

Appendix 4D

Name of entity	Data#3 Limited
ABN	31 010 545 267
Reporting period	Half-year ended 31 December 2016
Previous corresponding period	Half-year ended 31 December 2015

Results for announcement to the market

Results				\$'000
Revenues from ordinary activities	up	10.6%	to	506,023
Profit from ordinary activities after tax attributable to members	up	34.0%	to	5,708
Net profit for the period attributable to members	up	34.0%	to	5,708

Dividends	Amount per security	Franked amount per security
Current period		
Interim dividend	3.35 cents	100%
Previous corresponding period		
Interim dividend	2.50 cents	100%

The record date for determining entitlements to the dividend is 17 March 2017. The dividend is payable on 31 March 2017.

Brief explanation of the figures reported above

Please refer to the Review of Operations in the Directors' Report which begins on page 1 of the attached Interim Financial Report for the half-year ended 31 December 2016.

Net tangible assets per security	Current period	Previous period
Net tangible asset backing per ordinary security	\$0.14	\$0.13

Data#3 Limited

ABN 31 010 545 267

Interim Financial Report

Half-year ended 31 December 2016

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Directors' report

Your directors present their report on Data#3 Limited and its subsidiaries (together referred to as "Data#3", "the group", or "we, our, or us") for the half-year ended 31 December 2016.

1. Directors

The following persons were directors of Data#3 Limited for the entire half-year and up to the date of this report:

Richard Anderson
Leanne Muller
Terry Powell

Laurence Baynham was a director from the date of his appointment on 16 November 2016 up to the date of this report, and Ian Johnston was a director from the beginning of the year until his resignation on 30 September 2016.

2. Review of operations

Summary of our FY17 plan

Our strategic planning process for FY17-FY19 identified the following trends in adoption and use of business technology:

- digital solutions would increasingly transform business models;
- a rapid shift to consumption-based and service-centric solutions is occurring;
- security is the number one priority; and
- public cloud usage will become mainstream.

Our business plan contains three long-term objectives:

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

The key components of the FY17 plan are

- to enable our customers' digital transformation
- to accelerate our transition to services, and
- to grow and leverage our core capability in software and infrastructure.

Our overall financial goal for FY17 is to continue to deliver earnings growth and returns to shareholders.

First half performance

We achieved a strong start to the year and delivered a first half result substantially ahead of the previous corresponding period (PCP), and within market guidance provided at the AGM in November 2016. This first half performance underpins the full year financial objective.

Total first half revenue increased by 10.6% from \$457.5 million to \$506.0 million with increases in both product and services revenues, including cloud-based revenues of \$58.0 million.

Total gross profit (excluding other revenue) increased by 8.1% from \$68.4 million to \$74.0 million, and total gross margin decreased from 15.0% to 14.6% reflecting changes in the sales mix.

Directors' report (continued)

2. Review of operations (continued)

Net profit before tax increased by 33.5% from \$6.1 million to \$8.1 million, and net profit after tax (excluding minority interests) increased by 34.0% from \$4.3 million to \$5.7 million. This represented basic earnings per share of 3.71 cents, an increase of 34.0% from 2.77 cents in the PCP.

Product revenue and gross profit

Total product revenue (hardware and software) increased by 11.5% from \$371.1 million to \$413.9 million, reflecting strong growth in public cloud solutions (up 32.5% from \$40.2 million to \$53.3 million) and steady growth in other on-premises solutions (up 9.0% from \$330.9 million to \$360.7 million).

Total product gross margin decreased from 9.3% to 8.4% due to the change in sales mix (with greater software revenues), and total product gross profit increased by 0.9% from \$34.4 million to \$34.7 million.

Services revenue and gross profit

Total services revenue increased by 6.6% from \$85.6 million to \$91.3 million, including \$4.7 million of cloud-based services. Consulting, professional services and recruitment revenues grew strongly, offsetting relatively flat managed services and maintenance services revenues.

Total services gross margin increased, again reflecting a change in mix, and the overall services gross profit increased by 15.4% from \$34.0 million to \$39.2 million.

Other revenue

Other revenue remained steady at \$0.8 million, largely comprising interest revenue.

Operating expenses

Internal staff costs increased by 6.6% from \$51.4 million to \$54.8 million and other operating expenses increased by 1.6% from \$11.7 million to \$11.9 million.

