 cents	+22.2%
Dividends declared per share	8.9 cents	8.2 cents	10.7cents	13.9 cents	15.0 cents	17.9 cents	21.9 cents	+22.3%
Payout ratio	89.1%	89.7%	91.0%	90.6%	90.9%	91.3%	91.4%	
Share price at 30 June	\$1.73	\$1.60	\$2.12	\$4.54	\$5.61	\$4.66	\$7.20	+54.5%
Total shareholder return, based on dividends paid during year	72.7%	-3.1%	38.9%	119.9%	26.7%	-13.9%	+58.9%	

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
- 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.

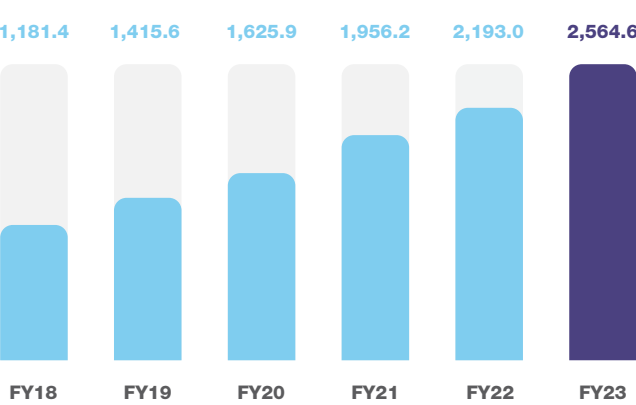
We saw solid growth across most of our business areas and regions, as detailed in the 'Operating results by functional area' section and are well placed to continue growing our Services business in FY24 and increasing returns on investments made this financial year.

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.

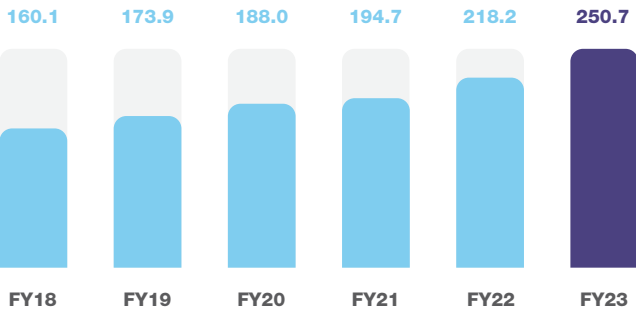
The longer the customer relationships, the more revenue and gross profit they usually generate, which is why we continue to focus on driving our recurring revenue base. This also helps improve visibility and predictability of earnings and should, over time, lesson the profit skew towards the second half,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



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.

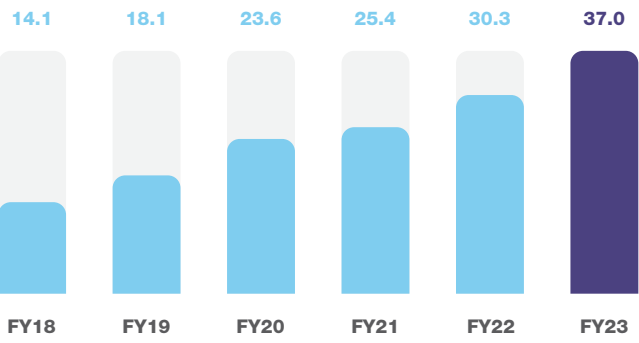
Our internal cost ratio (staff and operating expenses as a percentage of gross profit) increased slightly from 80.1% to 80.3% representing continued investment in people and systems, predominately in our Managed Services business. We are confident in our ability to deliver operating leverage while continuing 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.

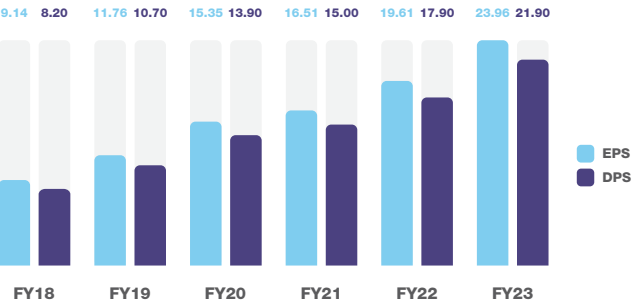
The board declared fully franked dividends of 21.90 cents per share for the full year, an increase of 22.3%, representing a payout ratio of 91.4%.

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.

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.

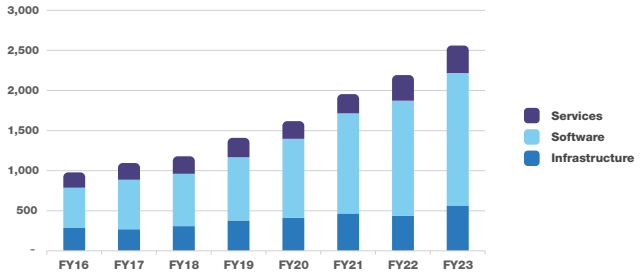
Despite the material cyclical fluctuations in our cash position, we continue to manage working capital efficiently and remain self-funding with no external debt. Excluding the end of financial year spike in cash held, “free cash” flow is typically around \$15 million, however this was reduced temporarily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

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 the following:

- 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 the following:

- 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.

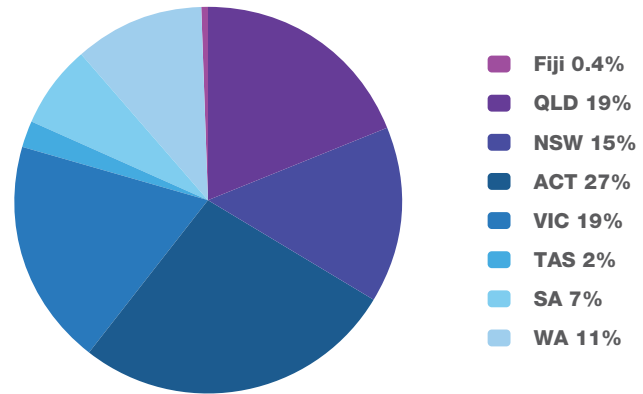
At the base level, cloud services annuity revenue with Microsoft subscription licenses is a substitute for our traditional license business. Our role is to help our customers migrate applications to the most appropriate cloud solution. This may include private or multi-cloud where customers can use a 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.

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.

