Appendix 4D

Name of entity	**Data#3 Limited**
ABN	31 010 545 267
Reporting period	**Half-year ended 31 December 2018**
Previous corresponding period	Half-year ended 31 December 2017

Results for announcement to the market

Results				**$'000**
Revenues from ordinary activities	up	17.7%	to	644,350
Profit from ordinary activities after tax attributable to members	up	126.7%	to	6,147
Net profit for the period attributable to members	up	126.7%	to	6,147

Dividends	**Amount per security**	**Franked amount per security**
Current period		
Interim dividend	3.6 cents	100%
Previous corresponding period		
Interim dividend	1.60 cents	100%

The record date for determining entitlements to the dividend is 15 March 2019. The dividend is payable on 29 March 2019.

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 2018.

Net tangible assets per security	**Current period**	**Previous period**
Net tangible asset backing per ordinary security	$0.16	$0.12

Data#3 Limited
ABN 31 010 545 267

Interim Financial Report
Half-year ended 31 December 2018

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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 2018.

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
Laurence Baynham
Mark Gray
Leanne Muller
Terry Powell

2. Review of operations

Summary of our 2019 financial year (FY19) plan
After a challenging FY18, with a result heavily skewed to the second half, our overall financial goal for FY19 is to deliver earnings growth and improve returns to shareholders. We planned to achieve a more balanced result in FY19, with a return to a more typical second half skew.

First half performance
We are very pleased with the first half performance, delivering a very significant improvement compared to the previous corresponding period (PCP) and returning to the longer term growth trend. The market is growing as digital transformation fuels the overall information technology spend, and we have experienced an increase in large project activity and a steady pipeline of opportunities. The current period result demonstrates the inherent strength and relevance of our solution offerings in an evolving market, and we are delighted with the rapid growth in our cloud-based business.

Total revenue increased by 17.7% to $644.4 million, with strong growth in product revenues and solid growth in services revenues, and the combined public cloud revenues increased by 65.7% from $86.1 million to $142.7 million.

Total gross profit (excluding other revenue) increased by 14.7% from $71.8 million to $82.3 million, and total gross margin decreased slightly from 13.1% to 12.8% due to changes in sales mix.

Net profit before tax increased by 123.3% from $4.0 million to $9.0 million, and net profit after tax (excluding minority interests) increased by 126.7% from $2.7 million to $6.1 million. This represented basic earnings per share of 3.99 cents, an increase of 126.7% from 1.76 cents in the PCP.

Product revenue and gross profit
Total product revenue increased by 19.2% from $446.6 million to $532.2 million, reflecting very strong growth in Infrastructure sales (up 34.1% to $172.0 million) and solid growth in Software Licensing (up 13.2% to $360.2 million). These product revenues include the sale of public and private cloud solutions.

Total product gross margin increased from 7.1% to 8.1%, reflecting the change in sales mix, and total product gross profit increased by 36.3% from $31.7 million to $43.2 million.

Services revenue and gross profit
Total services revenue increased by 11.3% from $100.0 million to $111.4 million. This included strong growth in Professional Services (up 24.1% to $27.8 million) and Business Aspect Consulting (up 17.5% to $13.4 million); solid growth in Recruitment (up 11.6% to $26.9 million); and modest growth in Support Services (up 8.1% to $41.4 million), which included the reduction in revenues from decommissioning the Data#3 Cloud. The Discovery Technology services revenues decreased from $2.7 million to $1.9 million.

Total services gross margin decreased from 40.0% to 35.1%, reflecting the change in sales mix, and the total services gross profit decreased by 2.3% from $40.0 million to $39.1 million.

Other revenue
Other revenue increased from $0.7 million to $0.8 million, and largely comprised interest revenue.

Directors' report (continued)

2. Review of operations (continued)

Operating expenses
Internal staff costs increased by 9.4% from $56.8 million to $62.1 million, reflecting headcount growth and general salary increases in line with the industry trend. Other operating expenses increased by 2.8% from $11.7 million to $12.0 million.