Overall staff numbers remained steady in Data#3 and Discovery Technology, and increased by approximately 18% in Business Aspect with continued geographic expansion. Average salaries increased in line with the broader industry trend.

Cash flow

The net cash flow from operating activities is typically an outflow in the first half due to the timing of receipts and payments around 30 June. The traditional May/June sales peak produces higher than normal collections pre-30 June that generate temporary cash surpluses which subsequently reverse after 30 June when the associated supplier payments occur. The first half net cash outflow from operating activities of \$74.0 million was less than the \$86.5 million outflow in the PCP, mostly due to a decrease in inventories and the reversal of a slightly lower than normal temporary cash surplus at 30 June 2016.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and at 27 days is industry best practice and consistent with the previous first half.

Directors' report (continued)

2. Review of operations (continued)

Outlook

We remain strongly focused on achieving our full year financial objective, and the first half performance positions us well to achieve that goal.

In the longer term Data#3's strategic transition from primarily product centric to increasingly service centric positions us well to continue growth in shareholder value. We have a robust business, no material debt, long-term customer relationships, committed supplier partnerships, and a great team. We will continue to develop and offer the combination of on-premises and cloud-based solutions for our customers' changing requirements.

3. Dividends

The directors have declared a fully franked dividend of 3.35 cents per share payable on 31 March 2017, an increase of 34.0% on the previous corresponding period.

4. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

5. 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.

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



R A Anderson
Director

Brisbane
22 February 2017



PITCHER PARTNERS

ACCOUNTANTS • AUDITORS • ADVISORS

Level 38
345 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 1144
Brisbane
Queensland 4001

Tel: 07 3222 8444
Fax: 07 3221 7779

www.pitcher.com.au
info@pitcherpartners.com.au

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SIMON CHUN

The Directors

Data#3 Limited
67 High Street
TOOWONG QLD 4066

Auditor's independence declaration

As lead auditor for the review of the financial report of Data#3 Limited for the financial half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

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

PITCHER PARTNERS
Chartered Accountants

J J Evans
Partner

Brisbane, Queensland
22 February 2017

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Condensed consolidated statement of comprehensive income

for the half-year ended 31 December 2016

	Half-year to December	
	2016	2015
	\$'000	\$'000
Revenue		
Sale of goods	413,948	371,124
Services	91,266	85,631
Other	809	753
	506,023	457,508
Expenses		
Changes in inventories of finished goods	(5,322)	2,114
Purchase of goods	(373,906)	(338,835)
Employee and contractor costs directly on-charged (cost of sales on services)	(29,647)	(26,735)
Other cost of sales on services	(22,388)	(24,891)
Other employee and contractor costs	(54,784)	(51,397)
Telecommunications	(904)	(873)
Rent	(4,066)	(4,152)
Travel	(1,047)	(871)
Professional fees	(458)	(438)
Depreciation and amortisation	(1,630)	(1,732)
Finance costs	(22)	(42)
Other	(3,759)	(3,594)
	(497,933)	(451,446)
Profit before income tax	8,090	6,062
Income tax expense	(2,271)	(1,851)
Profit for the half-year	5,819	4,211
Other comprehensive income for the half-year, net of tax	-	-
Total comprehensive income for the half-year	5,819	4,211
Profit and comprehensive income is attributable to:		
Owners of Data#3 Limited	5,708	4,261
Non-controlling interests	111	(50)
	5,819	4,211
Earnings per share for profit attributable to the ordinary equity holders of the company:	Cents	Cents
Basic earnings per share	3.71c	2.77c
Diluted earnings per share	3.71c	2.77c

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

Condensed consolidated balance sheet

as at 31 December 2016

	31 December 2016 \$'000	30 June 2016 \$'000
Current assets		
Cash and cash equivalents	17,417	102,279
Trade and other receivables	90,864	170,684
Inventories	7,212	12,571
Other	6,042	4,740
Total current assets	121,535	290,274
Non-current assets		
Other receivables	1,677	2,895
Property and equipment	6,854	6,320
Deferred tax assets	4,324	2,553
Intangible assets	16,130	15,798
Total non-current assets	28,985	27,566
Total assets	150,520	317,840
Current liabilities		
Trade and other payables	85,773	239,651
Borrowings	291	157
Current tax liabilities	1,637	2,787
Provisions	2,953	2,826
Other	16,855	26,416
Total current liabilities	107,509	271,837
Non-current liabilities		
Trade and other payables	672	1,344
Borrowings	533	330
Provisions	3,473	3,340
Other	306	363
Total non-current liabilities	4,984	5,377
Total liabilities	112,493	277,214
Net assets	38,027	40,626
Equity		
Contributed equity	8,278	8,278
Retained earnings	28,803	31,564
Equity attributable to owners of Data#3 Limited	37,081	39,842
Non-controlling interests	946	784
Total equity	38,027	40,626