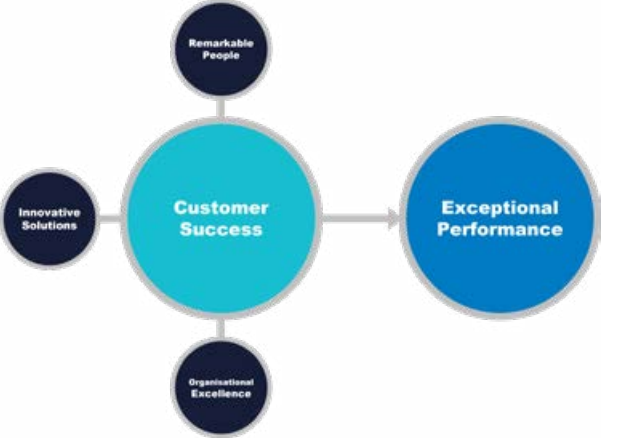
As the largest Australian IT services and solutions company, we have a responsibility to contribute to the reconciliation of the nation. Last year, we formed a Reconciliation Action Plan (RAP) working group consisting of committed staff who are passionate about reconciliation and who understand the cultural 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:

Cloud, Modern Workplace, Security, Data & Analytics and Connectivity.

These solutions are delivered using our Customer Solutions Lifecycle (PDO2) 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

Board of Directors



Richard Anderson OAM
Non-executive Chairman

Richard joined the board of Data#3 Limited in 1997 and was appointed Chairman in 2000. He is also President of Guide Dogs Queensland. Formerly a partner of PricewaterhouseCoopers, Richard was the firm's Managing Partner in Queensland and a member of the firm's National Committee. He previously has been Chairman of Lindsay Australia Limited, a member of the board of Namoi Cotton Limited, Villa World Group and the Capital Markets Board of Queensland Treasury Corporation, and President of CPA Australia in Queensland.



Mark Esler
Non-executive Director

Mark commenced his IT career at IBM Australia in 1976 and worked in a number of roles at IBM before joining the Data#3 group in 1984 as an executive director. Mark 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. Mark 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. Mark re-joined the board of Data#3 Limited in 2019.



Susan Forrester AM
Non-executive Director

Susan joined the board of Data#3 Limited in 2022. Susan has served as Chair and Non-Executive Director for several ASX-listed ASX200/300 companies. Susan is currently the Chair of Jumbo Interactive Limited (ASX:JIN) and a Non-executive Director of Plenti Ltd (ASX:PLT). Her previous listed directorships over the past 11 years include Over the Wire Holdings Limited, National Veterinary Care Ltd, Xenith IP Limited, G8 Education Limited and Viva Leisure Limited. Prior to her portfolio career, Susan served as CEO of a commercial architectural design firm and a national professional membership body, and HR Director at Queensland Treasury Corporation and Allens Lawyers. Susan is a qualified lawyer, has an EMBA from the Melbourne Business School, and is a Fellow and Councillor of the Australian Institute of Company Directors. Susan also serves on the Diligent Institute Advisory Board in New York as a corporate governance specialist, representing Asia Pacific. Susan is a Member (AM) in the General Division of the Order of Australia for significant service to business through governance and strategic roles and as an advocate for women.



Mark Gray
Non-executive Director

Mark joined the board of Data#3 Limited in 2017 and chairs the Remuneration and Nomination Committee. He is also the Chairman of Sugar Terminals Limited, Deputy Chairman of Urban Utilities, and a Non-Executive Director of the Northern Australia Infrastructure Facility, Queensland Cricket and the Royal Flying Doctor Service of Australia (Queensland). Previous senior executive roles include Under Treasurer of the Queensland Treasury Department, Chief Executive Officer of the Queensland Competition Authority and the Queensland Independent Commission of Audit, Queensland Office Head at Macquarie Group and Executive Director with BDO.



Leanne Muller
Non-executive Director

Leanne joined the board of Data#3 Limited in 2016 and chairs the Audit and Risk Committee. During her thirty-year business career Leanne held various senior corporate financial management roles, including as Chief Financial Officer (or equivalent) for RACQ, Uniting Care Queensland and Energex. Prior to those appointments Leanne worked in professional advisory services for antecedent firms of PwC and KPMG. Leanne is a Non-executive Director of Sugar Terminals Limited and Guide Dogs Queensland. Leanne also served on the board of QInsure Limited until 2019 and the boards of Peak Services Group companies and Hyne Timber Group companies until 2023.



Laurence Baynham
Managing Director and Chief Executive Officer

Appointed Chief Executive Officer in 2014 and Managing Director in 2016, Laurence is responsible for the day-to-day operational and planning activities of Data#3. Prior to these roles, Laurence held the position of Group General Manager for ten years and was responsible for profit and customer satisfaction across the company's lines of business and geographies. Laurence joined Data#3 in 1994, bringing with him a broad range of international IT industry experience. Laurence holds a Bachelor of Business (Honours) from East London University, is a graduate of the INSEAD Business School (Singapore) Strategic Management Academy and a Fellow of the Australian Institute of Company Directors. Laurence sits on a number of global advisory boards for key strategic partners representing Data#3 and the wider Australian IT channel community and in 2016 was inducted into the Australian IT Industry Hall of Fame.

Senior Leadership Team



Michael Bowser

Executive General Manager – Operations

Michael joined Data#3 in 1987 and has worked in many key roles including technical services, services management, pre-sales, sales, business operations, sales management, state management and executive management. He has been responsible for the original establishment of Managed Services, Networking and Consulting Services and many of the sales and operational processes within the business. In July 2021 Michael's title changed to Executive General Manager – Operations, responsible for the business operations of the company including security.



Brad Colledge

Executive General Manager – Software, Infrastructure and Services

Brad holds a degree in Business Management from Queensland University of Technology and is a graduate of the Australian Institute of Company Directors. He has over 30 years' experience in the business technology industry and joined Data#3 in 1995. Initially working with Laurence Baynham to establish the Licensing Solutions business in Data#3, Brad's responsibility subsequently expanded to the broader Software Solutions business and the Infrastructure Solutions business. He was appointed to the Executive General Manager role in 2015. In July 2021 Brad assumed additional responsibility for Data#3's Services businesses, and his title changed to Executive General Manager – Software, Infrastructure and Services.



