

Appendix 4E

ASX Preliminary Final Report

| | |
|--------------------------------------|---------------------------------------|
| Name of entity | Data#3 Limited |
| ABN | 31 010 545 267 |
| Reporting period | Year ended 30 June 2021 (FY21) |
| Previous corresponding period | Year ended 30 June 2020 (FY20) |

Results for announcement to the market

| Results | | | | | \$ |
|---|----|-------|----|--|-----------------|
| Revenues from ordinary activities | up | 20.3% | to | | \$1,956,188,000 |
| Profit from ordinary activities after tax attributable to members | up | 7.5% | to | | \$25,414,000 |
| Net profit for the period attributable to members | up | 7.5% | to | | \$25,414,000 |

| Dividends | Amount per security | Franked amount per security |
|--------------------------------------|----------------------------|------------------------------------|
| Current period | | |
| Interim dividend | 5.5 cents | 5.5 cents |
| Final dividend | 9.5 cents | 9.5 cents |
| Previous corresponding period | | |
| Interim dividend | 5.1 cents | 5.1 cents |
| Final dividend | 8.8 cents | 8.8 cents |

The Record Date for determining entitlements to the dividend is 16 September 2021.

Brief explanation of the figures reported above

In a competitive and transforming technology market, Data#3 has achieved strong revenue and profit growth, delivering record FY21 results. The company has also continued to enhance its financial position through strong cash flow and diligent management of its balance sheet.

Please refer to the attached audited Annual Financial Report for FY21 for the following information:

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

Appendix 4E (continued)

for the year ended 30 June 2021

Retained profits

| | Current year \$'000 | Previous year \$'000 |
|---|------------------------|-------------------------|
| Retained profits at the beginning of financial period | 43,151 | 38,300 |
| Net profit attributable to members | 25,414 | 23,636 |
| Net transfers to and from reserves | - | - |
| Dividends provided for or paid | (22,018) | (18,785) |
| Other | 312 | - |
| Retained profits at end of financial period | 46,859 | 43,151 |

Additional dividend information

Details of dividends declared or paid during or subsequent to the year ended 30 June 2021 are as follows:

| Record date | Payment date | Type | Amount per security | Franked amount per security | Total dividend \$'000 |
|-------------|--------------|---------|---------------------|-----------------------------|-----------------------|
| 16/09/2020 | 30/09/2020 | Final | 8.8 cents | 8.8 cents | 13,550 |
| 17/03/2021 | 31/03/2021 | Interim | 5.5 cents | 5.5 cents | 8,468 |
| 16/09/2021 | 30/09/2021 | Final | 9.5 cents | 9.5 cents | 14,628 |

Total dividend per security (interim plus final)

| | Current year | Previous year |
|---------------------|--------------|---------------|
| Ordinary securities | 15.0 cents | 13.9 cents |

Data#3 Limited Dividend Reinvestment Plan

The Data#3 Dividend Reinvestment Plan has been suspended from 1 September 2006.

Net tangible assets per security

| | Current year | Previous year |
|--|--------------|---------------|
| Net tangible asset backing per ordinary security | \$0.26 | \$0.24 |

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

Control gained over entities having a material effect

Not applicable.

Loss of control of entities having a material effect

Not applicable.

Appendix 4E (continued)

for the year ended 30 June 2021

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

Not applicable.

Compliance with IFRS

The attached Annual Financial Report complies with Australian Accounting Standards, which include AIFRS. Compliance with AIFRS ensures that the financial report complies with International Financial Reporting Standards (IFRS).

Commentary on the results for the period

The results for FY21 reflect another record performance, with basic earnings per share increasing by 7.5% to 16.51 cents, and total fully franked dividends increasing by 7.9% to 15.0 cents per share.

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

Compliance statement

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

Signed:



Richard Anderson
Director

Date: 19 August 2021

Operating and Financial Review

Our strategy and plan for FY21

The fast moving and increasingly complex information technology industry continues to influence our customers' solutions in different ways. In addition, planning for FY21 was shaped by the uncertainty surrounding the impacts of the pandemic and the timing of a broad-based recovery.

While our plan for FY21 needed to remain flexible, we continued to deploy our skills and experience to transform the way organisations work, with investment in IT infrastructure, software and services forming an essential part of the Australian economic recovery. The plan also predicted that product margins would come under pressure, particularly in software, which we expected to be offset by increasing services margins. Consequently, we remained committed to our financial goal to deliver sustainable earnings growth.

To achieve our objectives in FY21 we continued to enhance the connection with our people, customers and business partners, and to drive greater efficiency and effectiveness across our operations.

The ongoing impacts of the pandemic

As the leading Australian IT solution provider, we continued to help our public sector and large corporate customers adapt to new ways of working. Our core business includes connectivity, collaboration, modern workplace, end-user computing, cloud and enterprise security offerings. These solutions have been, and continue to be, a high priority for our customers. We are also delighted to have achieved record high ratings in our annual customer satisfaction survey, which is an outstanding outcome in the challenging environment.

Following our own work-from-home switch in FY20, we have continued to monitor the developments throughout the year to ensure full compliance with guidelines issued by state and federal governments and health authorities. When feasible we introduced phased and partial 'return-to-office' plans in each location during FY21, which resulted in a flexible, hybrid working model operating effectively across most of our business. Staff productivity remained high throughout the year and our staff satisfaction reached record high levels with staff valuing the flexibility of a hybrid office-based and remote working model.

While digital transformation has remained high on our customers' business and technology agenda, their priorities have shifted during the past year. This resulted in larger transformation projects being put on hold in favour of remote working or collaboration projects (software, network infrastructure and end-user devices). The work-from-home revolution continued as organisations looked to achieve cost savings and improve productivity, and cyber security has remained a top priority for our customers. The first half of FY21 saw a high volume of largely transactional activity, with large integration-type projects typically put on hold. In the second half we experienced a return to a more normal mix of activity and projects, with some customers initiating larger scale projects aimed at transforming or reinventing their businesses.

During the year the global computer chip shortage had an increasing impact on the supply chains of our hardware vendor partners, with supply constraints experienced across the industry. This supply shortage coincided with an increase in demand for work-from-home devices. Our team has done an outstanding job managing these supply constraints and progressing our customers' projects. We also have excellent working relationships with our vendor partners to ensure we can take advantage of the opportunities this unique market dynamic is creating. We have actively lobbied to secure critical customer deliveries while managing their expectations.

These supply constraints were compounded by the spike in demand for devices traditionally experienced during the fourth quarter in line with customer procurement cycles. We ended FY21 with a significant backlog of orders that could not be delivered or invoiced. We estimate that approximately \$3 million of additional pre-tax profit would have been invoiced under normal circumstances. The profit associated with this backlog will be realised in FY22; however, supply constraints for various product sets are expected to continue in FY22.

Whole of group performance

Market conditions in both the public and private sectors improved during the second half of the year and saw our customers recommence their digital transformation projects, which helped drive growth in our core infrastructure, software and services businesses.

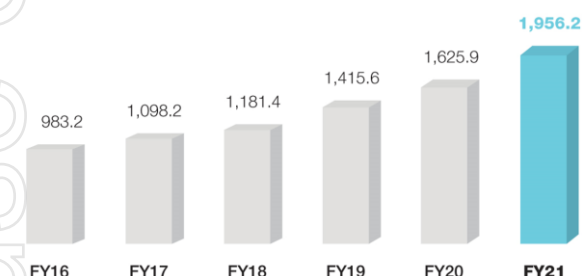
We are pleased with the full year performance of the consolidated Data#3 business, which delivered another record result despite the significant supply chain constraints and delays at year end outlined previously. The result clearly demonstrates the inherent strength and relevance of our solutions in an evolving market.

Operating and Financial Review (continued)

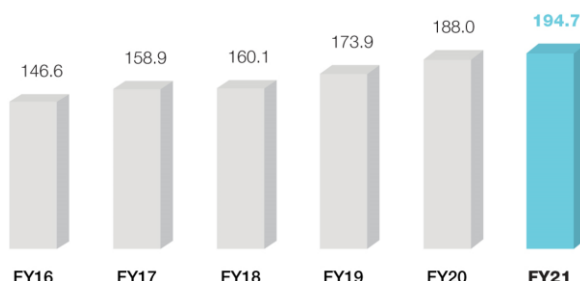
Total revenue increased by 20.3% from \$1,625.9 million to \$1,956.2 million, fuelled by the continued strong growth in public cloud revenues, which increased by 36.2% from \$581.0 million to \$791.6 million. Approximately 62% of our total revenue is recurring, derived from contracts with government and large corporate customers to fulfil their essential IT requirements. Each business unit except People Solutions grew revenue and increased market share, and revenue increased in all regions except Queensland and Fiji. Other revenue decreased from \$2.1 million to \$0.9 million, largely comprising interest revenue.

Total gross profit (excluding other revenue) increased by 3.6% from \$188.0 million to \$194.7 million, and total gross margin decreased from 11.6% to 10.0% due to changes in sales mix, with the strong growth in software licensing and public cloud revenues relative to services. As expected, increases in services margins offset the reduction in software margins.

Total revenue (\$M):



Total gross profit (\$M):



Internal staff costs increased by 3.4% from \$133.8 million to \$138.3 million due to headcount growth, with total staff numbers increasing by 7.2% from 1,206 to 1,293 over the year. Other than the headcount increases, staff costs remained unchanged during the year due to our decision to introduce a salary freeze in FY21 considering the many uncertainties at the beginning of the year. As confidence in the market increased during the year, we recruited new staff to increase our capacity, particularly in specialist and technical service areas.

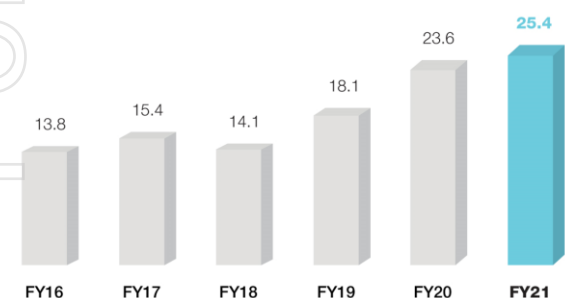
Other operating expenses decreased by 8.1% from \$22.2 million to \$20.4 million. This reflected a reduction in travel costs as a result of the pandemic, rent savings from the decommissioning of the Data#3 Cloud platform and a concerted effort to contain costs generally, partly offset by increased expense incurred on our Dynamics 365-based ERP replacement project.

The internal cost ratio (staff and operating expenses as a percentage of gross profit) decreased from 83.0% to 81.5%, demonstrating further improvement in operating leverage particularly in the services business units.

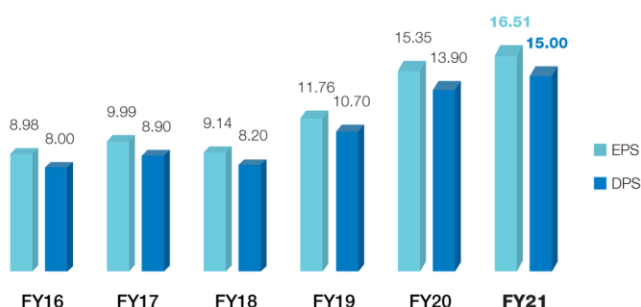
The group's total profit before tax increased by 8.4% from \$34.1 million to \$36.9 million, and profit after tax attributable to shareholders increased by 7.5% from \$23.6 million to \$25.4 million. This represented basic earnings per share of 16.51 cents, an increase of 7.5% from 15.35 cents in the previous year.

The board declared fully franked dividends of 15.0 cents per share for the full year, an increase of 7.9%, representing a payout ratio of 90.9%.

Profit after income tax (\$M):



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



Return on equity was 45.1% (FY20 45.2%).

Operating and Financial Review (continued)

Performance against strategic priorities

We have made steady progress against all our strategic objectives, as summarised below:

- **Solutions** – we 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 cloud, networks, end-user computing and security. We have continued to help our customers build their digital foundation and therefore enable scalable, robust, digital transformation. We have partnered with specialists for leading edge digital transformation projects and with specialist service providers to industry sectors – for example specialist cyber experts for the healthcare industry. We also continued to expand our solutions across the customer lifecycle, encompassing consulting, design, deployment and support services.
- **People and community** – we enhanced our employee value proposition that harnesses our ability to attract, develop and retain the best talent. In conjunction with our People Solutions business, we are preparing a talent sourcing strategy with a focus on the development and implementation of graduate recruitment, traineeships and industry placement programs. Our corporate social responsibility programs have built on the success of the internal SOUL initiative which underpins our community fundraising and volunteering efforts, and we have continued to enhance our environmental, social and governance initiatives. We are committed to a sustainable social responsibility framework that supports our business, customers, partners and other stakeholders.
- **Customer experience** – building on the customer success framework that was developed in FY20, we have focused on gaining competitive advantage utilising data and telemetry within our solutions for customers. This strategic priority is 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 have worked 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 customers.
- **Operational excellence** – we have continued to enhance our operational efficiency and gain greater leverage from our cost base, with a range of projects underway within the group. The most significant project is the implementation of our new ERP system, which is based on the Microsoft Dynamics 365 cloud platform. This project is expected to be completed in the third quarter of FY22. There are numerous other internal digital transformation projects that have been completed during the year that have improved our scalability, security and productivity.