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

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2016

	<i>Attributable to owners of Data#3 Limited</i>				
	Contributed Equity	Retained Earnings	Total	Non- controlling interests	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
2016					
Balance at 30 June 2016	8,278	31,564	39,842	784	40,626
Profit for the half-year	-	5,708	5,708	111	5,819
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	5,708	5,708	111	5,819
<i>Transactions with owners in their capacity as owners:</i>					
Payment of dividends	-	(8,469)	(8,469)	-	(8,469)
Non-controlling interest – accretion of share options	-	-	-	51	51
Balance at 31 December 2016	8,278	28,803	37,081	946	38,027
2015					
Balance at 30 June 2015	8,278	28,095	36,373	-	36,373
Profit for the half-year	-	4,261	4,261	(50)	4,211
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	4,261	4,261	(50)	4,211
<i>Transactions with owners in their capacity as owners:</i>					
Finalisation of provisional accounting for the Business Aspect acquisition	-	(45)	(45)	-	(45)
Payment of dividends	-	(6,467)	(6,467)	-	(6,467)
Non-controlling interest on acquisition of subsidiary	-	-	-	917	917
Non-controlling interest – accretion of share options	-	-	-	45	45
Balance at 31 December 2015	8,278	25,844	34,122	912	35,034

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

Condensed consolidated cash flow statement

for the half-year ended 31 December 2016

	Half-year ended December	
	2016	2015
	\$'000	\$'000
Cash flows from operating activities		
Net profit after income tax	5,819	4,211
Depreciation and amortisation	1,895	1,839
Provision for doubtful debts	291	57
Provision for excess and obsolete inventory	37	-
Non-controlling interest – accretion of share options	51	45
Other	(6)	(18)
Changes in operating assets and liabilities:		
Decrease in trade receivables	71,656	57,207
Decrease in other receivables	1,220	-
(Increase) decrease in inventories	5,322	(2,053)
(Increase) decrease in other operating assets	6,589	(357)
(Increase) in net deferred tax assets	(1,771)	(1,056)
Decrease in trade payables	(143,511)	(136,889)
Decrease in unearned income	(9,561)	(250)
Decrease in other operating liabilities	(11,087)	(9,083)
Decrease in current tax liabilities	(1,150)	(179)
Increase in liability for employee benefits	237	46
Net cash outflow from operating activities	(73,969)	(86,480)
Cash flows from investing activities		
Payment for acquisition of subsidiary, net of cash acquired	-	554
Payments for plant and equipment	(1,213)	(523)
Payments for software assets	(1,099)	(1,051)
Proceeds from sale of plant and equipment	-	13
Net cash outflow from investing activities	(2,312)	(1,007)
Cash flows from financing activities		
Dividends paid to company's shareholders	(8,469)	(6,467)
Finance lease payments	(112)	(407)
Net cash outflow from financing activities	(8,581)	(6,874)
Net decrease in cash and cash equivalents held	(84,862)	(94,361)
Cash and cash equivalents at the beginning of the reporting period	102,279	108,966
Cash and cash equivalents at the end of the reporting period	17,417	14,605

The above condensed consolidated cash flow statement should be read in conjunction with the accompanying notes.

Notes to the condensed consolidated financial statements

Note 1. Significant accounting policies

Basis of preparation of interim financial report

We have prepared this general purpose interim financial report for the half-year reporting period ended 31 December 2016 in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report and accordingly should be read in conjunction with our annual report for the year ended 30 June 2016 and any public announcements we have made during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

We have adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to our operations and effective for the current reporting period. The accounting policies adopted in this interim financial report are the same as those applied in the previous financial year and the corresponding interim reporting period. A number of new or amended standards became applicable for the current reporting period, however no change to our accounting policies was necessary as a result of adopting these new/changed standards.

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.