Cherie O'Riordan

Chief Financial Officer

Cherie joined Data#3 in January 2023 and is a Chartered Accountant and Graduate Member of the Australian Institute of Company Directors. She also holds a degree in Economics from the University of Queensland.

Cherie has over 20 years' experience working in senior finance roles and as a Company Secretary across a range of sectors and ASX listed companies, including Cardno Limited and Silver Chef Limited.

Cherie is responsible for the finance, accounting and investor relations functions at Data#3.

Environmental, Social and Governance (ESG)

Data#3: Dedicated to driving positive change through ESG for a better tomorrow

Our vision is to harness the power of people and technology for a better future, and we are committed to a sustainable environmental, social and governance (ESG) framework that makes a meaningful difference within our business, the wider community, and ultimately, makes the world a better place.

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. Every day, and every year, it is our aim to create positive change within the pillars of ESG, and we're delighted to share that we've made some further progress in FY23.

Read the full Data#3 FY23 ESG Report: data3.com/ESG

Data#3 FY23 ESG Highlights

Data#3 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.

Environmental

Greenhouse Gas Emissions

To achieve meaningful change, our action must be considered and sustainable, building towards measurable results that make a real difference. To ensure we have a true picture of our current impact, and that our actions match our sentiments, we have continued our engagement with a specialist external consultancy that helps us work towards our environmental goals. This resulted in our second Greenhouse Gas Emissions Report for FY22, released during FY23.

 FY22 Estimated Total Carbon Emissions – Reduction of 7.1%.

 Data#3 is building on our work over recent years to reduce the impact of our operations and is ambitious in pursuit of net zero emissions by 2032.

Social

It is the skill, dedication, and effort of our people that makes Data#3 a trusted partner for more than 5,000 Australian organisations. They make connections, build relationships, and dream up the big ideas that keep us at the forefront of our industry. Our people are at the HEART of everything we do and are central to realising our vision.

 Our workforce – Grew by 15.4%; Data#3 has a staff turnover lower than industry average (industry average: 17.4% vs Data#3: 15.7%)

 Gender diversity – While it is well known that the ICT industry has lacked gender diversity, Data#3 is committed to change. Over the past five years, women have made up a greater part of the Data#3 workforce, and our leadership team is now more gender balanced than ever. Women in ICT: Overall (Australia) industry average: 28% vs Data#3: 32%. Leadership roles (Australia): Overall (Australia): 22% of board members vs Data#3: 33%.

 Creation of Reflect Reconciliation Action Plan

 4.45 out of 5 for employee satisfaction in annual staff survey

 Average staff tenure 5.2 years

 HRD Employer of Choice for the 8th successive year

 Total fundraising – \$135,000+

 Australian Red Cross Blood Service LifeBlood program – 300 lives saved

 Hours volunteered – FY23: 957 vs FY22: 575

Governance

Our choices and actions are what tells the world who we are. As such, we strive to fulfil our obligations to our people, our customers, our partners and the community with integrity and professionalism.

Data#3 Ethics Score

Two years ago Data#3 established an Ethics Score mechanism to monitor the impact of our ethics program. The score is determined by combining People and Customer Satisfaction survey results, where we asked these key stakeholders to consider our ethical behaviours, as well as external benchmarking results and an external holistic compliance program maturity assessment. Data#3's focus on ethical behaviour led to recording a high score in both years.

Training

In FY23 mandatory induction and annual compliance training was updated to ensure that Data#3 staff fully know and understand the requirements of key codes and policies and are informed of any recent updates.

 99.98% completion rate of Data#3 staff compliance training

Corporate Governance Statement

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

In developing Data#3's corporate governance framework, the board has considered the ASX Corporate Governance Principles and Recommendations 4th edition (**ASX Principles**). This statement outlines how Data#3's corporate governance practices and policies align with those recommendations or, where there are divergences, how we intend to achieve alignment in time.

Further information regarding Data#3's corporate governance policies and practices can be found on the Investor Centre website at <https://investor.data3.com/Investor-Centre/>

Principle 1: Lay solid foundations for management and oversight

The board is accountable to shareholders for the oversight of management of the business and is responsible for Data#3's overall strategy, performance and governance. The board's responsibilities are set out in the board's charter, which is available on Data#3's Investor Centre website at <https://investor.data3.com/Investor-Centre/>

The board's charter also sets out the powers and responsibilities delegated to the Managing Director (MD) / Chief Executive Officer (CEO) as necessary to recommend and implement the strategies approved by the board and to manage the business activities of Data#3.

Mr Baynham, who commenced with Data#3 in 1994, was appointed as CEO in 2014 and in 2016 he was appointed as MD. The MD/CEO is the board's principal link to the senior leadership team and the MD/CEO has the authority to delegate to members of the senior leadership team within approved policies and limits, but remains accountable for all authority delegated to its members. The board ensures the senior leadership team is appropriately qualified, experienced and resourced to discharge its responsibilities.

Following Ms Forrester's appointment in the 2022 financial year and election at the AGM convened during the 2023 financial year, no further updates were considered necessary to board composition or leadership during the 2023 financial year. However, the board has continued to progress the board succession and leadership plan. It has been recently announced that Mr Anderson has elected to not seek re-election at the Company's upcoming AGM in October 2023 and will retire from his Chairmanship and from the Board with effect from the end of the AGM.

The board has established a structured self-assessment process to review and evaluate the performance of the board as a whole, its committees, and the board's interaction with management. This is an internal performance evaluation that uses a detailed assessment questionnaire. The most recent board performance evaluation was commenced in December 2022 and is under current assessment to implement any necessary updates and enhancements.

Directors, other than the MD, are subject to re-election in accordance with Data#3's constitution. Details of the re-election of each director are set out in the explanatory notes to the Notice of AGM. Mr Mark Esler was re-elected at the AGM held during the year.

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

The performance of the MD/CEO is formally assessed half-yearly by the Chairman, based on a combination of financial and non-financial goals. Each non-executive director has the opportunity to contribute to the MD/CEO performance assessment. The MD/CEO is responsible for evaluating the performance of members of the senior leadership team. Formal evaluations of the MD/CEO and senior executives were undertaken during the year in accordance with this process.

The efficient operation of the board is assisted by Mr Bonner, as company secretary, appointed in 2007. The company secretary is accountable to the board, through the chairman, for all matters to do with the proper functioning of the board. It is noted that Mr Brem Hill resigned as CFO and as a company secretary during the year (having been appointed in 1997).