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

People satisfaction

We ended FY21 with 1,293 people in the group, which includes a combination of permanent, contracted and casual staff. For the past 14 years we have surveyed our people's satisfaction, and the summary for FY21 was as follows:

- strong participation in the survey
- overall satisfaction score of 4.54 out of 5, an outstanding result that exceeded the previous year's record result of 4.49
- 98% of our people recommend Data#3 as an excellent company to work for, up from 95% last year.

Customer satisfaction

Our annual customer satisfaction survey produced a record high overall rating of 4.34 out of 5, up from 4.27 in FY20. 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.

Vendor relationships and external awards

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

Operating and Financial Review (continued)

In FY21 we achieved significant market share growth with each of these vendors, consolidating our position as their leading partner in the region. Our growth includes 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 only four organisations in Australia to attain. Many vendor certifications require considerable investment which limits the number of partners that are endorsed by the global vendors, further strengthening our competitive position.

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 are able to deliver a full breadth of services.

In addition to Microsoft, Cisco, HP and Dell, we work with several hundred other vendors to better serve our customers. 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. FY21 was no exception and we were pleased to have been acknowledged with the following awards and certifications:

- Australian Reseller News (ARN) Emerging Technologies – Digital Transformation
- Australian Reseller News (ARN) Partner Value Award – Enterprise
- Cisco Global Commercial Partner of the Year
- Cisco Marketing Partner of the Year
- Dell Technologies Cloud Partner Certification (the first in Australia / New Zealand)
- HP PC Partner of the Year
- Lenovo Platinum Reseller of the Year in the Data Centre Group Category
- Lenovo Technical Excellence for Australia
- Microsoft Azure Expert Managed Services Provider Certification
- Microsoft – global finalist of the 2021 OEM Device Reseller Partner of the Year
- Palo Alto Networks Growth Partner of the Year
- Schneider Electric APC Elite Partner of the Year
- Veeam Platinum Partner of the Year
- Women in Technology Partner of Choice

In addition to awards for our solutions or technical expertise, we are delighted to have received another HRD Employer of Choice Award. This is the sixth year in a row we have received an employer of choice award for organisations with more than 500 employees. This award is not limited to the Information Technology sector; it covers all industries and includes many multinational entries.

Balance sheet and cash flow

Our balance sheet remains very strong, with no borrowings.

The 30 June cash balance reflected the typical temporary cash surplus although this decreased from \$255.1 million to \$204.3 million as the prior year's surplus was unusually inflated by sizeable, early customer receipts prior to year end.

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 2021 were \$416.0 million and trade and other current payables \$560.9 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 decreased from 29.7 days to 27.7 days, well ahead of target and industry best practice. We believe this is an excellent result that clearly demonstrates the effectiveness of our ongoing focus on collections and credit management, which remain a priority with the ongoing pandemic-related challenges experienced by some of our customers.

Operating and Financial Review (continued)

Total inventory holdings decreased from \$21.2 million to \$13.9 million and comprise product held in our warehousing and configuration centres pending delivery to customers for projects that were in progress at year end.

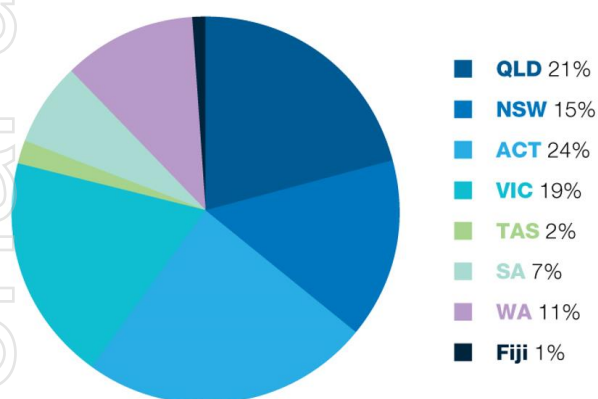
The net cash flow from operating activities was an outflow of \$22.7 million. As usual the operating cash flow and year-end cash balance were impacted by the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections before the end of June. These collections generate temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur. The net cash flow from operating activities was lower than the \$160.2 million inflow in the previous year due to the reversal of a higher than normal temporary cash surplus at 30 June 2020.

Irrespective of this fluctuation in the year-end cash position, cash conversion remains strong. The efficient management of working capital with a short or negative working capital cycle underpins our self-funding business model.

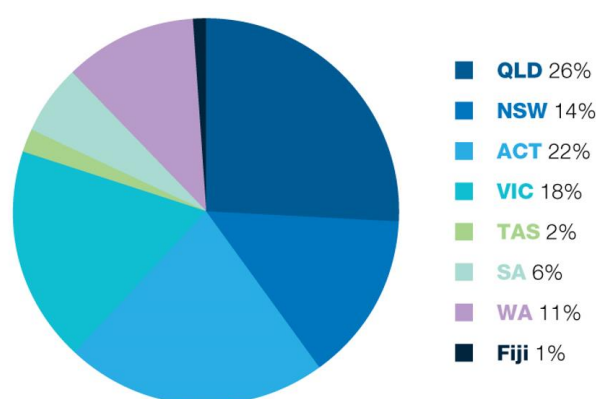
Operating results by region

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

FY21 Revenue split by region (Total \$1,955M):



FY20 Revenue split by region (Total \$1,624M):



Queensland

Queensland performed well for most of the year but was impacted with major delays in the supply of end-user devices (PCs) to public sector customers, resulting in a 2% decrease in FY21 revenue. If supply had been within normal parameters, Queensland would have seen single digit growth on FY20.

New South Wales

We have focused attention and investment in NSW and were pleased with the strong market gains and 27% revenue growth in FY21.

ACT

For two consecutive years the ACT has seen strong revenue growth across the business, achieving 33% growth in FY21.

Victoria

Despite Victoria being the most impacted region in FY21 with multiple lengthy lockdowns, our Victorian team responded well achieving a remarkable 28% growth in difficult circumstances.

Tasmania

Tasmania continued to deliver consistent revenue growth with a 6% increase in FY21.

South Australia

Strategically, we made excellent progress in SA with a significant increase in our managed services business. Overall SA achieved 29% growth.

Operating and Financial Review (continued)

Western Australia

WA was our fastest growing state in FY20, and the team followed up with a further 26% growth in FY21. Business Aspect consulting, Project Services and Infrastructure underpinned this strong WA growth.

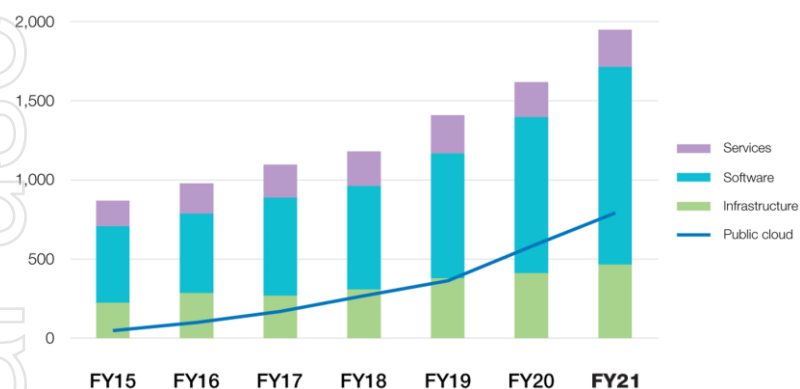
Fiji and the Pacific Islands

FY21 proved to be a difficult year for Fiji and the Pacific Islands. The pandemic has impacted the region economically as much of it relies on tourism. We finished the year with revenue 12% down on FY20.

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 and Discovery Technology operate independently but within the Data#3 group structure.

Revenue trend by functional area (\$M):



Software Solutions

Software Solutions achieved substantial revenue growth, increasing by 26.8% to \$1,248.5 million. The Software team helps customers maximise business value from their software investments through effective procurement, deployment, management and use. Many new customers and contracts were won during the year as we increased our leadership position in the Australian market. While the revenue gains were impressive, the margins are lower in large subscription-based agreements for big corporations and government. The opportunity in these new accounts is to sell across the Data#3 portfolio and extend the services within the solution lifecycle. This strategy is consistent with the increased emphasis by major global vendors to reward partners on customer success and the overall long-term customer experience.

The shift to public cloud offerings with subscription services for Microsoft Azure and Office 365 continued with solid annuity-based growth, and we continued to gain market share with new business wins.

Software Asset Management services and Licensing Consulting services remain very popular with customers and provide an important link between the customers' software licensing agreements and Data#3's Project and Support Services, which help with the deployment, adoption and management of the software.

Infrastructure Solutions

The Infrastructure Solutions business delivered solid growth with revenue increasing 13.0% to \$466.8 million, albeit with some margin pressure. The Infrastructure team helps customers maximise returns from their infrastructure investments across server, storage, networks and devices, and our team had the added challenge of managing global supply shortages of computer chips. The restricted supply impacted all vendors but was predominant in the end-user computing market, resulting in a significant backlog of orders that could not be delivered and therefore not invoiced at the year end.

Outside of these supply chain issues, the team grew the business and gained significant market share. The growth came from each of Data#3's focus areas of server, storage, networks and devices and was boosted by our customers' increasing investment in their own private cloud solutions. This trend included growth in hyper-converged infrastructure, which combines processing power, storage and networking in larger capacity systems. Networking demand remained strong as customers upgraded networks to connect to the public cloud and adopted software-defined networking that provides additional functionality and value over core networking hardware. End-user computing demand also remained strong as customers upgraded devices to connect to their own networks and public cloud.

Operating and Financial Review (continued)

Data#3 retained its position on the HP Global Partner Advisory Board and remained a member of the Cisco and Dell Advisory Boards for Asia Pacific. The company's relationships with its major global vendor partners at this level continues to be a significant differentiator.

Services

The Services function has a wide portfolio of services and capabilities:

- 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.

Our plan is to consistently improve the overall profitability of the services business units.

Project Services benefited from steady project activity, increasing revenues by 6.7% to \$63.4 million. The first half of FY21 saw more transactional activity with shorter projects in collaboration and security. In the second half of FY21, our customers started to reprioritise their projects towards larger infrastructure-related projects as part of their digital transformation agendas.

Support Services revenues increased by 11.0% to \$96.1 million. For the past three years we have invested in reinventing our managed services offerings, and pleasingly in FY21 have started to see a return on this investment with several new contract wins. We will continue to align our support services to the flow of work from our Project Services team. In addition, we will increasingly work more closely with our key vendors to provide complementary support services.

Following an extensive two-year transformation process across people, processes and systems, a rigorous audit assessment of controls and documentation and a host of additional prerequisite criteria, we attained the highest level of Microsoft Azure Managed Services Provider certification in early FY21. This certification places Data#3 amongst the elite ranks of Microsoft Azure Managed Services Providers globally.

People Solutions had a particularly challenging first half of FY21 due to the economic impacts of the pandemic. Pleasingly, the second half saw a return to more normal trading patterns for recruitment and contracting. Overall revenues decreased by 2.7% to \$57.3 million.

Business Aspect

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.

Following the decision to narrow the business unit's focus in FY20, Business Aspect consulting revenues increased by 9.3% to \$17.7 million. The business has achieved a significant profit turnaround with more predictable performance and substantial increase in profit contribution.

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

Discovery Technology

Data#3 increased its shareholding in Discovery Technology, which is predominantly a wi-fi network and wi-fi analytics business, from 77.4% to 100% during the year.

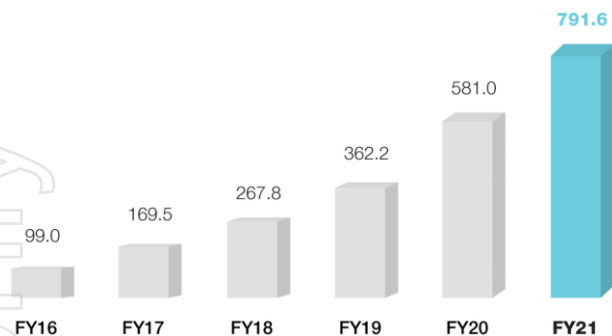
In FY21 we enhanced the integration between Discovery Technology and Data#3, improving its performance, with revenues increasing by 6.3% to \$5.4 million.

Cloud-based business

The major component of cloud services is the growing market segment of public cloud. In FY21 we grew public cloud-based revenues by 36.2% from \$581.0 million to \$791.6 million.

Operating and Financial Review (continued)

Public cloud revenue (\$M):



Data#3 is Microsoft's largest reseller in the region, and our cloud services strategy contains major elements of Microsoft's product offerings such as Azure, Office 365 and Dynamics 365. Microsoft is taking the lead in public cloud globally and locally, and we are in a prime position to capitalise on this growth. 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 hybrid 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 life cycle: 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.

Our strategy and plan for FY22

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

Our core purpose is to enable our customers' success.