Note 2. Segment information

Our business is conducted primarily in Australia. Our management team makes financial decisions and allocates resources based on the information it receives from our internal management system. We attribute sales to an operating segment based on the type of product or service provided to the customer. Revenue from customers domiciled in Australia comprised 99% of external sales for the half-year ended 31 December 2016 (2015: 99%).

We have identified two reportable segments, as follows:

- Product – providing hardware and third party software for our customers' desktop, network and data centre infrastructure; and
- Services – providing consulting, project, managed and maintenance services, as well as workforce recruitment and contracting services, in relation to the design, implementation, operation and support of ICT solutions.

The following table shows summarised financial information by segment for the half-years ended 31 December 2016 and 2015. Comparative information has been restated to conform with the current method of national management cost allocation.

Notes to the condensed consolidated financial statements (continued)

Note 2. Segment information (continued)

	<i>Product</i>		<i>Services</i>		<i>Total</i>	
	Half-year to December		Half-year to December		Half-year to December	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue						
Total revenue	413,952	371,165	97,612	90,122	511,564	461,287
Inter-segment revenue	(4)	(41)	(6,346)	(4,491)	(6,350)	(4,532)
External revenue	413,948	371,124	91,266	85,631	505,214	456,755
Costs of sale						
Cost of goods sold	(379,228)	(336,721)	-	-	(379,228)	(336,721)
Employee and contractor costs directly on-charged		-	(29,647)	(26,735)	(29,647)	(26,735)
Other cost of sales on services		-	(22,388)	(24,891)	(22,388)	(24,891)
Gross profit	34,720	34,403	39,231	34,005	73,951	68,408
Gross margin	8.4%	9.3%	43.0%	39.7%	14.6%	15.0%
Other expenses	(24,283)	(23,274)*	(35,816)	(33,145)*	(60,099)	(56,419)*
Segment profit	10,437	11,129*	3,415	860*	13,852	11,989*
Unallocated items						
Interest and other revenue					809	753
Other employee and contractor costs					(3,026)	(3,458)*
Rent					(985)	(984)*
Depreciation and amortisation					(1,179)	(968)*
Other					(1,381)	(1,270)*
					(5,762)	(5,927)*
Profit before income tax					8,090	6,062
Reconciliation of revenue:						
External revenue					505,214	456,755
<i>Unallocated corporate revenue</i>						
Interest and other revenue					809	753
Total revenue					506,023	457,508

* Amount has been restated to conform with the current method of national management cost allocation.

Notes to the condensed consolidated financial statements (continued)

Note 3. Dividends

Details of dividends paid during the current period or the previous corresponding period are as follows:

Record date	Payment date	Type	Amount per security	Franked amount per security	Total dividend \$'000
16/9/2015	30/9/2015	Final	4.2 cents	4.2 cents	6,467
17/3/2016	31/3/2016	Interim	2.5 cents	2.5 cents	3,849
16/9/2016	30/9/2016	Final	5.5 cents	5.5 cents	8,469

Dividends not recognised at the end of the half-year

Since the end of the half-year, the directors have declared an interim dividend of 3.35 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the interim dividend to be paid on 31 March 2017 out of retained earnings at the end of the half-year, but not recognised as a liability at the end of the half-year, is \$5,158,000.

Note 4. Subsequent events

No material and unusual events have occurred after the end of the half-year that could affect the financial position and performance of Data#3 Limited or any of its subsidiaries.

Note 5. Contingent liabilities

There have been no material changes in contingent liabilities from those disclosed in the June 2016 annual report.

Directors' declaration

In the opinion of the directors:

- (a) the financial statements and notes set out on pages 5 to 11 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 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Data#3 Limited will be able to pay its debts as and when they become due and payable.

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



R A Anderson
Director

Brisbane
22 February 2017



PITCHER PARTNERS

ACCOUNTANTS • AUDITORS • ADVISORS

Level 38
345 Queen Street
Brisbane
Queensland 4000

Postal Address:
GPO Box 1144
Brisbane
Queensland 4001

Tel: 07 3222 8444
Fax: 07 3221 7779

www.pitcher.com.au
info@pitcherpartners.com.au

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SIMON CHUN

Independent auditor's review report to the members of Data#3 Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Data#3 Limited, which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Data#3 Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent auditor's review report (continued)

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Data#3 Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of their performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

PITCHER PARTNERS
Chartered Accountants



J J Evans
Partner

Brisbane, Queensland
22 February 2017