Diversity

Data#3 understands that business performance and productivity is enhanced when we embrace the unique perspectives, skills, and experiences that our people have. That's why we established our Embrace program, which brings together our diversity and inclusion (D&I) policies, activities, and support services, to assist our efforts in fostering an inclusive workplace where our people feel a sense of belonging.

The diversity policy and 'Embrace' program seek to provide a workplace where

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

Through our Embrace program we are committed to facilitating a more diverse and representative workforce and management structure. As such there are a number of measurable objectives which are summarised below:

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

- The proportion remained steady at 33%, however remains well above the IT industry average.

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

- The proportion remained steady at 30%.

Objective: To maintain or increase the proportion of women on the board to at least 30%.

- The proportion remained steady at 33%.

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

	2023		2022	
	Female	Male	Female	Male
All employees	33%	67%	33%	67%
Management team	30%	70%	30%	70%
Senior leadership team	25%	75%	0%	100%
Board of directors	33%	67%	33%	67%

Principle 2: Structure the board to add value

The board has determined that its optimum composition will

- have a minimum of 4 and majority of independent, non-executive directors;
- have a minimum level of "medium" representation across each category of the board skills matrix; and, where reasonable, target "high" representation across each category;
- reflect Data#3's strategic objectives.

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

The board is currently composed of six directors, being five non-executive directors and the MD. Membership of the board is set out in the directors' report on page 34. Details of each individual director's background is set out in the directors' report on page 34 and the directors' profiles on pages 15-16.

Remuneration and nomination committee

The remuneration and nomination committee is composed of three non-executive directors and chaired by an independent director. The committee members are Mr Gray (Chairman), Mr Anderson and Ms Forrester. It is noted that composition of this board committee was revised on and from 1 July, 2022.

The responsibilities of the remuneration and nomination committee are set out in its formal charter, which is available on Data#3's Investor Centre website at <https://investor.data3.com/Investor-Centre/>

The committee’s responsibilities in relation to remuneration are set out below under the heading “Principal 8: Remunerate fairly and responsibly”. The main responsibilities of the committee in relation to remuneration and nomination are

- assessing the board skills matrix, and size and composition of the board;
- reviewing board renewal and senior executive succession plans;
- reviewing remuneration structures
- evaluating the board’s performance; and
- appointing new directors and the CEO.

Details of the remuneration and nomination committee meetings and members’ attendance are set out on page 35 in the directors’ report.

Board skills and experience

The board, as it evolves, collectively seeks to ensure its membership includes an appropriate mix of skills, experience and personal attributes that allows it to govern and direct the Data#3 business in line with its strategy and risk appetite. The board seeks individual directors to discharge their responsibilities collaboratively, effectively and efficiently, to understand the business of Data#3 and the environment within which it operates.

The board maintains a skills matrix that outlines the skills and experience considered by the board to be the right combination to effectively carry out its duties. The board skills matrix has been reviewed and updated. Please see the below table. The board has identified that, collectively, it does have the necessary mix of skills, experience, personal attributes and diversity appropriate to the current requirements of Data#3’s strategy and that, as a whole, the directors’ contribute across the different categories as set out below. Importantly, the board benefits in key categories from board members having specific expertise or experience (typically based on their executive or professional careers). The qualifications, experience and relevant expertise of each board member (and their terms in office) is set out in the Directors’ Report. The matrix provides important input to assist the board in identifying potential future directors to complement the board’s then current skill set and to address areas of future focus and development for existing directors.

Skill / Experience Category	Summary	Current Board Representation
Executive Leadership / Management	Experience in CEO or senior executive position of listed company or government body	High
Industry / Sector	Knowledge and experience in the ICT industry, including customer centric, sales and delivery	High
People and Culture	Experience in safety & wellbeing, workplace culture, people management, organisational design, remuneration frameworks, diversity & inclusion and talent development.	High

Strategy	Experience in setting and execution of strategy, including performance assessment to business plan	High
Technology, innovation & digital	Experience in information technology platforms, understanding of digital technologies, use of data & analytics, delivering on innovation initiatives	High
Financial	Experience in analysing financial statements and reporting, critically assessing financial performance, budget planning, internal controls and efficient use of resources.	High
Governance, Risk and Compliance	Experience in implementing high standards of corporate governance, including legal skills, risk management frameworks, compliance and regulatory environments	High
Sustainability	Experience in areas of environment, social and governance (ESG), including climate change, reporting disclosures, and diversity issues.	Medium
Cyber Security	Experience in information security, privacy and data governance management and controls for cyber risks	High

Directors also maintain professional development throughout the year to enable them to discharge their duties effectively and add value. This professional development includes regulatory updates and legislative changes including continuous disclosure, cyber security, WH&S, modern slavery, ethics, industrial relations, sustainability, general industry developments and professional development required as members of the Australian Institute of Company Directors and other professional bodies.

Independence

Directors are considered to be independent if they are a non-executive director who is free of any interest, position or relationship that might influence, or could reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgement to bear on issues before the board and to act in the best interests of the Company as a whole, rather than in the interests of an individual security holder or other party.

The independence of non-executive directors is assessed prior to appointment and reviewed at least annually (or earlier as and when their circumstances change). Where the Board determines that a director is no longer independent, the Company will make an announcement to the ASX at the appropriate time.

The Company’s criteria for assessing director independence aligns with the guidance provided in the ASX Principles. This has been undertaken and is informed by external guidance and market standards as they evolve.

With the exception of the MD / CEO, all of the directors are non-executive directors. All non-executive directors are considered to be independent.

The chairman of the board, Mr Anderson is considered an independent, non-executive director. While Mr Anderson has been on the board since 1997, the board (with Mr Anderson abstaining) has determined that he has maintained appropriate independence from executive management during 2023 financial year and his appointment remained in the best interests of Data#3 because of the substantial knowledge, expertise and continuity he has brought to the board. The board took into account all views in reaching this determination.

Mr Esler (appointed in 2019) is considered an independent, non-executive director. While Mr Esler was an executive manager until 2014 and maintains approximately 1.8% ownership of Data#3, the board (with Mr Esler abstaining) has determined that he has maintained appropriate independence from executive management and substantial shareholders and his appointment remains in the best interests of Data#3, including but not limited to, his substantial industry knowledge and expertise he brings to the board.