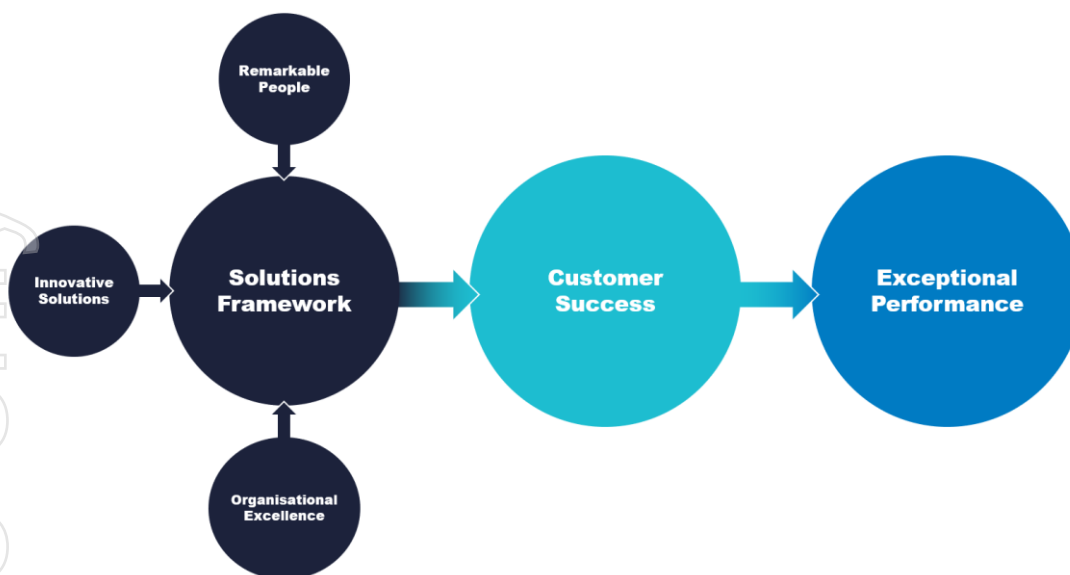
Acknowledging the transition that is continuing within our customers and in technology, our vision is to harness the power of people and technology for a better future.

Our values guide how we behave, and we continually reinforce these values in everything we do:



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

Operating and Financial Review (continued)



At the highest level, our plan is to deliver technology to support our customers' business objectives.

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



These solutions are delivered using our Customer Solutions Lifecycle (PDO²) methodology, comprising Position, Plan, Design, Deploy, Operate and Optimise phases.

Each customers' 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 FY22 include the following:

- **Security** – cyber security has been our customers' number one priority for the past three years, and our security practice has been one of our fastest growing areas in FY21. Building on the success of the security practice and our Business Aspect security consulting expertise, in FY22 we have consolidated our security focus under a unified executive leadership. Combining our security offerings across the group will allow us to grow more quickly than the market. In addition, our newly established security committee will continue to work on keeping our business safe from the growing cyber threat.
- **Solutions** – we will continue to enhance our solutions to adapt to changing market demands. We will seek to partner with specialists for leading edge digital transformation projects and with specialist service providers to industry sectors as we have done in healthcare and education. We will also continue to expand our solutions across the Customer Solutions Lifecycle, including consulting, design, deployment and then support services.
- **People and community** – our employee value proposition will continue to be enhanced so that we can attract, develop and retain the best talent. In conjunction with our People Solutions business, we will develop a talent sourcing strategy with a focus on the development and implementation of a graduate recruitment program, traineeships, and industry placements. We will do more work to benchmark ourselves against other ASX listed companies regarding environmental, social and governance initiatives as we strive to improve our performance in this important area. We are committed to a sustainable social responsibility framework that supports our business, customers, partners and other stakeholders.

Operating and Financial Review (continued)

- Customer experience – building on the success we have seen over the past two years, we will focus on gaining competitive advantage utilising data and telemetry within our solutions for customers. We plan to work jointly with our major vendors on embedding our data analysis into customer contracts and service level agreements.
- Operational excellence – FY22 will see the final implementation of our new ERP system based on the Microsoft Dynamics 365 platform. We are seeking to further improve our operational efficiency and gain greater leverage from our cost base. There are several automation projects underway within the group and while this requires some upfront investment, we expect to generate returns on those investments over the long-term.

Outlook

While many of the challenges we experienced in FY21 have continued into FY22, we are better placed to navigate our path to success. We have demonstrated that we can operate our business effectively by working remotely without disrupting service to our customers.

Our performance continues to be underpinned by our leading market position, unrivalled vendor relationships, long-term customer base and highly experienced and committed team.

We expect technology, and specifically digital transformation, to play the leading role in Australia's economic future, irrespective of any ongoing impacts of the pandemic. We are already seeing a return of larger infrastructure projects across our corporate and public sector customers.

The Australian IT market is predicted to grow at a record rate this year, and this will allow us to accelerate growth of our services businesses and further cement our leadership position. We are experiencing a steady increase in the pipeline of large integration project opportunities, and our services growth strategy will continue to improve our margins and complement our growing software and infrastructure business units.

The ongoing supply constraints caused by the global shortage of chips are predicted to continue for another 12 to 18 months, however we are well placed to deal with these challenges and opportunities by continuing to work closely with our customers and suppliers.

The backlog from FY21 has provided a fast start to FY22 and we are well positioned to capitalise on a growing market. At this stage we are unable to provide specific guidance or commentary on the FY22 outlook, however our goal remains to deliver sustainable earnings growth.

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 2021. 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 FY21 subsequent to year end | 9.5 | 14,628 |
| Dividends paid in the year: | | |
| Interim for FY21 | 5.5 | 8,468 |
| Final for FY20 | 8.8 | 13,550 |
| | 14.3 | 22,018 |

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 |
|--------------------------------------|------|
| Whole of group performance | 4 |
| Balance sheet and cash flow | 7 |
| Operating results by region | 8 |
| Operating results by functional area | 9 |
| Our strategy and plan for FY22 | 11 |

Directors' report (continued)

4. Business strategy

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

For more information on our business strategy please refer to page 11 of the attached Operating and Financial Review.

5. Earnings per share

| | 2021 Cents | 2020 Cents |
|----------------------------|---------------|---------------|
| Basic earnings per share | 16.51 | 15.35 |
| Diluted earnings per share | 16.43 | 15.30 |

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 FY21 subsequent to year end. No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect

- (a) the group's operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the group's state of affairs in future financial years.

8. Likely developments and expected results

Information on likely developments and expected results is included in the attached Operating and Financial Review on page 13.

9. Directors

The names and details of Data#3 Limited's directors are set out below. All directors were in office for the entire financial year and remain in office at the date of this report.

Names, qualifications, experience and special responsibilities

R A Anderson, OAM, BCom, FCA, FCPA (*Chairman, Non-executive Director*)

Independent non-executive director since 1997 and Chairman since 2000. Mr Anderson was formerly a partner with PricewaterhouseCoopers, the firm's Managing Partner in Queensland, and a member of the firm's National Committee. He was previously a member of the Capital Markets Board of Queensland Treasury Corporation and President of CPA Australia in Queensland.

During the past three years Mr Anderson has also served as a non-executive director of two other public companies: Namoi Cotton Limited (from 2001 to 2019) and Lindsay Australia Limited (since 2002). Mr Anderson is also president of Guide Dogs Queensland.

Special responsibilities:

Chairman of the board

Member of the audit and risk committee

Member of the remuneration and nomination committee

Directors' report (continued)

9. Directors (continued)

L C Baynham, BBus (Honours), FAICD (*Managing Director*)

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

M R Esler, FAICD (*Non-executive Director*)

Independent non-executive director since August 2019. Mr Esler has extensive experience in IT, first in a number of roles with IBM before joining the Data#3 group in 1984 as an executive director. Mr Esler served as an executive director of Data#3 Limited from 1997 to 2002, and performed senior management roles in Sales and Marketing, Operations and Supply Chain before retiring from his role as Queensland General Manager in 2014. Mr Esler has been actively involved in many IT-related forums and was a member of both the Asia Pacific and Worldwide Hewlett-Packard Global Partner Advisory Boards from 2011 until 2014. He has also been recognised as a 25-year Fellow of the Australian Institute of Company Directors.

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 and Tailored Superannuation Solutions and a non-executive director of the Royal Flying Doctor Service of Australia (Queensland Section and Foundation), Queensland Urban Utilities, genomiQa 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 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, Guide Dogs Queensland, Peak Services Holdings Pty Ltd, Peak Services Pty Ltd, Local Buy Pty Ltd (trading as Peak Services), Mayflower Enterprises Pty Ltd, and Hyne Timber Group companies, and she also served on the board of QInsure Limited until 31 December 2019.

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

Member of the remuneration and nomination committee

Directors' report (continued)

9. Directors (continued)

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 | 19 | 19 | 5 | 5 | 5 | 5 |
| L C Baynham | 19 | 19 | ** | ** | ** | ** |
| M R Esler | 19 | 19 | ** | ** | ** | ** |
| A M Gray | 19 | 19 | 5 | 5 | 5 | 5 |
| L M Muller | 19 | 19 | 5 | 5 | 5 | 5 |

* Number of meetings held during the time the director held office or was a member of the committee during the year.

** Not a member of the committee during the year.

10. Company secretary

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

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

11. Remuneration report – 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

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

| Name | Title |
|--------------------------|---|
| Directors: | |
| Richard Anderson | Chairman, Non-executive Director |
| Mark Gray | Non-executive Director |
| Leanne Muller | Non-executive Director |
| Mark Esler | Non-executive Director |
| Laurence Baynham | Managing Director/Chief Executive Officer |
| Other executives: | |
| Michael Bowser | Executive General Manager |
| Brad Colledge | Executive General Manager |
| Brem Hill | Chief Financial Officer |

Directors' report (continued)

11. Remuneration report – audited (continued)

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.

Directors' report (continued)

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 \$600,000 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 four 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.

Directors' report (continued)

11. Remuneration report – audited (continued)

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

| Feature | Description | | | | | | | | | | | | |
|---------------------------------|--|---------------------------------|------------|---------------|-----------------------|---------------------------------|---------------------------------|----------------------------|---------------------------------|---------------------------------|-------------------------|---------------------------------|---------------------------------|
| Purpose | <p>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; for the Managing Director/CEO and Executive General Manager roles the split is 70% financial and 30% non-financial. For the Chief Financial Officer role the split is 75% financial and 25% non-financial.</p> <p>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.</p> | | | | | | | | | | | | |
| Award opportunities | <table><tr><th>Role</th><th>Base offer</th><th>Maximum offer</th></tr><tr><td>Managing Director/CEO</td><td>49% of total fixed remuneration</td><td>67% of total fixed remuneration</td></tr><tr><td>Executive General Managers</td><td>60% of total fixed remuneration</td><td>83% of total fixed remuneration</td></tr><tr><td>Chief Financial Officer</td><td>39% of total fixed remuneration</td><td>53% of total fixed remuneration</td></tr></table> | Role | Base offer | Maximum offer | Managing Director/CEO | 49% of total fixed remuneration | 67% of total fixed remuneration | Executive General Managers | 60% of total fixed remuneration | 83% of total fixed remuneration | Chief Financial Officer | 39% of total fixed remuneration | 53% of total fixed remuneration |
| Role | Base offer | Maximum offer | | | | | | | | | | | |
| Managing Director/CEO | 49% of total fixed remuneration | 67% of total fixed remuneration | | | | | | | | | | | |
| Executive General Managers | 60% of total fixed remuneration | 83% of total fixed remuneration | | | | | | | | | | | |
| Chief Financial Officer | 39% of total fixed remuneration | 53% of total fixed remuneration | | | | | | | | | | | |
| Performance metrics | <p>For the financial component of the STI, the STI is earned based on the following:</p> <ul style="list-style-type: none">▪ 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. <p>For the non-financial component of the STI, the STI is earned based on the individual's achievement against personal performance objectives.</p> | | | | | | | | | | | | |
| Award determination and payment | <p>Financial component – calculated and paid subsequent to the end of each quarter.</p> <p>Non-financial component – calculated and paid subsequent to the end of each half year.</p> <p>Payments are made in cash net of PAYG withholding.</p> | | | | | | | | | | | | |
| Cessation of employment | <p>If the executive's employment is terminated for cause, all entitlements in relation to the measurement period are forfeited.</p> <p>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.</p> | | | | | | | | | | | | |
| Board discretion | <p>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.</p> | | | | | | | | | | | | |

Directors' report (continued)

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 | <p>The LTI plan from FY19 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.</p> <p>There is no entitlement to dividends during the measurement period.</p> |
| Award allocation | <p><u>FY21 offers</u> MD/CEO: \$160,000; Executive General Managers and 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.</p> <p><u>FY20 offers</u> MD/CEO: \$160,000; Executive General Managers and 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 FY19 audited financial statements to determine the number of performance rights granted.</p> <p><u>FY19 offers</u> MD/CEO: \$160,000; Executive General Managers and 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 FY18 audited financial statements to determine the number of performance rights granted.</p> |
| Measurement period | <p>Three years unless otherwise determined by the board.</p> <p>FY21 offers – Three years from 1 July 2020 to 30 June 2023</p> <p>FY20 offers – Three years from 1 July 2019 to 30 June 2022</p> <p>FY19 offers – Three years from 1 July 2018 to 30 June 2021</p> |
| Vesting conditions | <p>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.</p> <p>Performance rights that do not vest will lapse.</p> |
| Conversion of vested performance rights | <p><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.</p> <p><u>FY20 offers</u> Vested rights are settled via the issue of ordinary shares within 60 days following release of the FY22 financial report, except where the board exercises its discretion to settle in the form of cash.</p> <p><u>FY19 offers</u> Vested rights are settled via the issue of ordinary shares within 60 days following release of the FY21 financial report, except where the board exercises its discretion to settle in the form of cash.</p> |

Directors' report (continued)

11. Remuneration report – audited (continued)

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

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

Planned executive remuneration

Short-term incentives

In FY21 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 34% (FY20: 34%). In FY21 actual short-term bonuses as a proportion of planned short-term executive remuneration was 36% due to overachievement of profit-related performance metrics (FY20: 35%).