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 $109.8 million slightly more than the $108.5 million outflow in the PCP, largely due to an increase in inventory and the reversal of a higher than normal temporary cash surplus at 30 June 2018.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and at 28.6 days is industry best practice.

Outlook
The strong first half performance and pipeline of opportunities for the second half give us confidence that we will achieve our full year financial objective, being to deliver earnings growth and improved returns to shareholders.

We also remain confident about delivery of the company's longer-term strategy. We have a robust business, no material debt, solid long-term customer relationships, committed supplier partnerships, and a highly experienced and productive team. We continue to see growth in the Australian IT market, and believe we are well positioned to capitalize on that opportunity as we continue to develop and offer solutions for our customers' changing requirements.

3. Dividends

The directors have declared a fully franked dividend of 3.6 cents per share payable on 29 March 2019, an increase of 125% on the previous corresponding period, representing a payout ratio of 90.2%.

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 3.

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 unless otherwise noted.

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

R A Anderson

R A Anderson
Director

Brisbane
20 February 2019

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

Auditor's independence declaration

To the Directors of Data#3 Limited

In relation to the independent auditor's review for the half-year ended 31 December 2018, 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*.

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

PITCHER PARTNERS
Chartered Accountants

J. Evans

J J Evans
Partner

Brisbane, Queensland
20 February 2019

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2018

	Half-year to December	
	2018	2017
	$'000	$'000
Revenue		
Sale of goods	532,180	446,598
Services	111,394	100,042
Other	776	706
	644,350	547,346
Expenses		
Changes in inventories of finished goods	2,994	(59)
Purchase of goods	(491,943)	(414,819)
Employee and contractor costs directly on-charged (cost of sales on services)	(37,164)	(33,970)
Other cost of sales on services	(35,133)	(26,035)
Other employee and contractor costs	(62,126)	(56,780)
Telecommunications	(1,155)	(832)
Rent	(3,521)	(3,824)
Travel	(1,125)	(954)
Professional fees	(558)	(1,057)
Depreciation and amortisation	(1,240)	(1,475)
Finance costs	(159)	(43)
Other	(4,220)	(3,467)
	(635,350)	(543,315)
Profit before income tax	9,000	4,031
Income tax expense	(2,952)	(1,312)
Profit for the half-year	6,048	2,719
Other comprehensive income for the half-year, net of tax	-	-
Total comprehensive income for the half-year	6,048	2,719
Profit and comprehensive income is attributable to:		
Owners of Data#3 Limited	6,147	2,712
Non-controlling interests	(99)	7
	6,048	2,719
Earnings per share for profit attributable to the ordinary equity holders of the company:	**Cents**	**Cents**
Basic earnings per share	3.99c	1.76c
Diluted earnings per share	3.99c	1.76c

The accompanying notes form part of these financial statements.

Condensed consolidated balance sheet
as at 31 December 2018

	31 December 2018 $'000	30 June 2018 $'000
Current assets		
Cash and cash equivalents	7,302	128,348
Trade and other receivables	141,258	210,962
Inventories	6,369	3,303
Other	5,739	4,835
Total current assets	160,668	347,448
Non-current assets		
Other receivables	1,037	2,323
Property and equipment	3,084	3,993
Deferred tax assets	4,020	2,810
Intangible assets	16,610	17,189
Total non-current assets	24,751	26,315
Total assets	185,419	373,763
Current liabilities		
Trade and other payables	117,227	295,343
Borrowings	107	178
Current tax liabilities	815	913
Provisions	4,717	4,475
Other	17,853	24,295
Total current liabilities	140,719	325,204
Non-current liabilities		
Trade and other payables	543	543
Borrowings	11	32
Provisions	3,030	2,805
Other	96	139
Total non-current liabilities	3,680	3,519
Total liabilities	144,399	328,723
Net assets	41,020	45,040
Equity		
Contributed equity	8,278	8,278
Other reserves	94	-
Retained earnings	32,199	36,214
Equity attributable to owners of Data#3 Limited	40,571	44,492
Non-controlling interests	449	548
Total equity	41,020	45,040

The accompanying notes form part of these financial statements.

