Appendix 4D

Name of entity	**Data#3 Limited**
ABN	31 010 545 267
Reporting period	**Half-year ended 31 December 2017**
Previous corresponding period	Half-year ended 31 December 2016

Results for announcement to the market

Results				**$'000**
Revenues from ordinary activities	up	8.2%	to	547,346
Profit from ordinary activities after tax attributable to members	down	52.5%	to	2,712
Net profit for the period attributable to members	down	52.5%	to	2,712

Dividends	**Amount per security**	**Franked amount per security**
Current period		
Interim dividend	1.60 cents	100%
Previous corresponding period		
Interim dividend	3.35 cents	100%

The record date for determining entitlements to the dividend is 15 March 2018. The dividend is payable on 29 March 2018.

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 2017.

Net tangible assets per security	**Current period**	**Previous period**
Net tangible asset backing per ordinary security	$0.12	$0.14

Data#3 Limited

ABN 31 010 545 267

Interim Financial Report

Half-year ended 31 December 2017

Page **Contents**

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 2017.

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
Leanne Muller
Terry Powell

Mark Gray was a director from the date of his appointment on 29 August 2017 up to the date of this report.

2. Review of operations

Summary of our 2018 financial year (FY18) plan

Our strategic planning process for FY18-FY20 identified the following market assumptions and trends in the adoption and use of business technology:

- Digital transformation is more prevalent in business strategy.
- The overall IT market growth is fuelled by digital transformation.
- Consumption will continue to shift from capital expenditure to operating expenditure.
- Industry consolidation is creating opportunity.
- Vendor models are changing to reward cloud adoption.
- Customers continue to expect IT modernisation for efficiency and effectiveness.
- Demand for devices and networks will continue to increase to support cloud adoption.
- Cloud adoption increases the focus on security.
- Education and health sectors will continue to grow.
- Resource flexibility and availability is an increasing challenge.

Priority actions in our FY18 business plan include:

- accelerate services
- accelerate cloud
- engage our people
- engage our customers to enable their success
- adapt and enhance our solutions
- improve internal systems for productivity
- sustain financial performance.

Our overall financial goal for FY18 is to continue to deliver earnings growth and returns to shareholders.

Directors' report (continued)

2. Review of operations (continued)

First half performance
Despite first half revenues increasing by 8.2% from $506.0 million to $547.3 million we had a challenging start to the year, delivering a profit substantially lower than the strong result in the previous corresponding period (PCP).

As reported at the Annual General Meeting in November 2017 and in subsequent trading updates in December 2017 and January 2018, the disappointing first half profit performance reflected both planned and unplanned events, which mostly affected the services businesses but also influenced the product result. These are explained in more detail below.

Market share gains saw increases in both product and services revenues, and the combined cloud-based revenues increased by 48.4% from $58.0 million to $86.1 million.

Total gross profit (excluding other revenue) decreased by 3.0% from $74.0 million to $71.8 million, and total gross margin decreased from 14.6% to 13.1% reflecting changes in sales mix and rebate contributions.

Net profit before tax decreased by 50.2% from $8.1 million to $4.0 million, and net profit after tax (excluding minority interests) decreased by 52.5% from $5.7 million to $2.7 million. This represented basic earnings per share of 1.76 cents, a decrease of 52.5% from 3.71 cents in the PCP.

Product segment performance
A number of customer delays and supplier delivery constraints in November and December affected the product result, with sizeable transactions slipping into the second half. These unplanned timing delays, combined with the negative flow-on effect on supplier rebate entitlements, resulted in a material shift in product profit to the second half.

Despite these delays, total product revenue increased by 7.9% from $413.9 million to $446.6 million, reflecting solid growth in Infrastructure sales (up 13.1% to $128.3 million) and steady growth in Software Licensing (up 6.4% to $318.3 million). These product revenues include the sale of public and private cloud solutions.