Ms Forrester (appointed in 2022), Mr Gray (appointed in 2017) and Ms Muller (appointed in 2016) are also considered independent non-executive directors.

To facilitate independence, directors have the right, in connection with their duties and responsibilities, to obtain independent professional advice at Data#3’s expense. Prior written approval of the chairman is required, but this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all other directors. This right was neither exercised nor sought to be exercised during the 2023 financial year. Directors’ arrangements with Data#3 in the past have not been material and have therefore not adversely impacted the directors’ independent status. Disclosure of related party transactions is set out in the financial statements.

When a potential or actual conflict of interest or a material personal interest arises in relation to any matter that concerns the affairs of Data#3, it is the board’s policy that the director concerned must give the other directors immediate notice of such interest and that the director concerned may, except where the conflict is considered a material personal interest, with the prior consent of the board take part in discussions and exercise their duties as a director. A director’s register of interests and positions is maintained and updated as required. Directors are asked to declare conflicts at the commencement of each board meeting, and these are recorded in the minutes.

The board meets as often as the directors determine necessary to fulfil its responsibilities and duties, generally monthly. The number of meetings of the board and its committees held during the 2023 financial year and the number of meetings attended by each director is disclosed in the directors’ report.

With the general lifting of government restrictions imposed by the COVID-19 pandemic, the board has taken the opportunity to convene at various Data#3 office locations throughout the year and meets formally on a regular basis with members of the senior leadership team and other management staff.

The meetings are chaired by the chairman or, in his absence, another non-executive director. The chairman’s responsibilities are set out in the Constitution and summarised in the Board Charter, and the Chairman is assisted by the Company Secretary. The EGM, Chief Financial Officer (CFO) and General Counsel are usually invited to attend all meetings, and other executives attend the meetings periodically by invitation. Board and committee agendas are structured to reflect their defined responsibilities, to give the board a detailed overview of the performance and significant issues confronting each business unit and Data#3 and to review any major risk mitigation thereof

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

All new directors participate in a comprehensive induction program to gain an understanding of Data#3’s financial performance, strategies, operations and risk management processes and the respective rights, duties, responsibilities and roles of the board and senior executives. Ongoing director education on the Data#3 business is also facilitated through regular management presentations and interaction and by relevant site and customer visits.

The board has also established an audit and risk committee and a remuneration and nomination committee to advise and support the board in carrying out its duties. For the 2023 financial period, both committees were determined to be compromised solely of independent directors. Each committee operates under a charter which includes a description of its duties and responsibilities. The charters are available on the company’s website. Further information on the audit and risk committee is set out below under the headings “Principle 4: Safeguard integrity in corporate reporting” and “Principle 7: Recognise and manage risk”.

Principle 3: Act ethically and responsibly

Data#3’s board is committed to setting the highest ethical culture and standards for the company. Data#3 has a code of conduct, a code of business ethics and other policies that set out practices designed to guide Data#3’s people to

- act with integrity and objectivity,
- observe the highest standards of behaviour and business ethics, and
- strive at all times to enhance the good reputation and performance of Data#3.

Code of conduct and Code of business ethics

Data*3 has developed a code of conduct and code of business ethics which, together, reinforce Data*3’s vision and core values statements, this corporate governance statement and the terms and conditions of employment that apply to all employees. The core values for all employees and directors include honesty, excellence, agility, respect and teamwork. In relation to conduct, the codes’ require company personnel to behave with honesty and integrity and in a way that enhances the company’s reputation. The codes also require company personnel who are aware of unethical conduct within Data*3 to report that conduct, which can be done anonymously. The code of conduct and code of business ethics are available on Data*3’s Investor Centre website: <https://investor.data3.com/Investor-Centre/> and the vision and values statements are included on page 14.

Data*3 has a Provider Code of Ethics and Conduct that sets out acceptable standards of conduct for our suppliers and vendors. Data*3 has an established GEAR (Governance, Ethics, Assurance and Risk) team who take responsibility for providing advice and support to employees as well as manage compliance with internal and external standards.

Other policies

Data*3 has a Whistleblower Policy; an Anti-bribery, Anti-Corruption and Conflict of Interest Policy; a Modern Slavery Policy and a Provider Code of Ethics and Conduct to reflect legislative changes and reinforce Data*3’s culture of acting lawfully, honestly, ethically and responsibly. These policies are available on Data*3’s website at <https://www.data3.com/policy/>

As part of Data*3’s Risk Management Policy, the board is informed of any material non-compliances or breaches of these policies.

Environmental, social and governance responsibility

Data*3 continues to invest in and enhance its environmental, social and governance program. For further information see pages 19 to 20. Data*3 publishes a separate ESG Report and this report is available on Data*3’s Investor Centre website: <https://investor.data3.com/Investor-Centre/>

There was continued focus on Data*3’s approach to identifying, addressing and remediating (if necessary) Modern Slavery risks and practices in its operations and supply chain including for the purposes of ongoing compliance under the *Modern Slavery Act 2018 (Cth)*. Further details on Data*3’s activities in this regard are detailed in the Modern Slavery Statement and the Modern Slavery Policy is available on the Data*3 website at <https://www.data3.com/policy/>

Share trading policy

Data*3 has a share trading policy which restricts the time period in which directors and employees may purchase and sell company securities. The policy prohibits insider trading and reinforces the directors’ and company’s statutory obligations to notify the ASX regarding any dealing in Data*3’s securities which results in a change in the relevant interests of the director in Data*3’s securities. The policy is available on Data*3’s Investor Centre website at <https://investor.data3.com/Investor-Centre/>

Principle 4: Safeguard integrity in corporate reporting

The board is responsible for the integrity of Data*3’s corporate reporting and for ensuring that the financial statements are completed in accordance with applicable accounting standards and provide an accurate view of Data*3’s performance and financial position. The board expects that all half year and year-end financial reports will be audited or reviewed by the company’s external auditor before being released to the market.

Audit and risk committee

The audit and risk committee is composed of three independent non-executive directors. Effective from 1 July 2022 the committee members were Ms Muller (Chair), Mr Esler and Mr Gray.

Each member is financially literate and has the technical and business expertise necessary to serve on the committee – their profiles are set out on pages 15-16. The responsibilities of the audit and risk committee are set out in its formal charter, which is available on Data*3’s Investor Centre website at <https://investor.data3.com/Investor-Centre/>

Details of the audit and risk committee meetings and members’ attendance are set out on page 35 in the directors’ report.