Condensed consolidated statement of changes in equity

for the half-year ended 31 December 2018

	Attributable to owners of Data#3 Limited					
	Contributed Equity	**Other Reserves**	**Retained Earnings**	**Total**	**Non-controlling interests**	**Total Equity**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2018						
Balance at 30 June 2018	8,278	-	36,214	44,492	548	45,040
Profit for the half-year	-	-	6,147	6,147	(99)	6,048
Other comprehensive income for the half-year, net of tax	-	-	-	-	-	-
Total comprehensive income for the half-year	-	-	6,147	6,147	(99)	6,048
Transactions with owners in their capacity as owners:						
Payment of dividends	-	-	(10,162)	(10,162)	-	(10,162)
Employee share schemes – value of employee services	-	94	-	94	-	94
	-	94	(10,162)	(10,068)	-	(10,068)
Balance at 31 December 2018	8,278	94	32,199	40,571	449	41,020
2017						
Balance at 30 June 2017	8,278	-	33,312	41,590	1,165	42,755
Profit for the half-year	-	-	2,712	2,712	7	2,719
Other comprehensive income for the half-year, net of tax	-	-	-	-	-	-
Total comprehensive income for the half-year	-	-	2,712	2,712	7	2,719
Transactions with owners in their capacity as owners:						
Payment of dividends	-	-	(8,546)	(8,546)	-	(8,546)
Additional acquisition of controlling interests	-	-	(167)	(167)	(479)	(646)
Non-controlling interest – cancellation of share options	-	-	-	-	(97)	(97)
Non-controlling interest – accretion of share options	-	-	-	-	3	3
Balance at 31 December 2017	8,278	-	27,311	35,589	599	36,188

The accompanying notes form part of these financial statements.

Condensed consolidated cash flow statement

for the half-year ended 31 December 2018

	Half-year ended December 2018 $'000	2017 $'000
Cash flows from operating activities		
Net profit after income tax	6,048	2,719
Depreciation and amortisation	1,677	1,839
Goodwill impairment	500	-
Provision for doubtful debts	137	-
Provision for excess and obsolete inventory	36	-
Non-cash employee benefits expense – share-based payments	94	-
Write-back of unused provision for doubtful debts	-	(74)
Non-controlling interest – cancellation of share options	-	(97)
Non-controlling interest – accretion of share options	-	3
Other	33	17
Changes in operating assets and liabilities:		
Decrease in trade receivables	64,208	55,526
Decrease (increase) in other receivables	1,286	(697)
Decrease (increase) in inventories	(3,032)	12
Decrease in other operating assets	4,674	3,175
Increase in net deferred tax assets	(1,210)	(1,385)
Decrease in trade payables	(164,534)	(148,516)
Decrease in unearned income	(6,427)	(6,974)
Decrease in other operating liabilities	(13,584)	(12,397)
Decrease in current tax liabilities	(98)	(1,938)
Increase in liability for employee benefits	397	260
Net cash outflow from operating activities	(109,795)	(108,527)
Cash flows from investing activities		
Payment for acquisition of minority interests in subsidiary	-	(646)
Payments for plant and equipment	(295)	(568)
Payments for software assets	(709)	(1,028)
Proceeds from sale of plant and equipment	7	-
Net cash outflow from investing activities	(997)	(2,242)
Cash flows from financing activities		
Dividends paid to company's shareholders	(10,162)	(8,546)
Finance lease payments	(92)	(107)
Net cash outflow from financing activities	(10,254)	(8,653)
Net decrease in cash and cash equivalents held	(121,046)	(119,422)
Cash and cash equivalents at the beginning of the reporting period	128,348	135,695
Cash and cash equivalents at the end of the reporting period	7,302	16,273

The accompanying notes form part of these financial statements.