Total product gross margin decreased from 8.4% to 7.1%, due largely to rebates shifting to the second half. Total product gross profit decreased by $3.0 million (or 8.6%), from $34.7 million to $31.7 million.

The total product segment profit decreased by $2.2 million (or 21.7%), from $10.4 million to $8.2 million.

Services segment performance
Total services revenue increased by 9.6% from $91.3 million to $100.0 million. This included solid growth in Support Services (Managed and Maintenance Services) revenues (up 14.0% to $38.3 million); steady growth in Business Aspect Consulting revenues (up 7.3% to $11.4 million) and Recruitment revenues (up 5.8% to $24.1 million); and a small decline in Professional Services revenues (down 3.2% to $22.4 million). Discovery Technology and other services revenues were $3.8 million.

Total services gross margin decreased slightly, reflecting a change in sales mix with a larger proportion of Maintenance Services, and the overall services gross profit increased by $0.8 million (or 2.1%) from $39.2 million to $40.0 million.

The planned decommissioning of the Data#3 Cloud platform contributed to the services profit decline, and this will continue throughout the second half. We expect to complete this project by the end of FY18, thereby positioning the Support Services businesses for solid improvement in profitability in FY19. We are continuing with our strategy of offering customers public or private cloud solutions from our market-leading, global vendor partners.

The lack of a large-scale integration project in the first half (compared to two substantial projects in the PCP), and lower utilization levels attributable to project delays, put pressure on our Professional Services profit contribution. In addition, Business Aspect Consulting's negative profit performance in the first half was well below plan due to lower than expected utilisation across the recently expanded national operation.

Directors' report (continued)

2. Review of operations (continued)

As a result the total services segment profit decreased by $1.6 million (or 46.4%), from $3.4 million to $1.8 million. This is a disappointing result for the first half; however, we expect the services segment profit to improve in the second half of FY18.

The second half pipeline includes two large integration projects which will help achieve the planned full year profit for Professional Services, and positive steps are underway that are expected to deliver a significant improvement in Business Aspect's profit contribution in the second half.

Other revenue

Other revenue remained relatively steady at $0.7 million, largely comprising interest revenue.

Operating expenses

Internal staff costs increased by 3.6% from $54.8 million to $56.8 million and other operating expenses decreased by 2.0% from $11.9 million to $11.7 million.

Overall staff numbers decreased slightly during the period, and compared to PCP, and 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 $108.5 million was more than the $74.0 million outflow in the PCP, mostly due to the reversal of a higher than normal temporary cash surplus at 30 June 2017.

The key trade receivables indicator of average days' sales outstanding remained ahead of target and at 25.2 days is industry best practice, an even better result than the previous first half.

Outlook

The timing delays in the first half have seen a material shift in profit to the second half. The FY18 result will therefore be more heavily skewed to the second half than originally planned. January's actual result was significantly ahead of plan and PCP, boosted by the projects that slipped from the first half, and we still expect to achieve our overall FY18 financial goal to improve on FY17's best ever profit result.

Despite the temporary difficulties experienced in the first half, we remain confident about delivery of the company's longer-term strategy. 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 highly productive team. We continue to see growth in the Australian IT market, and believe we are well positioned to capitalize on that growth. 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 1.60 cents per share payable on 29 March 2018, a decrease of 52.2% on the previous corresponding period, representing a payout ratio of 90.8%.

Directors' report (continued)

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 5.