The audit and risk committee has, within the scope of its responsibilities, unfettered access to members of the senior leadership team, the General Counsel and the external auditor. Directors receive detailed financial and operational reports from senior management on a monthly basis and managers are available to discuss the reports with the board as considered appropriate.

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

The company’s external auditor attends relevant audit and risk committee meetings, and each AGM, and is available to answer questions from shareholders on the conduct of the audit.

Principle 5: Make timely and balanced disclosure

Continuous disclosure policy

The board has established a continuous disclosure policy which contains written policies and procedures that promote timely and balanced disclosure of all material matters concerning Data*3. The continuous disclosure policy is available on Data*3’s Investor Centre website at <https://investor.data3.com/Investor-Centre/>

Two Communication Officers are appointed by Data*3: the Company Secretary and Chief Financial Officer. These officers are responsible for communications to the ASX. This role includes ensuring the board is assessing ongoing compliance with continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosures to the ASX, analysts, brokers, shareholders and the public.

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

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

Principle 6: Respect the rights of security holders

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

Data*3 usually convenes its AGM during October or November. Notices of meetings are accompanied by explanatory notes on the items of business and together they seek to clearly explain the nature of the business of the meeting. Full copies of notices of meetings are placed on Data*3’s website. Shareholders are encouraged to attend the meeting or, if unable to attend, to vote on motions proposed by appointing a proxy. All substantive resolutions are decided by a poll at the meeting. Data*3 webcasts the formal addresses made at its AGM and any other general meetings which are held for the benefit of those shareholders unable to attend.

The 2023 AGM will be conducted as a hybrid meeting to facilitate wider and inclusive participation. Any in-person attendance is expected to be subject to COVID-19 safety plan restrictions in place at the time.

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

Principle 7: Recognise and manage risk

Risk management policy

The board has established a risk management policy and procedures (in accordance with ISO 31000) that promote the identification, assessment, monitoring and management of risk and the identification of any material changes to Data*3’s risk profile. A summary of this policy is available on Data*3’s Investor Centre website at <https://investor.data3.com/Investor-Centre/>

There are many risks that Data*3 faces in its business operations and the industry within which it operates. A range of factors, some of which are beyond the reasonable control of Data*3, can influence performance. The board regularly reviews Data*3’s risk appetite statement and group risk management policy.

Audit and risk committee

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

The audit and risk committee reviewed the company’s risk management framework and risk appetite in the 2023 financial year and is satisfied that management has ensured sound risk management practices are embedded into the operations of the business and that management has continued to review and improve those practices. The audit and risk committee and the board receive regular reports from the General Counsel and management regarding the effectiveness of Data*3’s management framework and any material business risks that have been identified. In response to the increased cyber security risk, the committee has placed even greater emphasis on Data*3’s business continuity management system, and information security management system. The workplace safety management system remains the top priority.

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

The company does not consider that it has, at this time, material exposure to environmental or social sustainability risks but it is also continuing to review the effectiveness of the current framework in identifying new and emerging risks. The risks faced by Data#3 are assessed across the following categories: strategic; information technology and cyber security; human resources; customer success, solution quality, vendors and project success; health, safety and environment; financial management; reputational; compliance, legal & regulatory; real property; and market-related risks.

The risk management system addresses the material business risks including the following:

- health and safety of staff and working environments
- market demand for ICT products and services
- changes in customers' ICT procurement models
- key vendor channel strategy, supply chain and customer engagement models
- effective positioning of Data#3's solutions in the market
- identification of ICT industry opportunities
- attraction and retention of key personnel
- quality and skill of the senior leadership team
- delivery of customer solutions within agreed expectations
- ethical conduct and reputation
- security, including cyber risk resilience
- legal and compliance
- internal information technology systems and processes
- competitor activity.

The company does not have a separate internal audit function, however the GEAR team and other project compliance teams undertake periodic reviews and audits of key internal processes. The Legal and Risk Advisory team conducts compliance and legal risk reviews on behalf the Board and management.

The board, the board's audit and risk committee, senior Data#3 executives and the wider management team monitor and evaluate risks through a variety of existing systems, programs and policies, including:

- identification and assessment of strategic risks through periodic reviews as part of strategic business planning and objective setting
- monthly review and reporting of operational risks relating to individual business units and territories
- financial budgeting and key performance indicator reporting systems to monitor monthly performance against budgets and targets, cash and inventory
- monthly written reports from senior executives
- delegations of authority, including approval limits for operational and capital expenditure
- employment & industrial relations policies and management guidelines
- a comprehensive annual insurance review program
- work, health and safety and environment reviews and reports
- half yearly financial reviews conducted by the company's auditors
- internal and external quality assurance audits (Data#3

Limited is a Quality Certified Company to AS/NZS ISO 9001:2015).

- Internal and external information security management audits (Data#3 Limited is a Quality Certified Company to AS/NZS ISO 27001:2013)

Principle 8: Remunerate fairly and responsibly

Remuneration and nomination committee

As set out at "Principle 2: Structure the board to add value" above, the board has established a separate remuneration and nomination committee to assist in implementing remuneration policies and practices that are designed to motivate senior executives to pursue the long-term growth and success of Data#3 and to demonstrate a clear relationship between senior executives' performance and remuneration and corporate performance. The responsibilities of the remuneration and nomination committee are set out in its charter which is available on Data#3's Investor Centre website at <https://investor.data3.com/Investor-Centre/>

In relation to remuneration, the committee is responsible for:

- Data#3's remuneration, recruitment, retention and termination policies and approach for senior executives;
- senior executives' remuneration and incentives;
- superannuation arrangements; and
- remuneration for directors.

Data#3's remuneration policies and practices in relation to senior executives, including the amount of remuneration, are as disclosed in Data#3's remuneration report on pages 35 to 45. Data#3 has clearly differentiated the structure of non-executive directors' remuneration from that of the MD/CEO and senior executives.

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

Tax Report

Introduction

We are pleased to present the Data#3 Limited (Data#3) Tax Report for the year ended 30 June 2023 (FY23). We take our tax compliance responsibilities seriously and strive to meet all our tax obligations in accordance with the laws of each state and country in which we do business. This report sets out taxation information as recommended by the Tax Transparency Code for Data#3 and the companies it controlled during the year (the group).