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 2018 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 2018 and any public announcements we have made during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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, except for the adoption of new and amended standards which required us to revise our accounting policies. No retrospective adjustments were required in relation to the adoption of new/amended standards. Please refer to Note 6 for disclosure of the new accounting policies.

Share-based compensation benefits
In this interim period we compensated some executives with equity settled share-based payments. Our accounting policy for share-based payments did not appear in the previous year end financial statements, as we had not utilised this method of compensation for several years prior to this interim period.

Our accounting policy is set out below:

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 benefit 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.

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 unless otherwise noted.

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 2018 (2017: 98%). Operating expenses are not allocated among the operating segments and therefore are excluded from segment profit. Comparative segment information has been reclassified to conform with the current presentation.

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 2018 and 2017.

	Product Half-year to December		*Services* Half-year to December		*Total* Half-year to December	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Revenue						
Total revenue	532,191	446,609	121,260	107,188	653,451	553,797
Inter-segment revenue	(11)	(11)	(9,866)	(7,146)	(9,877)	(7,157)
External revenue	532,180	446,598	111,394	100,042	643,574	546,640
Costs of sale						
Cost of goods sold	(488,949)	(414,878)	-	-	(488,949)	(414,878)
Employee and contractor costs directly on-charged	-	-	(37,164)	(33,970)	(37,164)	(33,970)
Other cost of sales on services	-	-	(35,133)	(26,035)	(35,133)	(26,035)
Segment profit	43,231	31,720	39,097	40,037	82,328	71,757
Gross margin percentage	*8.1%*	*7.1%*	*35.1%*	*40.0%*	*12.8%*	*13.1%*
Unallocated items						
Interest and other revenue					776	706
Other employee and contractor					(62,126)	(56,780)
Rent					(3,521)	(3,824)
Depreciation and amortisation					(1,240)	(1,475)
Other					(7,217)	(6,353)
					(73,328)	(67,726)
Profit before income tax					9,000	4,031
Reconciliation of revenue:						
External revenue					643,574	546,640
Unallocated corporate revenue						
Interest and other revenue					776	706
Total revenue					644,350	547,346

Note 3. Revenue

We derive revenue from the following business units:

Business unit	Half-year to December 2018 $'000	2017 $'000
Infrastructure	171,975	128,289
Software licensing	360,205	318,309
Total product revenue	532,180	446,598
Professional services	27,754	22,374
Support services	41,359	38,330
Recruitment and contracting	26,913	24,120
Consulting	13,389	11,388
Other business units	1,979	3,830
Total services revenue	111,394	100,042
Total revenue	643,574	546,640

Note 4. 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
15/9/2017	29/9/2017	Final	5.55 cents	5.55 cents	8,546
15/3/2018	29/3/2018	Interim	1.60 cents	1.60 cents	2,463
14/9/2018	30/9/2018	Final	6.60 cents	6.60 cents	10,162

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 3.6 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 29 March 2019 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 $5,543,000.

Note 5. 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 6. Contingent liabilities

There have been no material changes in contingent liabilities from those disclosed in the June 2018 annual report.

Note 7. Changes in accounting policies

We adopted AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on 1 July 2018. Neither standard had a material effect on the consolidated financial statements for the half year ended 31 December 2018. The new accounting policies we adopted as a result of the new/amended accounting standards, where they are different to those applied in prior periods, are set out below.

AASB 9 *Financial Instruments*

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

AASB 15 *Revenue from Contracts with Customers*

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.

Directors' declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 4 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 2018 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
20 February 2019

PITCHER PARTNERS

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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 statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows 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 gives a true and fair view and 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 2018 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 company's financial position as at 31 December 2018 and of its 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

J. Evans

J J EVANS
Partner

Brisbane, Queensland
20 February 2019