In FY21 the planned profit-related component represented 71% of the short-term bonuses (FY20: 71%). The balance of the short-term bonus is determined by performance against agreed non-financial objectives relevant to each individual.

Long-term incentives

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

Remuneration expenses for KMP

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

Directors' report (continued)

11. Remuneration report – audited (continued)

| | | Fixed remuneration | | | Variable remuneration | | | | |
|--|------|-----------------------------------|--|---------------------------------------|-----------------------------------|----------------------------|----------------------|-------------|-----------------------------|
| | | Cash salary and fees (e) \$ | Annual and long service leave (a) (e) \$ | Post-employment benefits (b) \$ | Short-term bonus (c) (e) \$ | Non- monetary (e) \$ | LTI (d) (f) \$ | Total \$ | Performance related % |
| Non-executive directors | | | | | | | | | |
| Anderson, R.A. | 2021 | 140,000 | - | 13,300 | - | - | - | 153,300 | - |
| Chairman | 2020 | 135,115 | - | 12,836 | - | - | - | 147,951 | - |
| Esler, M. R. (from 30/08/2019) | 2021 | 80,000 | - | 7,600 | - | - | - | 87,600 | - |
| | 2020 | 66,308 | - | 6,299 | - | - | - | 72,607 | - |
| Gray, A.M. | 2021 | 90,000 | - | 8,550 | - | - | - | 98,550 | - |
| | 2020 | 82,673 | - | 7,854 | - | - | - | 90,527 | - |
| Muller, L.M. | 2021 | 92,237 | - | 6,248 | - | - | - | 98,485 | - |
| | 2020 | 87,493 | - | 8,312 | - | - | - | 95,805 | - |
| Powell, W.T. (until 13/11/2019) | 2021 | - | - | - | - | - | - | - | - |
| | 2020 | 26,827 | - | 2,549 | - | - | - | 29,376 | - |
| Subtotals – non-executive directors | 2021 | 402,237 | - | 35,698 | - | - | - | 437,935 | - |
| | 2020 | 398,416 | - | 37,850 | - | - | - | 436,266 | - |
| Executive director | | | | | | | | | |
| Baynham, L.C. | 2021 | 531,000 | 31,300 | 21,694 | 289,886 | 2,000 | 158,421 | 1,034,301 | 43.3 |
| Chief Executive Officer/MD | 2020 | 531,000 | 4,165 | 21,003 | 280,732 | 761 | 297,406 | 1,135,067 | 50.9 |
| Other key management personnel | | | | | | | | | |
| Bowser, M.J. | 2021 | 319,300 | 20,010 | 21,694 | 214,722 | 2,000 | 152,822 | 730,548 | 50.3 |
| Executive General Manager | 2020 | 319,300 | 28,820 | 21,003 | 209,204 | 761 | 280,081 | 859,169 | 56.9 |
| Colledge, B.D. | 2021 | 380,732 | 4,849 | 21,694 | 260,970 | 2,000 | 152,822 | 823,067 | 50.3 |
| Executive General Manager | 2020 | 380,732 | (11,030) | 21,003 | 253,638 | 16,379 | 280,081 | 940,803 | 56.7 |
| Hill, B.I. | 2021 | 325,437 | 15,401 | 21,694 | 142,536 | 2,000 | 152,822 | 659,890 | 44.8 |
| Chief Financial Officer | 2020 | 325,437 | 9,570 | 21,003 | 135,865 | 761 | 280,081 | 772,717 | 53.8 |
| Subtotals – other key management personnel | 2021 | 1,025,469 | 40,260 | 65,082 | 618,228 | 6,000 | 458,466 | 2,213,505 | 48.6 |
| | 2020 | 1,025,469 | 27,360 | 63,009 | 598,707 | 17,901 | 840,243 | 2,572,689 | 55.9 |
| Totals – key management personnel | 2021 | 1,958,706 | 71,560 | 122,474 | 908,114 | 8,000 | 616,887 | 3,685,741 | 41.4 |
| | 2020 | 1,954,885 | 31,525 | 121,862 | 879,439 | 18,662 | 1,137,649 | 4,144,021 | 48.7 |

Directors' report (continued)

11. Remuneration report – audited (continued)

- (a) This is the change in accrued annual and long service leave and is measured in accordance with AASB 119 *Employee Benefits*. In FY20 annual leave was excluded; FY20 amounts have been restated to conform with the FY21 presentation. In FY20 long service leave was categorised as a long-term benefit, but the amounts have been recategorised as a short-term benefit, as all KMPs were presently entitled to them.
- (b) Post-employment benefits comprise statutory superannuation.
- (c) Short-term bonus is composed of STI.
- (d) From FY21 LTI solely comprises share-based incentives. In FY20 LTI comprised both cash and share-based incentives, as follows:

| Key Management Person | FY20 LTI | | |
|-----------------------|------------|-------------------|-------------|
| | Cash \$ | Share-based \$ | Total \$ |
| Baynham, L.C. | 184,927 | 112,479 | 297,406 |
| Bowser, M.J. | 170,328 | 109,753 | 280,081 |
| Colledge, B.D. | 170,328 | 109,753 | 280,081 |
| Hill, B.I. | 170,328 | 109,753 | 280,081 |
| | 695,911 | 441,738 | 1,137,649 |

- (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. 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 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.
- The LTI granted in FY19 was 98,160 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY18 was \$380,000, 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 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.
- The LTI granted in FY19 was 92,025 performance rights, subject to vesting at the end of three years.
- The LTI granted in FY18 was \$350,000, subject to vesting at the end of three years.
- Termination notice of three months is required.

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

Directors' report (continued)

11. Remuneration report – audited (continued)

Share-based LTI compensation

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 | FY21 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 | 4.4 |
| Bowser, M.J. | 25,790 | 12/11/2020 | 5.01 | 129,208 | 43,069 | 5.9 |
| Colledge, B.D. | 25,790 | 12/11/2020 | 5.01 | 129,208 | 43,069 | 5.2 |
| Hill, B.I. | 25,790 | 12/11/2020 | 5.01 | 129,208 | 43,069 | 6.5 |
| | 104,880 | | | 525,449 | 175,149 | 5.4 |

FY20 grants

Performance rights were granted to key management personnel as compensation during FY20 for no consideration as follows:

| Key management person | Performance rights granted | Date of grant | Fair value per right | Fair value of rights | FY21 employee benefits expense of FY20 rights | FY21 rights expense as a percentage of KMP's total remuneration |
|-----------------------|----------------------------|---------------|----------------------|----------------------|---|---|
| | Number | Date | \$ | \$ | \$ | % |
| Baynham, L.C. | 65,574 | 13/11/2019 | 3.17 | 207,865 | 69,289 | 6.7 |
| Bowser, M.J. | 61,475 | 21/10/2019 | 3.38 | 207,786 | 69,262 | 9.5 |
| Colledge, B.D. | 61,475 | 21/10/2019 | 3.38 | 207,786 | 69,262 | 8.4 |
| Hill, B.I. | 61,475 | 21/10/2019 | 3.38 | 207,786 | 69,262 | 10.5 |
| | 249,999 | | | 831,223 | 277,075 | 8.5 |

FY19 grants

Performance rights were granted to key management personnel as compensation during FY19 for no consideration as follows:

| Key management person | Performance rights granted | Date of grant | Fair value per right | Fair value of rights | FY21 employee benefits expense of FY19 rights | FY21 rights expense as a percentage of KMP's total remuneration |
|-----------------------|----------------------------|---------------|----------------------|----------------------|---|---|
| | Number | Date | \$ | \$ | \$ | % |
| Baynham, L.C. | 98,160 | 31/12/2018 | 1.32 | 129,571 | 43,190 | 4.2 |
| Bowser, M.J. | 92,025 | 31/12/2018 | 1.32 | 121,473 | 40,491 | 5.5 |
| Colledge, B.D. | 92,025 | 31/12/2018 | 1.32 | 121,473 | 40,491 | 4.9 |
| Hill, B.I. | 92,025 | 31/12/2018 | 1.32 | 121,473 | 40,491 | 6.1 |
| | 374,235 | | | 493,990 | 164,663 | 5.1 |

At 30 June 2021 and the date of this report all the performance rights granted in FY21, FY20 and FY19 were outstanding, and the FY19 grants have vested and will be settled via the issue of ordinary shares following the release of the FY21 financial report.

No rights or options lapsed during the year (FY20: nil), and no rights or options were exercised during the year (FY20: nil).

Directors' report (continued)

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 1 July 2019 | Other changes* | Balance 30 June 2020 | Other changes* | Balance 30 June 2021 |
|--|------------------------|-------------------|-------------------------|-------------------|-------------------------|
| Directors: | | | | | |
| Anderson, R.A. | 650,000 | - | 650,000 | 10,000 | 660,000 |
| Baynham, L.C. | 491,095 | (388,900) | 102,195 | 34,396 | 136,591 |
| Esler, M.R. (from 30/08/2019) ⁽¹⁾ | - | 2,814,330 | 2,814,330 | - | 2,814,330 |
| Gray, A.M. | - | - | - | 6,000 | 6,000 |
| Muller, L.M. | 50,000 | - | 50,000 | - | 50,000 |
| Powell, W.T. (until 13/11/2019) ⁽¹⁾ | 3,017,634 | (3,017,634) | - | - | - |
| Other executives: | | | | | |
| Bowser, M.J. | 132,385 | 11,100 | 143,485 | 31,668 | 175,153 |
| Colledge, B.D. | 218,671 | 11,100 | 229,771 | 31,668 | 261,439 |
| Hill, B.I. | 432,385 | 11,100 | 443,485 | 31,668 | 475,153 |
| | 4,992,170 | (558,904) | 4,433,266 | 145,400 | 4,578,666 |

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

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

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 FY21 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 |
| FY21 | 1,956,188 | 25,414 | 16.51 | 5.610 | 14.30 | 121.30 |
| FY20 | 1,625,941 | 23,636 | 15.35 | 4.540 | 12.20 | 254.20 |
| FY19 | 1,415,569 | 18,112 | 11.76 | 2.120 | 10.20 | 62.20 |
| FY18 | 1,181,411 | 14,078 | 9.14 | 1.600 | 7.15 | (5.35) |
| FY17 | 1,098,221 | 15,375 | 9.99 | 1.725 | 8.85 | 76.35 |

* calculated as the share price increase 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 2016 the group's net profit has grown at an average compounded rate of 12.9% per year, the average executive remuneration has increased by an average compounded rate of 1.2% per year and total shareholder return increased by an average compounded rate of 56.2%. 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 introduction of the equity-based LTI during FY19 ensures significant focus is maintained on the group's long-term performance, as each year's LTI offering is subject to three-year vesting.

Directors' report (continued)

11. Remuneration report – audited (continued)

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. | 106% | 0% |
| Bowser, M.J. | 106% | 0% |
| Colledge, B.D. | 106% | 0% |
| Hill, B.I. | 106% | 0% |

Remuneration in FY21 reflected overachievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY20: overachievement).

Long-term incentives

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

| Name | FY21 incentives | | FY20 incentives | | FY19 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 FY21 (FY20: fully met).

For the LTI share rights granted in FY19, the cumulative three-year basic EPS target was a minimum 28.1 cents and a maximum 34.8 cents. The actual cumulative three-year basic EPS achieved was 43.6 cents.

2020 Annual General Meeting

We received a 98.2% vote in support of the adoption of our Remuneration Report for the 2020 financial year.

Other transactions with key management personnel

There were no transactions during FY21 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.

External remuneration consultant advice

The company engaged an independent remuneration consultant ("the indelible link") in FY21 to review KMP remuneration and the operation and scope of the long-term incentive plan. To ensure the advice was free from undue influence from the KMP that benefit from the remuneration, the company followed these policies and procedures:

- KMP remuneration recommendations may only be received from consultants who have been approved by the board. Before such approval is given and before each engagement, the board ensures the consultant is independent of KMP.
- KMP remuneration recommendations are only received by non-executive directors.
- The board controls engagements relating to remuneration recommendations and, while allowing interactions between management and the consultant, requires that the consultant report directly to the board.

The board is satisfied that the remuneration recommendations received were free from undue influence from KMP to whom the recommendations related because the board adhered to the policies set out above.

This is the end of the audited remuneration report.

Directors' report (continued)

12. Shares under option

We have no unissued ordinary shares under option at the date of this report. No share options were granted or exercised during the financial year and up to the date of this report. Refer to section 11 above for information in relation to performance rights.

13. Indemnification and insurance of directors and officers

During the financial year, we paid a premium of \$132,000 to insure the directors and members of the executive management team against any liability incurred by them in their capacity as officers, unless the liability arises out of conduct involving a lack of good faith. Our executive officers are also indemnified against any liability for costs and expenses incurred in defending civil or criminal proceedings involving them as such officers if judgement is given in their favour or if they are acquitted or granted relief.