The Tax Transparency Code (TTC) is a set of principles and minimum standards to guide disclosure of tax information by businesses. The TTC was developed by the Australian Board of Taxation to

- encourage large and medium-sized businesses to publicly disclose their tax affairs to highlight those that are paying their fair share and to encourage all businesses not to engage in aggressive tax avoidance
- help large businesses (such as Data#3) become more transparent and help educate the public about their compliance with Australia's tax laws.

Adoption of the TTC is voluntary; Data#3 has elected to adopt it because we believe disclosure of additional information in relation to tax will benefit our shareholders and the public.

About Data#3

A leading Australian IT services and solutions provider, Data#3 is focused on helping customers to harness the power of people and technology for a better future.

Built on a foundation of over 45 years' experience, combined with world-leading vendor technologies, Data#3 is constantly evolving its solutions and services to enable its customers' success. Leveraging solutions such as cloud, modern workplace, security, data & analytics and connectivity, combined with Data#3's services across consulting, project services and managed services, Data#3 is delivering the digital future.

Listed on the ASX in 1997, Data#3 reported revenues of \$2.6 billion in FY23 and has more than 1,400 staff. Headquartered in Brisbane, it has facilities across 12 locations in Australia and Fiji.

We take pride in the fact that we are dedicated to contributing to the national economy, having a positive influence on the communities in which we work and reducing our impact on the environment. Contributing to the national economy includes paying our fair share of tax in Australia as well as other countries in which we conduct business.

In FY23 the group paid nearly \$56 million in taxes and duties to government authorities, with 99% of that paid here in Australia.

Note: When we say “we”, “us” or “our” we are referring to the Data#3 Board of Directors speaking on behalf of Data#3 Limited (ABN 31 010 545 267) and the companies it controlled during the year.

Tax strategy

As an enterprise listed on the Australian Stock Exchange, Data#3 is obligated to act in the best interests of its shareholders to maximise shareholder value and places great importance on risk management processes that aim to provide a level of comfort to its current and prospective shareholders to protect shareholder value. Our tax strategy seeks to ensure we

- comply with all relevant tax laws of each jurisdiction in which we operate
- meet all our tax obligations in accordance with the laws of each jurisdiction in which we operate, including lodging the tax returns and paying the correct amount of tax on time
- consider the financial and non-financial impacts of decisions when assessing tax positions and strategies
- have a reasonably certain position relating to all tax positions adopted
- never enter an arrangement for the main purpose of achieving a tax benefit.

We do not engage in aggressive tax planning strategies, and we do not use any “tax havens”. At all times we seek to have transparent and cooperative relationships with relevant tax authorities in Australia and other countries in which we may operate. Data#3 has a good working relationship with the ATO. The ATO has undertaken various tax risk reviews consistent with its approach to organisations of a similar size to Data#3, and we have approached these reviews in an open and cooperative manner.

Tax governance

Data#3 has adopted a structured and disciplined approach to risk management by developing and implementing a risk management framework in accordance with ISO 31000:2018 *Risk management – Principles and Guidelines*. We have a comprehensive corporate tax governance framework that sits within our overall risk management framework. The overall objective of our tax governance policy is to ensure income tax matters related to tax elections and/or decisions regarding tax treatments are appropriate and reviewed by third parties where necessary.

International related party dealings

Data#3 transacts approximately 99% of its business within Australia. We have one overseas office in Fiji, and we apply our tax strategies and governance policies as set out above to the business we conduct in Fiji.

Tax contribution

Summary of taxes paid in Australia

During FY23 we paid the following amounts of tax within Australia:

	\$'000
Australian corporate income tax	12,953
GST	28,563
Fringe benefits tax	541
Payroll tax	12,971
Duties	102
	55,130

Foreign taxes paid

For FY23 we paid the following amounts of tax to overseas jurisdictions:

	\$'000
Fiji – VAT	599
Other	80
	679

Income tax reconciliations

Reconciliation of accounting profit to income tax expense

The TTC requires a reconciliation of accounting profit to the income tax expense disclosed in Data#3’s financial statements for FY23. The reconciliation is set out below:

	\$'000
Accounting profit before income tax	53,234
Income tax calculated at the Australian tax rate: 30%	15,970
Tax effect of amounts which are not deductible in calculating taxable income:	
Non-deductible items	183
	16,153
Difference in overseas tax rates	(23)
Under provision in prior year	74
Income tax expense	16,204
	%
Effective tax rate (income tax expense as a percentage of profit before tax)	30.4

Reconciliation of income tax expense to income tax paid

The TTC also requires participants to disclose a reconciliation of the difference between income tax expense disclosed in the financial statements for FY23 and the actual tax paid in that year. The reconciliation is set out below:

	\$'000
Income tax expense	16,204
Balance of FY22 income tax liability paid in FY23	942
Balance of FY23 income tax liability to be paid	(4,159)
Balance of previous year assessment to be received	(190)
Underprovision of income tax expense in prior years	(74)
Temporary differences recognised in deferred tax expense	
Contract assets	(241)
Property and equipment	132
Right-of-use assets	757
Intangible assets	(307)
AASB 16 lease liabilities	(528)
Employee provisions	560
Other payables	(61)
Share-based payments	(162)
Other temporary differences	160
Income tax paid in FY23	13,033

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:

	Page
Operational review	8
Financial review	10
Operating results by functional area	11
Performance by region	13
Our strategy and plan for FY23	14

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 14 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 7.

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

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.

9. Directors (continued)

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

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.

Persons covered by this report

KKMP 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.

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.

11. Remuneration report – audited (continued)

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.

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	<u>Role</u>	<u>Base offer</u>	<u>Maximum offer</u>
	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	<u>FY23 offers</u> 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. <u>FY22 offers</u> 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. <u>FY21 offers</u> 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	<u>FY23 offers</u> 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. <u>FY22 offers</u> 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. <u>FY21 offers</u> 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.
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.