14. Environmental regulation and performance

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

15. Rounding

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

16. 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 FY21. 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:

| | 2021 \$ | 2020 \$ |
|---|------------|------------|
| Audit and other assurance services | | |
| Audit and review of financial statements | 167,000 | 164,000 |
| Non-audit services | | |
| Tax compliance services | 26,640 | 27,251 |
| Other business advice | 900 | - |
| | 27,540 | 27,251 |
| Total remuneration | 194,540 | 191,251 |

Directors' report (continued)

17. Auditor independence and non-audit services (continued)

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
19 August 2021

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

Auditor's Independence Declaration

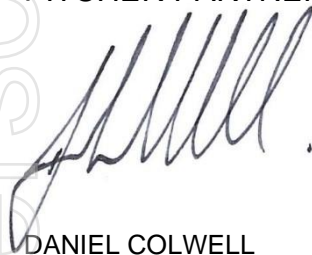
In relation to the independent audit for the year ended 30 June 2021, to the best of my knowledge and belief there have been:

- (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



DANIEL COLWELL
Partner

Brisbane, Queensland
19 August 2021

Brisbane Sydney Newcastle Melbourne Adelaide Perth



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NORMAN THURECHT

BRETT HEADRICK
WARWICK FACE

COLE WILKINSON
SIMON CHUN

JEREMY JONES
TOM SPLATT

JAMES FIELD
DANIEL COLWELL

ROBYN COOPER
FELICITY CRIMSTON

CHERYL MASON
KIERAN WALLIS

MURRAY GRAHAM
ANDREW ROBIN

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Consolidated statement of profit or loss

for the year ended 30 June 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|---|-------|----------------|----------------|
| Revenue | | | |
| Revenue from contracts with customers | 3 | 1,955,247 | 1,623,841 |
| Other revenue | 3 | 941 | 2,100 |
| | | 1,956,188 | 1,625,941 |
| Expenses | | | |
| Change in inventory | | (7,286) | 14,245 |
| Purchase of goods | | (1,593,258) | (1,295,148) |
| Employee and contractor costs directly on-charged (cost of sales on services) | | (74,629) | (75,484) |
| Other cost of sales on services | | (85,328) | (79,475) |
| Internal employee and contractor costs | | (138,346) | (133,821) |
| Telecommunications | | (2,287) | (2,259) |
| Rent | | (2,033) | (2,933) |
| Travel | | (180) | (1,460) |
| Professional fees | | (1,028) | (858) |
| Depreciation and amortisation | 4 | (5,172) | (4,905) |
| Finance costs | 4 | (1,444) | (1,146) |
| Other | | (8,254) | (8,631) |
| | | (1,919,245) | (1,591,875) |
| Profit before income tax expense | | 36,943 | 34,066 |
| Income tax expense | 5 | (11,540) | (10,338) |
| Profit for the year | | 25,403 | 23,728 |
| Profit for the year is attributable to | | | |
| Owners of Data#3 Limited | | 25,414 | 23,636 |
| Non-controlling interests | | (11) | 92 |
| | | 25,403 | 23,728 |
| Earnings per share for profit attributable to the ordinary equity holders of the company: | | Cents | Cents |
| Basic earnings per share | 16 | 16.51 | 15.35 |
| Diluted earnings per share | 16 | 16.43 | 15.30 |

The accompanying notes form part of these financial statements.

Consolidated statement of other comprehensive income

for the year ended 30 June 2021

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Profit for the year | 25,403 | 23,728 |
| Other comprehensive income, net of tax: | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | (859) | 202 |
| Total comprehensive income | 24,544 | 23,930 |
| Profit and comprehensive income is attributable to: | | |
| Owners of Data#3 Limited | 24,555 | 23,838 |
| Non-controlling interests | (11) | 92 |
| | 24,544 | 23,930 |

The accompanying notes form part of these financial statements.

Consolidated balance sheet

as at 30 June 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|--|-------|----------------|----------------|
| Current assets | | | |
| Cash and cash equivalents | 6 | 204,323 | 255,147 |
| Trade and other receivables | 7 | 415,991 | 256,247 |
| Contract assets | 8 | 3,355 | 4,856 |
| Inventories | 9 | 13,872 | 21,158 |
| Other | 10 | 4,018 | 4,462 |
| Total current assets | | 641,559 | 541,870 |
| Non-current assets | | | |
| Trade and other receivables | 7 | 2,336 | 3,686 |
| Property and equipment | 11 | 3,375 | 4,495 |
| Right-of-use assets | 19 | 25,698 | 17,533 |
| Deferred tax assets | 5 | 5,898 | 4,632 |
| Intangible assets | 12 | 15,959 | 15,222 |
| Total non-current assets | | 53,266 | 45,568 |
| Total assets | | 694,825 | 587,438 |
| Current liabilities | | | |
| Trade and other payables | 13 | 560,865 | 464,911 |
| Contract liabilities | 14 | 39,312 | 36,455 |
| Lease liabilities | 19 | 2,761 | 2,396 |
| Current tax liabilities | | 1,327 | 4,652 |
| Provisions | 15 | 6,095 | 6,025 |
| Total current liabilities | | 610,360 | 514,439 |
| Non-current liabilities | | | |
| Trade and other payables | 13 | 614 | 1,415 |
| Lease liabilities | 19 | 24,105 | 15,857 |
| Provisions | 15 | 3,441 | 3,017 |
| Total non-current liabilities | | 28,160 | 20,289 |
| Total liabilities | | 638,520 | 534,728 |
| Net assets | | 56,305 | 52,710 |
| Equity | | | |
| Contributed equity | 18 | 8,278 | 8,278 |
| Share-based payments reserve | 26 | 1,825 | 606 |
| Foreign currency translation reserve | | (657) | 202 |
| Retained earnings | | 46,859 | 43,151 |
| Equity attributable to owners of Data#3 Limited | | 56,305 | 52,237 |
| Non-controlling interests | 23 | - | 473 |
| Total equity | | 56,305 | 52,710 |

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2021

Attributable to owners of Data#3 Limited

| | | Contributed equity | Share- based payment reserve | Foreign currency translation reserve | Retained earnings | Total | Non- controlling interests | Total shareholders' equity |
|--|-------|-----------------------|---------------------------------------|---|----------------------|----------|----------------------------------|----------------------------------|
| | Notes | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2019 | | 8,278 | 165 | - | 38,300 | 46,743 | 381 | 47,124 |
| Profit (loss) for the year | | - | - | - | 23,636 | 23,636 | 92 | 23,728 |
| Other comprehensive income, net of tax | | - | - | 202 | - | 202 | - | 202 |
| Total comprehensive income | | - | - | 202 | 23,636 | 23,838 | 92 | 23,930 |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Payment of dividends | 17 | - | - | - | (18,785) | (18,785) | - | (18,785) |
| Employee share schemes – value of employee services | 26 | - | 441 | - | - | 441 | - | 441 |
| Balance at 30 June 2020 | | 8,278 | 606 | 202 | 43,151 | 52,237 | 473 | 52,710 |
| Profit (loss) for the year | | - | - | - | 25,414 | 25,414 | (11) | 25,403 |
| Other comprehensive income, net of tax | | - | - | (859) | - | (859) | - | (859) |
| Total comprehensive income | | - | - | (859) | 25,414 | 24,555 | (11) | 24,544 |
| Transactions with owners in their capacity as owners: | | | | | | | | |
| Payment of dividends | 17 | - | - | - | (22,018) | (22,018) | - | (22,018) |
| Acquisition of non- controlling interest | 23 | - | - | - | 312 | 312 | (462) | (150) |
| Employee share schemes – value of employee services | 26 | - | 1,219 | - | - | 1,219 | - | 1,219 |
| Balance at 30 June 2021 | | 8,278 | 1,825 | (657) | 46,859 | 56,305 | - | 56,305 |

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2021

| | Notes | 2021 \$'000 | 2020 \$'000 |
|--|-------|----------------|----------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 2,013,332 | 1,806,975 |
| Payments to suppliers and employees (inclusive of GST) | | (2,002,883) | (1,606,196) |
| GST paid | | (16,972) | (30,742) |
| Interest received | | 762 | 1,153 |
| Interest and other borrowing costs paid | | (1,400) | (1,067) |
| Income tax paid (net of refunds) | | (15,530) | (9,909) |
| Net cash inflow (outflow) from operating activities | 6 | (22,691) | 160,214 |
| Cash flows from investing activities | | | |
| Payments for property and equipment | 11 | (18) | (3,090) |
| Payments for software assets | 12 | (1,904) | (846) |
| Payment for purchase of minority interest | 23 | (150) | - |
| Net cash (outflow) from investing activities | | (2,072) | (3,936) |
| Cash flows from financing activities | | | |
| Payment of dividends | 17 | (22,018) | (18,785) |
| Lease liability payments | 19 | (3,190) | (3,746) |
| Net cash (outflow) from financing activities | | (25,208) | (22,531) |
| Net increase/(decrease) in cash and cash equivalents held | | (49,971) | 133,747 |
| Cash and cash equivalents, beginning of financial year | | 255,147 | 121,198 |
| Effect of exchange rate changes on cash and cash equivalents | | (853) | 202 |
| Cash and cash equivalents, end of financial year | 6 | 204,323 | 255,147 |

The accompanying notes form part of these financial statements.

Notes to consolidated financial statements (continued)

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 2020. Please refer to Note 1 for further information.

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 2021. 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 or revised accounting standards on 1 July 2020:

- AASB 2018-6 *Amendments to Australian Accounting Standards – Definition of a Business*
- AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*
- AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*
- AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*
- AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*

The adoption of the new or revised accounting standards had no material effect on the consolidated financial statements for FY21.

Notes to consolidated financial statements (continued)

Note 2. Segment information

Our business is conducted primarily in Australia. Our management team makes financial decisions and allocates resources based on the information it receives from our internal management system. We attribute sales to an operating segment based on the type of product or service provided to the customer. Revenue from customers domiciled in Australia comprised 99% of external sales for FY21 (FY20: 99%).

The sale of product and services is highly integrated into the IT solutions that each of our business units deliver 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 | 2021 \$'000 | 2020 \$'000 |
|---|------------------|------------------|
| Infrastructure Solutions (a) | 466,776 | 412,972 |
| Software Solutions (b) | 1,248,546 | 984,703 |
| Business Aspect (c) | 17,704 | 16,200 |
| Project Services (d) | 63,417 | 59,430 |
| Support Services (e) | 96,115 | 86,589 |
| People Solutions (f) | 57,285 | 58,864 |
| Discovery Technology (g) | 5,404 | 5,083 |
| Total revenue from contracts with customers | 1,955,247 | 1,623,841 |
| Other revenue | | |
| Interest | 723 | 1,133 |
| Other recoveries | 218 | 967 |
| | 941 | 2,100 |
| Total revenue | 1,956,188 | 1,625,941 |

- (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 (100% owned by Data#3 from 12 November 2020) provides wi-fi analytic services and wi-fi infrastructure. (FY20: 77.4%)

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 can include software licenses.

Notes to consolidated financial statements (continued)

Note 3. Revenue (continued)

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

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Depreciation and amortisation of property and equipment (Note 11) | 1,116 | 1,195 |
| Depreciation of right-of-use assets (Note 19) | 3,764 | 3,374 |
| Amortisation of intangibles (Note 12) | | |
| Amortisation of software | 292 | 286 |
| Amortisation of software - recorded in cost of sales | 875 | 874 |
| Amortisation of customer relationships | - | 50 |
| | 1,167 | 1,210 |
| | 6,047 | 5,779 |
| Employee benefits expense | 127,580 | 123,936 |
| Termination benefits expense | 570 | 825 |
| Defined contribution superannuation expense (a) | 13,568 | 13,785 |
| Other charges against assets | | |
| Impairment of trade receivables (Note 7(b)) | 141 | 652 |
| Finance costs | | |
| Interest on lease liabilities (Note 19) | 1,236 | 794 |
| Other interest and finance charges paid/payable | 164 | 273 |
| Unwinding of discount on provisions and other payables | 44 | 79 |
| | 1,444 | 1,146 |

Notes to consolidated financial statements (continued)

Note 4. Expenses (continued)

(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

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| The major components of income tax expense are | | |
| Current income tax expense | 11,683 | 11,599 |
| Deferred income tax relating to the origination and reversal of temporary differences | (495) | (1,229) |
| Adjustments for current tax of prior years | 352 | (32) |
| Income tax expense | 11,540 | 10,338 |
| 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 | 36,943 | 34,066 |
| Income tax calculated at the Australian tax rate: 30% (FY20: 30%) | 11,083 | 10,220 |
| Tax effect of amounts which are not deductible in calculating taxable income: | | |
| Non-deductible items | 122 | 313 |
| | 11,205 | 10,533 |
| Difference in overseas tax rates | (17) | (163) |
| Under/(over) provision in prior year | 352 | (32) |
| Income tax expense | 11,540 | 10,338 |
| | % | % |
| Effective tax rate (income tax expense as a percentage of profit before tax) | 31.2 | 30.3 |
| We paid income taxes (net of refunds in relation to the prior year, if any) of \$15,530,000 during FY21 (FY20: \$9,909,000). | | |
| Deferred income tax assets and liabilities are attributable to the following temporary differences: | \$'000 | \$'000 |
| Lease liabilities | 8,060 | 5,475 |
| Accrued liabilities | 2,761 | 2,275 |
| Provisions | 2,970 | 2,951 |
| Depreciation | 249 | 964 |
| Share-based payments | 969 | - |
| Other | 194 | 331 |
| Total deferred tax assets | 15,203 | 11,996 |

Notes to consolidated financial statements (continued)

Note 5. Income tax (continued)

| | 2021 \$'000 | 2020 \$'000 |
|--------------------------------|----------------|----------------|
| Right-of-use assets | (7,709) | (5,260) |
| Intangible assets | (199) | (253) |
| Contract assets | (1,098) | (1,475) |
| Other | (299) | (376) |
| Total deferred tax liabilities | (9,305) | (7,364) |
| Net deferred tax assets | 5,898 | 4,632 |

Movements in deferred tax assets are as follows:

| | Lease liabilities \$'000 | Accrued liabilities \$'000 | Provisions \$'000 | Lease incentive liabilities \$'000 | Depreciation \$'000 | Share- based payments \$'000 | Other \$'000 | Total \$'000 |
|--------------------------------|--------------------------------|----------------------------------|----------------------|---|------------------------|---------------------------------------|-----------------|-----------------|
| Balance at 1 July 2019 | 3,891 | 1,818 | 2,736 | 4 | 1,245 | - | 453 | 10,147 |
| (Charged)/credited | | | | | | | | |
| - to profit or loss | 1,584 | 440 | 236 | (4) | (279) | - | (45) | 1,932 |
| - to current tax liability | - | 17 | (21) | - | (2) | - | (77) | (83) |
| Balance at 30 June 2020 | 5,475 | 2,275 | 2,951 | - | 964 | - | 331 | 11,996 |
| (Charged)/credited | | | | | | | | |
| - to profit or loss | 2,585 | 486 | 19 | - | (698) | 185 | (136) | 2,441 |
| - to current tax liability | - | - | - | - | (17) | 182 | (1) | 164 |
| - to equity | - | - | - | - | - | 602 | - | 602 |
| Balance at 30 June 2021 | 8,060 | 2,761 | 2,970 | - | 249 | 969 | 194 | 15,203 |

Movements in deferred tax liabilities are as follows:

| | Right-of-use assets \$'000 | Intangible assets \$'000 | Lease incentive assets \$'000 | Contract assets \$'000 | Other \$'000 | Total \$'000 |
|--------------------------------|----------------------------------|--------------------------------|--|------------------------------|-----------------|-----------------|
| Balance at 1 July 2019 | (3,512) | (282) | (3) | (2,498) | (576) | (6,871) |
| (Charged)/credited | | | | | | |
| - to profit or loss | (1,748) | 29 | 18 | 1,018 | 200 | (483) |
| - to current tax liability | - | - | (15) | 5 | - | (10) |
| Balance at 30 June 2020 | (5,260) | (253) | - | (1,475) | (376) | (7,364) |
| (Charged)/credited | | | | | | |
| - to profit or loss | (2,450) | 54 | - | 377 | 73 | (1,946) |
| - to current tax liability | 1 | - | - | - | 4 | 5 |
| Balance at 30 June 2021 | (7,709) | (199) | - | (1,098) | (299) | (9,305) |

Notes to consolidated financial statements (continued)

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 (FY20: nil).

Notes to consolidated financial statements (continued)

Note 6. Cash and cash equivalents

| | 2021 \$'000 | 2020 \$'000 |
|--------------------------|----------------|----------------|
| Cash at bank and on hand | 30,309 | 29,133 |
| Deposits at call | 174,014 | 226,014 |
| | 204,323 | 255,147 |

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 | 2021 \$'000 | 2020 \$'000 |
|---|-------|----------------|----------------|
| Profit for the year | | 25,403 | 23,728 |
| Loss on disposal of property, equipment and software | | 22 | 881 |
| Depreciation and amortisation | 4 | 6,047 | 5,779 |
| Unwinding of discount on provisions | 4 | 44 | 79 |
| Bad and doubtful debts | 4 | 141 | 652 |
| Excess and obsolete inventory | | 110 | 38 |
| Non-cash employee benefits expense – share-based payments | 26 | 617 | 441 |
| Other | | (96) | (30) |
| Change in operating assets and liabilities | | | |
| Decrease/(increase) in receivables and contract assets | | (157,035) | 36,163 |
| Decrease/(increase) in inventories | | 7,176 | (14,283) |
| Decrease in other operating assets | | 444 | 2,574 |
| (Increase) in net deferred tax assets ⁽¹⁾ | | (664) | (1,356) |
| Increase in payables | | 95,156 | 109,724 |
| Increase/(decrease) in contract liabilities | | 2,857 | (5,921) |
| (Decrease) in other operating liabilities | | (500) | (315) |
| Increase/(decrease) in current tax liabilities | | (3,325) | 1,784 |
| Increase in provision for employee benefits | | 912 | 276 |
| Net cash inflow (outflow) from operating activities | | (22,691) | 160,214 |

⁽¹⁾ For FY21 the movement in deferred tax assets is net of the tax effect of \$602,000 related to the share-based payments equity reserve.

Notes to consolidated financial statements (continued)

Note 7. Trade and other receivables

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| Current | | |
| Trade receivables (a) | 397,848 | 239,603 |
| Allowance for impairment (b) | (288) | (712) |
| | 397,560 | 238,891 |
| Other receivables (c) | 18,431 | 17,356 |
| | 415,991 | 256,247 |
| Non-current | | |
| Trade receivables on deferred payment terms (d) | 2,336 | 3,686 |

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 \$141,000 in the current year (FY20: \$652,000). 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 2019 | 233 |
| Impairment loss recognised during the year | 652 |
| Receivables written off during the year | (125) |
| Unused provision reversed during the year | (48) |
| Carrying amount at 30 June 2020 | 712 |
| Impairment loss recognised during the year | 141 |
| Receivables written off during the year | (557) |
| Unused provision reversed during the year | (8) |
| Carrying amount at 30 June 2021 | 288 |

Notes to consolidated financial statements (continued)

Note 7. Trade and other receivables (continued)

Our ageing of trade receivables, receivables past due not impaired, and the expected loss percentage applied to each ageing category at 30 June 2021, is as follows:

| | 2021 | | | | 2020 | | | |
|-------------|---------------|-------------------|-----------------------|---------------------------|---------------|-------------------|-----------------------|---------------------------|
| | 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 | - | 371,139 | - | - | - | 212,179 | - | - |
| 31-60 days | - | 15,464 | - | 15,464 | 0.5% | 17,706 | 88 | 17,618 |
| 61-90 days | 1.5% | 5,719 | 86 | 5,633 | 2.5% | 5,384 | 131 | 5,253 |
| 91-120 days | 2.5% | 3,204 | 80 | 3,124 | 9.0% | 2,726 | 245 | 2,481 |
| +120 days | 5.3% | 2,322 | 122 | 2,200 | 15.1% | 1,608 | 248 | 1,360 |
| | | 397,848 | 288 | 26,421 | | 239,603 | 712 | 26,712 |

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

| | 2021 \$'000 | 2020 \$'000 |
|-----------------|----------------|----------------|
| Contract assets | 3,355 | 4,856 |

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 2021.

Notes to consolidated financial statements (continued)

Note 9. Inventories

| | 2021 \$'000 | 2020 \$'000 |
|-------------------------------|----------------|----------------|
| Goods held for sale – at cost | 13,872 | 21,158 |

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 FY21 amounted to \$402,693,000 (FY20: \$347,897,000).

Note 10. Other assets

| | 2021 \$'000 | 2020 \$'000 |
|-------------------|----------------|----------------|
| Prepayments | 3,929 | 4,352 |
| Security deposits | 89 | 110 |
| | 4,018 | 4,462 |

Note 11. Property and equipment

| | 2021 \$'000 | 2020 \$'000 |
|----------------------------------|----------------|----------------|
| Leasehold improvements – at cost | 4,036 | 9,351 |
| Accumulated amortisation | (2,608) | (6,271) |
| | 1,428 | 3,080 |
| Equipment – at cost | 5,788 | 5,205 |
| Accumulated depreciation | (3,841) | (3,790) |
| | 1,947 | 1,415 |
| | 3,375 | 4,495 |

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 20 years. We calculate amortisation on leasehold improvements using the straight-line method over two to ten years or the lease term, whichever is shorter. If an asset is impaired, we immediately write down its carrying amount to its recoverable amount.

Notes to consolidated financial statements (continued)

Note 11. Property and equipment (continued)

| | Leasehold improvements \$'000 | Equipment \$'000 | Total \$'000 |
|---|-------------------------------------|---------------------|-----------------|
| Carrying amount at 1 July 2019 | 1,783 | 994 | 2,777 |
| Additions | 2,488 | 602 | 3,090 |
| Transfers to inventory | (468) | 468 | - |
| Depreciation and amortisation (Note 4) | (559) | (636) | (1,195) |
| Disposals | (164) | (13) | (177) |
| Carrying amount at 30 June 2020 | 3,080 | 1,415 | 4,495 |
| Additions | 420 | 1,278 | 1,698 |
| Transfer of reimbursed capital works costs to other receivables | (1,680) | - | (1,680) |
| Depreciation and amortisation (Note 4) | (381) | (735) | (1,116) |
| Disposals | (11) | (11) | (22) |
| Carrying amount at 30 June 2021 | 1,428 | 1,947 | 3,375 |

Note 12. Intangible assets

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Goodwill – at cost | 11,843 | 11,843 |
| Accumulated impairment | (1,787) | (1,787) |
| | 10,056 | 10,056 |
| Software assets – at cost | 4,862 | 3,529 |
| Accumulated amortisation and impairment | (1,466) | (1,367) |
| | 3,396 | 2,162 |
| Internally generated software assets – at cost | 8,471 | 8,093 |
| Accumulated amortisation and impairment | (5,964) | (5,089) |
| | 2,507 | 3,004 |
| Customer relationships | 1,500 | 1,500 |
| Accumulated amortisation and impairment | (1,500) | (1,500) |
| | - | - |
| | 15,959 | 15,222 |

Notes to consolidated financial statements (continued)

Note 12. Intangible assets (continued)

| | Goodwill | Software assets | Internally generated software | Customer relationships | Total |
|--|----------|-----------------|-------------------------------|------------------------|---------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Carrying amount at 1 July 2019 | 10,056 | 2,685 | 3,500 | 50 | 16,291 |
| Additions | - | 468 | 378 | - | 846 |
| Disposals | - | (705) | - | - | (705) |
| Amortisation (Note 4) | - | (286) | (874) | (50) | (1,210) |
| Carrying amount at 30 June 2020 | 10,056 | 2,162 | 3,004 | - | 15,222 |
| Additions | - | 1,526 | 378 | - | 1,904 |
| Amortisation (Note 4) | - | (292) | (875) | - | (1,167) |
| Carrying amount at 30 June 2021 | 10,056 | 3,396 | 2,507 | - | 15,959 |

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.

Customer relationships

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

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:

Notes to consolidated financial statements (continued)

Note 12. Intangible assets (continued)

| Cash generating unit (CGU) | Carrying amount at 1 July 2019 \$'000 | Impairment recognised during FY20 \$'000 | Carrying amount at 30 June 2020 \$'000 | Impairment recognised during FY21 \$'000 | Carrying amount at 30 June 2021 \$'000 |
|----------------------------|--|---|---|---|---|
| Infrastructure Solutions | 847 | - | 847 | - | 847 |
| 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 on the basis of financial projections approved by senior management for FY22. For all cash generating units except Discovery Technology, we applied an 11% before-tax discount rate to cash flow projections (FY20: 11%) and extrapolated cash flows for the four years beyond the FY22 financial year using an average growth rate of 3.5% (FY20: 3.0%) and a terminal value growth rate thereafter of 3.0% (FY20: 3.0%). No impairment was identified on these cash generating units at 30 June 2021 (FY20: nil).

For the separate Discovery Technology cash generating unit, we determined the recoverable amount based on a value-in-use calculation using cash flow projections on the basis of financial projections approved by senior management for FY22. We applied a 13% before-tax discount rate to cash flow projections (FY20: 13%) and extrapolated cash flows for the four years beyond the FY22 financial year using an average growth rate of 7.5% (FY20: 10%) and a terminal value growth rate thereafter of 3.0% (FY20: 3.5%). No impairment was identified at 30 June 2021 (FY20: nil).

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, adjusted for greater risk for the Discovery Technology cash generating unit, at the date of impairment test. Sensitivity analysis did not identify any impairment of goodwill.

Note 13. Trade and other payables

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Current | | |
| Trade payables – unsecured | 526,162 | 437,164 |
| Other payables – unsecured (a) | 34,703 | 27,747 |
| | 560,865 | 464,911 |
| Non-current | | |
| Trade payables on deferred payment terms | 614 | 1,415 |

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

Notes to consolidated financial statements (continued)

Note 13. Trade and other payables (continued)

(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

| | 2021 \$'000 | 2020 \$'000 |
|----------------------|----------------|----------------|
| Contract liabilities | 39,312 | 36,455 |

Contract liabilities arise from revenue contracts when customers pay us amounts due under the contracts before the goods or services identified in the contracts are delivered. The contract liabilities relate almost solely to contracts where the revenue is recognised at a point in time. We recognised revenue of \$36,059,000 that was included in the contract liability balance at 1 July 2020 in relation to customer contracts for the provision of IT products and services (FY20: \$39,966,000).