		<i>Fixed remuneration</i>							
		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. Chairman	2023	148,281	15,569	-	-	-	163,850	-	-
	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. Chief Executive Officer/MD	2023	628,983	25,292	272,233	2,000	237,301	1,165,809	43.7	60,140
	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. Executive General Manager	2023	372,590	25,292	198,495	2,000	143,484	741,861	46.1	13,911
	2022	350,000	23,568	193,642	2,000	161,056	730,266	48.6	27,472
Colledge, B.D. Executive General Manager	2023	436,832	25,292	259,099	2,000	143,484	866,707	46.4	26,787
	2022	392,000	23,568	266,732	2,000	161,056	845,356	50.6	12,515
Hill, B.I. (until 31/03/2023) Former Chief Financial Officer	2023	277,753	25,292	93,762	2,000	143,484	542,291	43.7	(41,922)
	2022	339,000	23,568	141,482	2,000	161,056	667,160	45.4	20,224
O’Riordan, C.E. (from 1/04/2023) Chief Financial Officer	2023	74,795	7,853	33,275	-	-	115,923	28.7	11,614
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.

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	Date of grant	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
	Number	Date	\$	\$	\$	%
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	Date of grant	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
	Number	Date	\$	\$	\$	%
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	Date of grant	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
	Number	Date	\$	\$	\$	%
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).

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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
Gary, 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

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).

11. Remuneration report – audited (continued)

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.

Name	FY23 incentives		FY22 incentives		FY21 incentives	
	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
Director

Brisbane
22 August 2023



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Brisbane, QLD 4001

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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



pitcher.com.au

Brisbane Sydney Newcastle Melbourne Adelaide Perth

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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			
Changes 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:			
<i>Items that may be reclassified to profit or loss</i>			
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.

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.

Corporate information

The financial report was authorised for issue in accordance with a resolution of the directors on 19 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.

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

Note 3. Revenue (continued)

- (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.

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
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

	2023 \$'000	2022 \$'000
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

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	2022
	\$'000	\$'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	2022
		\$'000	\$'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

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	Credit loss allowance	Past due but not impaired	Expected loss	Trade receivables	Credit loss allowance	Past due but not impaired
	%	\$'000	\$'000	\$'000	%	\$'000	\$'000	\$'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	2022
	\$'000	\$'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.

Note 9. Inventories

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

Note 11. Property and equipment

	2023	2022
	\$'000	\$'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.

	Leasehold improvements	Equipment	Total
	\$'000	\$'000	\$'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	2022
	\$'000	\$'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

	Software assets	Software assets	Internally generated software	Total
	\$'000	\$'000	\$'000	\$'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	Carrying amount at 30 June 2022	Reallocation of goodwill during FY23	Impairment recognised during FY23	Carrying amount at 30 June 2023
	\$'000	\$'000	\$'000	\$'000	\$'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).

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			2022		
	Current	Non-current	Total	Current	Non-current	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'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.

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% (FY22: 30%). Dividends declared will be franked at the rate of 30% (FY22: 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).

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

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.

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.

Note 19. Leases (continued)

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	2022
	\$'000	\$'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	Leases	Total
	\$'000	\$'000	\$'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		Equity	
	Higher/(lower)		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	Weighted average interest rate	Balance
	%	\$'000	%	\$'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

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%).

Note 21. Financial risk management (continued)

(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	2022
	\$'000	\$'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%).

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.

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.

Note 23. Related parties (continued)

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:		
<i>Items that may be reclassified to profit or loss</i>		
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 40.

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

Long-term employee benefits
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

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.

Note 26. Share-based payments (continued)

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).

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.

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 <i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current</i>	1 January 2024	1 July 2024
AASB 2021-2 and 2021-6 <i>Amendments to Australia Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates</i>	1 January 2023	1 July 2023
AASB 2021-5 <i>Amendments to Australia Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i>	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:

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 51 to 81 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
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.



Brisbane Sydney Newcastle Melbourne Adelaide Perth

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NIGEL FISCHER MARK NICHOLSON PETER CAMENZULI	JASON EVANS KYLIE LAMPRECHT NORMAN THURECHT	BRETT HEADRICK WARWICK FACE COLE WILKINSON	SMOEN CHUN JEREMY JONES TOM SPLATT	JAMES FIELD DANIEL COLWELL ROBYN COOPER	FELICITY CRIVSTON CHERYL MASON KIERAN WALLIS	MURRAY GRAHAM ANDREW ROBIN KAREN LEVINE	EDWARD FLETCHER ROBERT HUGHES
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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.	Our procedures included, amongst others:
Due to the quantum of transactions occurring near year-end, we have focused on this area as a key audit matter.	- 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.

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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.

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Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 35 to 45 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

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Pitcher Partners is a member of the global network of Baker Tilly International Limited, the members of which are separate and independent legal entities.

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

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.

Financial Calendar

2023

22 August Full year results announcement
15 September Record date for final dividend
29 September Final dividend payment
31 October Annual General Meeting

2024

15 February Half year results announcement
14 March Record date for interim dividend
28 March Interim dividend payment
30 June Year end

Corporate Directory

Corporate Head Office

Brisbane

Level 1
555 Coronation Drive
TOOWONG QLD 4066

P.O. Box 551
INDOOROPILLY QLD 4068

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

T: 1300 23 28 23

F: 1300 32 82 32

E: info@data3.com.au

W: www.data3.com.au

Registered Office

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Branch Offices

Sydney

Level 8
100 Arthur Street
NORTH SYDNEY NSW 2060

Melbourne

Level 4
55 Southbank Boulevard
SOUTHBANK VIC 3006

Canberra

Level 3
65 Canberra Avenue
GRIFFITH ACT 2603

Adelaide

Level 14
91 King William Street
ADELAIDE SA 5000

Perth

Level 1
11 Mounts Bay Road
PERTH WA 6000

Hobart

Level 7
39 Murray Street
HOBART TAS 7000

Suva, Fiji

Suva Business Centre
217 Victoria Parade
SUVA

Configuration and Integration Centres

Brisbane

59 Clinker Street
DARRA QLD 4076

Sydney

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RYDALMERE NSW 2116

Melbourne

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Helen Kob Drive
BRAESIDE VIC 3195

Other Contacts

Auditors

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Bankers

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Level 22
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SYDNEY NSW 2000

Share Registry

Link Market Services Limited
Level 21
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BRISBANE QLD 4000

Locked Bag A14
SYDNEY SOUTH NSW 1235
T: (02) 8280 7454
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E: registrars@linkmarketservices.com.au
W: www.linkmarketservices.com.au

ABN

Data#3 Limited
31 010 545 267

ACN

Data#3 Limited
010 545 267

ASX Code DTL



Data#3



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