Note 15. Provisions

| | Current \$'000 | 2021 Non-current \$'000 | Total \$'000 | Current \$'000 | 2020 Non-current \$'000 | Total \$'000 |
|-------------------|-------------------|-------------------------------|-----------------|-------------------|-------------------------------|-----------------|
| Employee benefits | 6,095 | 2,503 | 8,598 | 5,219 | 2,467 | 7,686 |
| Lease remediation | - | 938 | 938 | 806 | 550 | 1,356 |
| | 6,095 | 3,441 | 9,536 | 6,025 | 3,017 | 9,042 |

Notes to consolidated financial statements (continued)

Note 15. Provisions (continued)

Movements in provisions other than employee benefits are as follows:

| | Lease remediation \$'000 |
|-------------------------------------|--------------------------------|
| Balance at 1 July 2019 | 1,362 |
| Arising during the year | 292 |
| Increase to present value | 79 |
| Used during the year | (304) |
| Unused and reversed during the year | (73) |
| Balance at 30 June 2020 | 1,356 |
| Arising during the year | 126 |
| Increase to present value | 44 |
| Used during the year | (500) |
| Unused and reversed during the year | (88) |
| Balance at 30 June 2021 | 938 |

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.

Long service leave

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

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

Notes to consolidated financial statements (continued)

Note 16. Earnings per share

| | 2021 | 2020 |
|--|-------------|-------------|
| Basic earnings per share (cents) | 16.51 | 15.35 |
| Diluted earnings per share (cents) | 16.43 | 15.30 |
| Earnings used in the calculation of basic and diluted earnings per share (\$000) | 25,414 | 23,636 |
| Weighted average number of ordinary shares for basic earnings per share (number) | 153,974,950 | 153,974,950 |
| Adjustment for dilutive elements (share rights) | 690,322 | 542,927 |
| Weighted average number of ordinary shares for diluted earnings per share (number) | 154,665,272 | 154,517,877 |

There were no changes in the number of shares on issue during FY21.

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

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Dividends paid on ordinary shares during the year | | |
| Final fully franked dividend for FY20: 8.8c per share (FY19: 7.1c) | 13,550 | 10,932 |
| Interim fully franked dividend for FY21: 5.5c per share (FY20: 5.1c) | 8,468 | 7,853 |
| | 22,018 | 18,785 |
| Dividends declared (not recognised as a liability at year end) | | |
| Final fully franked dividend for FY21: 9.5c (FY20: 8.8c) | 14,628 | 13,550 |
| The tax rate at which dividends paid have been franked is 30% (FY20: 30%). Dividends declared will be franked at the rate of 30% (FY20: 30%). | | |
| Franking credit balance | | |
| Franking credits available for subsequent financial years based on a tax rate of 30% (FY20: 30%) | 28,860 | 26,457 |

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 \$6,269,000 (FY20: \$5,807,000).

Notes to consolidated financial statements (continued)

Note 18. Contributed equity

(a) Movements in ordinary share capital

There were no movements in ordinary share capital during FY21 and FY20 (153,974,950 shares on issue).

(b) Ordinary shares

All ordinary shares issued as at 30 June 2021 and 2020 are fully paid. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote. Ordinary shares have no par value and the company has an unlimited amount of authorised capital. Subject to legislative requirements, the directors control the issue of shares in the company.

(c) Share options

No share options are outstanding as at 30 June 2021 (2020: 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 FY21 the board paid dividends of \$22,018,000 (FY20: \$18,785,000). 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

| | 2021 \$'000 | 2020 \$'000 |
|--|----------------|----------------|
| Right-of-use assets – premises leases | 30,605 | 20,874 |
| Accumulated amortisation | (4,907) | (3,344) |
| | 25,698 | 17,530 |
| Right-of-use assets – equipment leases | 18 | 33 |
| Accumulated depreciation | (18) | (30) |
| | - | 3 |
| | 25,698 | 17,533 |

Notes to consolidated financial statements (continued)

Note 19. Leases (continued)

The movement in right-of-use assets follows:

| | Right-of-use assets (premises) \$'000 | Right-of-use assets (equipment) \$'000 | Total right- of-use assets \$'000 |
|--|--|---|--|
| Carrying amount at 1 July 2019 | 11,674 | 33 | 11,707 |
| Additions | 9,200 | - | 9,200 |
| Depreciation (Note 4) | (3,344) | (30) | (3,374) |
| Carrying amount at 30 June 2020 | 17,530 | 3 | 17,533 |
| Additions | 11,929 | - | 11,929 |
| Depreciation (Note 4) | (3,761) | (3) | (3,764) |
| Carrying amount at 30 June 2021 | 25,698 | - | 25,698 |

Lease liabilities

| | 2021 \$'000 | 2020 \$'000 |
|--------------------------------|----------------|----------------|
| Current lease liabilities | 2,761 | 2,396 |
| Non-current lease liabilities | 24,105 | 15,857 |
| Total lease liabilities | 26,866 | 18,253 |

Total payments for leases during the year comprise the following:

| | | |
|--|--------------|--------------|
| Principal payments | 3,190 | 3,746 |
| Interest expense | 1,236 | 794 |
| Payments made in relation to lease liabilities | 4,426 | 4,540 |
| Other payments in relation to leases recognised as liabilities | 1,075 | 1,240 |
| Payments made for short-term leases | - | 1,929 |
| Payments made for low-value leases | 460 | 224 |
| | 5,961 | 7,933 |

Future payments of lease liabilities, including interest, are set out below:

| | | |
|-------------------------------------|---------------|---------------|
| Due within one year | 3,998 | 3,317 |
| Due between one year and five years | 15,281 | 9,621 |
| Due after five years | 13,849 | 10,271 |
| | 33,128 | 23,209 |

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.

Notes to consolidated financial statements (continued)

Note 19. Leases (continued)

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

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

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

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

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

Where we are required to return the premises to their original condition at the end of the lease, we record a provision for lease remediation equal to the present value of the estimated liability.

We did not receive any rent concessions in connection with COVID-19 during FY21 (FY20: nil).

Note 20. Net debt reconciliation

An analysis of net debt and the movements in net debt are set out below.

| Net debt | 2021 \$'000 | 2020 \$'000 |
|---------------------------|----------------|----------------|
| Cash and cash equivalents | 204,323 | 255,147 |
| Leases | (26,866) | (18,253) |
| Net debt | 177,457 | 236,894 |

| Movement in net debt | Cash \$'000 | Leases \$'000 | Total \$'000 |
|--------------------------|----------------|------------------|-----------------|
| Net debt at 1 July 2019 | 121,198 | (13,003) | 108,195 |
| Cash flows | 133,949 | 3,746 | 137,695 |
| Acquisition – leases | - | (8,996) | (8,996) |
| Net debt at 30 June 2020 | 255,147 | (18,253) | 236,894 |
| Cash flows | (50,824) | 3,190 | (47,634) |
| Acquisition – leases | - | (11,803) | (11,803) |
| Net debt at 30 June 2021 | 204,323 | (26,866) | 177,457 |

Notes to consolidated financial statements (continued)

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, 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 2021 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) | |
| | 2021 | 2020 | 2021 | 2020 |
| | \$000 | \$000 | \$000 | \$000 |
| -3.5% (FY20: -5.0%) | (533) | (412) | (533) | (412) |
| +3.5% (FY20: +7.0%) | 262 | 652 | 262 | 652 |

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 2021 | | 30 June 2020 | |
|---------------------------|--------------------------------|---------|--------------------------------|---------|
| | Weighted average interest rate | Balance | Weighted average interest rate | Balance |
| | % | \$'000 | % | \$'000 |
| Cash at bank and on hand | 0.0% | 30,309 | 0.6% | 29,133 |
| Deposits at call | 0.5% | 174,014 | 1.0% | 226,014 |
| Cash and cash equivalents | 0.4% | 204,323 | 1.0% | 255,147 |

Notes to consolidated financial statements (continued)

Note 21. Financial risk management (continued)

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

| | After-tax profit | | Equity | |
|---|------------------|---------------|----------------|---------------|
| | Higher/(lower) | | Higher/(lower) | |
| | 2021 \$000 | 2020 \$000 | 2021 \$000 | 2020 \$000 |
| -0.10% (10 basis points) (FY20: -0.25%) | (135) | (197) | (135) | (197) |
| +0.25% (25 basis points) (FY20: -0.50%) | 338 | (394) | 338 | (394) |

(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. COVID-19 has adversely affected the credit risk associated with receivables from certain customers, particularly those in the travel and tourism industry. We are confident in our assessment of the risk of collectability associated with receivables of this type as at 30 June 2021 and believe the provision for impairment set out in Note 7(b) is adequate to cover the potential exposure.

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

- Cash and cash equivalents are maintained at one large financial institution with a high credit rating.
- During the FY21 year, sales to one government customer comprised 9.4% of revenue (FY20: 5.5%).
- At 30 June 2021, one debtor comprised 13% of total debtors (FY20: 11%), and the ten largest debtors comprised approximately 51% of total debtors (FY20: 35%), of which 100% were accounts receivable from government customers (FY20: 100%).
- Our customers generally do not have independent credit ratings. Our risk control procedures assess the credit quality of the customer taking into account its financial position, past experience and other factors. We set individual risk limits based on internal or external ratings in accordance with limits set by the board. Our credit management department regularly monitors compliance with credit limits. Management believes the credit quality of our customers is high based on the very low level of bad debt write-offs experienced historically. In FY21 bad debt write-offs as a percent of the trade receivables carrying amount was 0.1% (FY20: 0.1%).

(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 \$3,378,000 (FY20: \$4,385,000) 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:

| | 2021 \$'000 | 2020 \$'000 |
|----------------------------|----------------|----------------|
| Multi-option bank facility | 8,622 | 7,615 |

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 FY21 was 3.9% (FY20: 4.9%).

Notes to consolidated financial statements (continued)

Note 21. Financial risk management (continued)

Maturity of financial liabilities

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

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | More than 5 years | Total contractual cash flows | Carrying amount |
|--------------------------|---------------------|--------------------------|--------------------------|----------------------|------------------------------------|--------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| At 30 June 2021 | | | | | | |
| Trade and other payables | 552,427 | 680 | - | - | 553,107 | 552,968 |
| Lease liabilities | 3,998 | 3,816 | 11,465 | 13,849 | 33,128 | 26,866 |
| | 556,425 | 4,496 | 11,465 | 13,849 | 586,235 | 579,834 |
| At 30 June 2020 | | | | | | |
| Trade and other payables | 457,892 | 935 | 659 | - | 459,486 | 459,307 |
| Lease liabilities | 3,317 | 2,428 | 7,193 | 10,271 | 23,209 | 18,253 |
| | 461,209 | 3,363 | 7,852 | 10,271 | 482,695 | 477,560 |

(d) Fair values

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

Note 22. Business combinations

Accounting policy

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

We record as goodwill the excess of the consideration of the acquisition and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired (refer to Note 12). If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, we recognise the difference directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, we discount the amounts payable in the future to their present value as at the date of the exchange. The discount rate used is our incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Notes to consolidated financial statements (continued)

Note 23. Related parties

Wholly-owned group

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

| Name of entity | Country of formation or incorporation | Equity holding (ordinary shares) | |
|-------------------------------------|---------------------------------------|----------------------------------|-----------|
| | | 2021 % | 2020 % |
| Business Aspect Group Pty Ltd | Australia | 100.0 | 100.0 |
| Business Aspect (Australia) Pty Ltd | Australia | 100.0 | 100.0 |
| Business Aspect Pty Ltd | Australia | 100.0 | 100.0 |
| Business Aspect (ACT) Pty Ltd | Australia | 100.0 | 100.0 |
| CTG Consulting Pty Ltd | Australia | 100.0 | 100.0 |
| Discovery Technology Pty Ltd | Australia | 100.0 | 77.4 |
| People Aspect 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.

Additional investment

On 12 November 2020 Data#3 Limited (Data#3) paid \$150,000 to acquire the remaining 22.6% of the issued capital of Discovery Technology Pty Ltd ("Discovery Technology"), a company specialising in wi-fi analytics, bringing Data#3's total shareholding to 100%.

A reconciliation of the non-controlling interest follows:

| | \$'000 |
|---|--------|
| Non-controlling interest at 30 June 2020 | 473 |
| Non-controlling interest's share of net loss for the period 1 July 2020 to 11 November 2020 | (11) |
| Consideration paid to non-controlling interest for acquisition of 22.6% interest | (150) |
| Remaining non-controlling interest transferred to owners of Data#3 Limited | (312) |
| Non-controlling interest at 30 June 2021 | - |

Notes to consolidated financial statements (continued)

Note 23. Related parties (continued)

Parent entity

Summarised financial information for the parent entity is as follows:

| | 2021 \$'000 | 2020 \$'000 |
|---|----------------|----------------|
| As at 30 June | | |
| Current assets | 635,481 | 539,425 |
| Total assets | 690,648 | 586,162 |
| Current liabilities | 606,737 | 512,601 |
| Total liabilities | 634,612 | 532,641 |
| Shareholders' equity | | |
| Contributed equity | 8,278 | 8,278 |
| Share-based payments reserve | 1,825 | 606 |
| Foreign currency translation reserve | (657) | 202 |
| Retained earnings | 46,590 | 44,435 |
| Total equity | 56,036 | 53,521 |
| For the year ended 30 June | | |
| Net profit for the year | 24,173 | 23,615 |
| Other comprehensive income, net of tax: | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Exchange differences on translation of foreign operations | (859) | 202 |
| Total comprehensive income | 23,314 | 23,817 |

Note 24. Contingent liabilities

At 30 June 2021 we had provided bank guarantees totalling \$2,869,000 (FY20: \$4,180,000) to lessors as security for premises we lease and \$469,000 (FY20: \$165,000) 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.

Notes to consolidated financial statements (continued)

Note 25. Key management personnel

Key management personnel compensation is set out below.

| | 2021 \$ | 2020 \$ |
|------------------------------|------------|------------|
| Short-term employee benefits | 2,946,380 | 2,884,511 |
| Long-term employee benefits | 616,887 | 1,137,649 |
| Post-employment benefits | 122,474 | 121,862 |
| | 3,685,741 | 4,144,022 |

Reclassifications were made to comparative figures to conform with current year presentation. For additional information refer to the remuneration table on page 23.

Short-term employee benefits

Remuneration in FY21 reflected overachievement of short-term profit targets in relation to the short-term incentive plan (STI) (FY20: overachievement).

Long-term employee benefits

The long-term targets for the FY19, FY20 and FY21 LTI offers were fully met in FY21 (FY20: fully met).

Transactions with key management personnel

There were no transactions during FY21 or FY20 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).

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

| | Balance 1 July 2019 | Other changes* | Balance 30 June 2020 | Other changes* | Balance 30 June 2021 |
|--|------------------------|-------------------|-------------------------|-------------------|-------------------------|
| Directors: | | | | | |
| Anderson, R.A. | 650,000 | - | 650,000 | 10,000 | 660,000 |
| Baynham, L.C. | 491,095 | (388,900) | 102,195 | 34,396 | 136,591 |
| Esler, M.R. (from 30/08/2019) ⁽¹⁾ | - | 2,814,330 | 2,814,330 | - | 2,814,330 |
| Gray, A.M. | - | - | - | 6,000 | 6,000 |
| Muller, L.M. | 50,000 | - | 50,000 | - | 50,000 |
| Powell, W.T. (until 13/11/2019) ⁽¹⁾ | 3,017,634 | (3,017,634) | - | - | - |
| Other executives: | | | | | |
| Bowser, M.J. | 132,385 | 11,100 | 143,485 | 31,668 | 175,153 |
| Colledge, B.D. | 218,671 | 11,100 | 229,771 | 31,668 | 261,439 |
| Hill, B.I. | 432,385 | 11,100 | 443,485 | 31,668 | 475,153 |
| | 4,992,170 | (558,904) | 4,433,266 | 145,400 | 4,578,666 |

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

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

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

Notes to consolidated financial statements (continued)

Note 26. Share-based payments

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

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

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

| | Fair value per right granted | Share rights |
|--------------------------------|---------------------------------|--------------|
| | \$ | Number |
| Balance at 30 June 2018 | | - |
| Granted on 31 December 2018 | 1.32 | 374,235 |
| Balance at 30 June 2019 | | 374,235 |
| Granted on 21 October 2019 | 3.38 | 184,425 |
| Granted on 13 November 2019 | 3.17 | 65,574 |
| Balance at 30 June 2020 | | 624,234 |
| Granted on 12 November 2020 | 5.01 | 104,880 |
| Balance at 30 June 2021 | | 729,114 |

At 30 June 2021 374,235 of the performance rights vested (FY20: nil). No rights or options lapsed or were forfeited during the year (FY20: nil), and no rights or options were settled or exercised during the year (FY20: nil).

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 | | | |
|---|----------------------|-----------------|------------------|------------------|
| | FY19 | FY20 | | FY21 |
| | 31 December 2018 | 21 October 2019 | 13 November 2019 | 12 November 2020 |
| Exercise price per share | Nil | Nil | Nil | Nil |
| Expiry date | 30 June 2021 | 30 June 2022 | 30 June 2022 | 30 June 2023 |
| Share price at grant date | \$1.50 | \$3.65 | \$3.43 | \$5.33 |
| Expected volatility of the company's shares | 20.4% | 30.6% | 30.6% | 44.2% |
| Expected dividend yield | 5.13% | 3.01% | 3.01% | 2.32% |
| Risk-free interest rate | 1.7% | 0.8% | 0.8% | 0.25% |

The expected price volatility is based on the historic volatility (based on the three financial years ended just prior to the relevant grant), adjusted for any expected changes to future volatility due to publicly available information.

Notes to consolidated financial statements (continued)

Note 26. Share-based payments (continued)

Employee benefits expense of \$617,000 in relation to the performance rights was recognised in the FY21 profit and loss and a deferred tax asset of \$602,000 was recognised on the balance sheet, with a corresponding increase in the share-based payments reserve in equity of \$1,219,000 (FY20: employee benefits expense and corresponding increase in reserve of \$441,000).

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 (nominal value) and share premium 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 premium.

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:

| | 2021 \$ | 2020 \$ |
|---|----------------|----------------|
| Audit and other assurance services | | |
| Audit and review of financial statements | 167,000 | 164,000 |
| Non-audit services | | |
| Tax compliance services | 26,640 | 27,251 |
| Other business advice | 900 | - |
| | 27,540 | 27,251 |
| Total remuneration | 194,540 | 191,251 |

We employ Pitcher Partners on assignments additional to its statutory duties where the firm's expertise and experience with our group are important.

Notes to consolidated financial statements (continued)

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 2021, are as follows:

| Standard/Interpretation | Application date of Standard ⁽¹⁾ | Application date for the group ⁽¹⁾ |
|--|---|---|
| AASB 2020-1 <i>Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current</i> | 1 January 2023 | 1 July 2023 |
| AASB 2020-3 <i>Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments</i> | 1 January 2022 | 1 July 2022 |
| AASB 2020-8 <i>Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform – Phase 2</i> | 1 January 2021 | 1 July 2021 |
| IASB Amendments to IFRS 3 <i>Business Combinations</i> | 1 January 2022 | 1 July 2022 |
| IASB Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> | 1 January 2022 | 1 July 2022 |
| IASB Annual Improvements to IFRS 9 <i>Financial Instruments</i> and the Illustrative Examples accompanying IFRS 16 <i>Leases</i> | 1 January 2022 | 1 July 2022 |
| AASB 2021-2 <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 2023, 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 2020-3 – the standard amends existing accounting standards, in particular these accounting standard amendments which are relevant to our group:

- AASB 3 – to update a reference to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- AASB 9 – to clarify the fees an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.
- AASB 137 – to specify the costs that an entity includes when assessing whether a contract will be loss-making.

When this Standard is first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

AASB 2020-8 – the standard amends AASB 9, AASB 7, AASB 4, AASB 16 and AASB 139 to introduce practical expedients in relation to accounting for modification of financial contracts and/or leases if a change results directly from IBOR reform. Amendments also allow a series of exemptions from the regular hedge accounting rules and introduce additional disclosures requirements. When this Standard is first adopted for the year ending 30 June 2022, we expect there will be no material impact on the financial statements as we do not engage in hedging, and our leases are at fixed interest rates.

Notes to consolidated financial statements (continued)

Note 28. Accounting standards not yet effective (continued)

IASB Amendments to IFRS 3 *Business Combinations* – the amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. When this Standard is first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

IASB Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – the amendments specify which costs a company includes when assessing whether a contract will be loss making. IAS 37 defines an onerous contract as one in which the unavoidable costs of meeting the entity's obligations exceed the economic benefits to be received under that contract. Unavoidable costs are the lower of the net cost of exiting the contract and the costs to fulfil the contract. The amendment clarifies the meaning of 'costs to fulfil a contract'. When this Standard is first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

IASB Annual Improvements to IFRS 9 *Financial Instruments* and the Illustrative Examples accompanying IFRS 16 *Leases* – the amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. The amendment to Illustrative Example 13 that accompanies IFRS 16 removes the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives. When these Amendments are first adopted for the year ending 30 June 2023, there will be no material impact on the financial statements.

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 2023, 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 2023, we expect there will be no material impact on the financial statements as the primary impact will be to leases, but reclassifications will be made in the disclosure of deferred tax assets and liabilities in the notes to the financial statements.

Directors' declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 32 to 65 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 2021 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
19 August 2021

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 2021, the consolidated statement of profit or loss, the consolidated statement of 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 2021 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 SIMON CHUN | JEREMY JONES TOM SPLATT | JAMES FIELD DANIEL COLWELL | ROBYN COOPER FELICITY CRIMSTON | CHERYL MASON KIERAN WALLIS | MURRAY GRAHAM ANDREW ROBIN |
|---------------------------------|--------------------------------|------------------------------------|--------------------------------|------------------------------|----------------------------|-------------------------------|-----------------------------------|-------------------------------|-------------------------------|

| Key Audit Matter | How our audit addressed the key audit matter |
|--|--|
| Impairment of goodwill and internally generated software assets <i>(Refer to note 12)</i> | |
| <p>The consolidated balance sheet as at 30 June 2021 includes goodwill of \$10.1 million and internally generated software of \$2.5 million. The goodwill relates to the consolidation of subsidiaries in previous years and the internally generated software assets relate to directly attributable costs associated with the development of software.</p> <p>The carrying amount of goodwill and internally generated software is supported by the value-in-use calculations prepared by management which are based on budgeted future cash flows and key estimates and judgements such as growth and discount rates and the terminal value.</p> <p>Goodwill and internally generated software are deemed to be key audit matters due to the use of key estimates and judgements in the value-in-use calculation.</p> | <p>Our procedures included amongst others:</p> <ul style="list-style-type: none"> • Understanding and evaluating the design and implementation of controls over the impairment assessment process; • Assessing management's determination of the Group's CGUs, including the allocation of goodwill, based on our understanding of the nature of the Group's business and internal reporting in order to assess how results were monitored and reported; • Assessing the reasonableness of key estimates and judgements by considering supporting documentation prepared by management or historical performance, where available; • Assessing the reasonableness of management's cashflow forecasts with reference to current economic conditions; • Comparing the prior year forecast to actual results to assess the accuracy of the forecasting process; • Reviewing management's value-in-use calculations for accuracy; • Performing a sensitivity analysis over management's value-in-use calculation to assess the level of headroom available; and • Assessing the adequacy of the disclosures in the financial report. |
| Revenue recognition <i>(Refer to note 3)</i> | |
| <p>Given the nature of Data#3's operations, the performance at the end of the financial year has a significant impact on the Group's overall year-end result. This results in a significant quantum of transactions occurring near year-end.</p> <p>Due to the quantum of transactions occurring near year-end, we have focused on this area as a key audit matter.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Understanding and evaluating the design and implementation of controls over the revenue recognition and invoicing process; • 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; • Completing 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. |

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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 2021, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of the Group are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- 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, actions taken to eliminate threats or safeguards applied.

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.

Report on the Remuneration Report

Opinion on the Remuneration Report

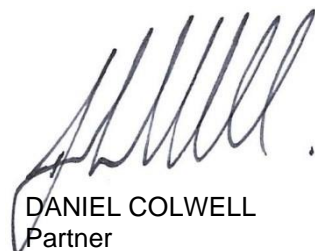
We have audited the Remuneration Report included in pages 17 to 27 of the directors' report for the year ended 30 June 2021. In our opinion, the Remuneration Report of Data#3 Limited, for the year ended 30 June 2021, complies with section 300A of the *Corporations Act 2001*.

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



DANIEL COLWELL
Partner

Brisbane, Queensland
19 August 2021

Shareholder information

The shareholder information set out below was applicable as at 17 August 2021.

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 | 1,010,847 | 0.66 | 2,142 |
| 1,001 to 5,000 | 5,984,236 | 3.89 | 2,172 |
| 5,001 to 10,000 | 7,497,791 | 4.87 | 951 |
| 10,001 to 50,000 | 26,531,028 | 17.23 | 1,155 |
| 50,001 to 100,000 | 12,681,171 | 8.24 | 172 |
| 100,001 and over | 100,269,877 | 65.12 | 119 |
| | 153,974,950 | 100.00 | 6,711 |

(b) There were 339 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 |
| HSBC Custody Nominees (Australia) Limited | 19,910,479 | 12.93 |
| J P Morgan Nominees Australia Limited | 19,115,750 | 12.41 |
| Citicorp Nominees Pty Limited | 17,067,215 | 11.08 |
| National Nominees Pty Limited | 5,974,427 | 3.88 |
| Anacacia Pty Limited | 4,107,030 | 2.67 |
| Oakport Pty Ltd | 2,139,901 | 1.39 |
| Powell Clark Trading Pty Ltd | 2,100,000 | 1.36 |
| J T Populin | 1,661,379 | 1.08 |
| BNP Paribas Nominees Pty Ltd | 1,197,188 | 0.78 |
| BNP Paribas Nominees Pty Ltd | 1,090,757 | 0.71 |
| Thomson Associates Pty Ltd | 1,000,000 | 0.65 |
| Elterry Pty Ltd | 930,000 | 0.60 |
| BNP Paribas Nominees Pty Ltd | 909,128 | 0.59 |
| Citicorp Nominees Pty Limited | 785,000 | 0.51 |
| Densley Pty Ltd | 763,000 | 0.50 |
| U Pty Ltd | 753,880 | 0.49 |
| Elterry Super Pty Ltd | 650,000 | 0.42 |
| Banksia Administration Services Pty Ltd | 637,000 | 0.41 |
| R A & M I Anderson | 600,000 | 0.39 |
| L M Minz | 500,000 | 0.32 |
| | 81,892,134 | 53.19 |

Shareholder information (continued)

3. Substantial shareholders

Not applicable.

4. Unquoted equity securities

Not applicable.

5. Voting rights

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

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

Options have no voting rights.