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
21 February 2018

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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Brisbane | Melbourne | Sydney | Perth | Adelaide | Newcastle

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 2017, 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 APES 110 *Code of Ethics for Professional Accountants* 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. Evans

J J Evans
Partner

Brisbane, Queensland
21 February 2018

Condensed consolidated statement of profit or loss and other comprehensive income

for the half-year ended 31 December 2017

	Half-year to December 2017 $'000	2016 $'000
Revenue		
Sale of goods	446,598	413,948
Services	100,042	91,266
Other	706	809
	547,346	506,023
Expenses		
Changes in inventories of finished goods	(59)	(5,322)
Purchase of goods	(414,819)	(373,906)
Employee and contractor costs directly on-charged (cost of sales on services)	(33,970)	(29,647)
Other cost of sales on services	(26,035)	(22,388)
Other employee and contractor costs	(56,780)	(54,784)
Telecommunications	(832)	(904)
Rent	(3,824)	(4,066)
Travel	(954)	(1,047)
Professional fees	(1,057)	(458)
Depreciation and amortisation	(1,475)	(1,630)
Finance costs	(43)	(22)
Other	(3,467)	(3,759)
	(543,315)	(497,933)
Profit before income tax	4,031	8,090
Income tax expense	(1,312)	(2,271)
Profit for the half-year	2,719	5,819
Other comprehensive income for the half-year, net of tax	-	-
Total comprehensive income for the half-year	2,719	5,819
Profit and comprehensive income is attributable to:		
Owners of Data#3 Limited	2,712	5,708
Non-controlling interests	7	111
	2,719	5,819
Earnings per share for profit attributable to the ordinary equity holders of the company:	**Cents**	**Cents**
Basic earnings per share	1.76c	3.71c
Diluted earnings per share	1.76c	3.71c

The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Condensed consolidated balance sheet

as at 31 December 2017

	31 December 2017 $'000	30 June 2017 $'000
Current assets		
Cash and cash equivalents	16,273	135,695
Trade and other receivables	108,748	168,495
Inventories	4,468	4,480
Other	5,662	5,104
Total current assets	135,151	313,774
Non-current assets		
Other receivables	1,713	454
Property and equipment	5,509	6,187
Deferred tax assets	4,323	2,938
Intangible assets	17,153	16,718
Total non-current assets	28,698	26,297
Total assets	163,849	340,071
Current liabilities		
Trade and other payables	103,006	263,226
Borrowings	329	303
Current tax liabilities	171	2,109
Provisions	3,742	3,207
Other	16,634	23,608
Total current liabilities	123,882	292,453
Non-current liabilities		
Trade and other payables	-	636
Borrowings	225	358
Provisions	3,363	3,620
Other	191	249
Total non-current liabilities	3,779	4,863
Total liabilities	127,661	297,316
Net assets	36,188	42,755
Equity		
Contributed equity	8,278	8,278
Retained earnings	27,311	33,312
Equity attributable to owners of Data#3 Limited	35,589	41,590
Non-controlling interests	599	1,165
Total equity	36,188	42,755

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 2017

	Attributable to owners of Data#3 Limited				
	Contributed Equity	**Retained Earnings**	**Total**	**Non-controlling interests**	**Total Equity**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
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
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
Transactions with owners in their capacity as owners:					
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

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 2017

	Half-year ended December 2017 $'000	Half-year ended December 2016 $'000
Cash flows from operating activities		
Net profit after income tax	2,719	5,819
Depreciation and amortisation	1,839	1,895
Provision for doubtful debts	-	291
Provision for excess and obsolete inventory	-	37
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	51
Other	17	(6)
Changes in operating assets and liabilities:		
Decrease in trade receivables	55,526	71,656
(Increase) decrease in other receivables	(697)	1,220
Decrease in inventories	12	5,322
Decrease in other operating assets	3,175	6,589
(Increase) in net deferred tax assets	(1,385)	(1,771)
Decrease in trade payables	(148,516)	(143,511)
Decrease in unearned income	(6,974)	(9,561)
Decrease in other operating liabilities	(12,397)	(11,087)
Decrease in current tax liabilities	(1,938)	(1,150)
Increase in liability for employee benefits	260	237
Net cash outflow from operating activities	(108,527)	(73,969)
Cash flows from investing activities		
Payment for acquisition of minority interests in subsidiary	(646)	-
Payments for plant and equipment	(568)	(1,213)
Payments for software assets	(1,028)	(1,099)
Proceeds from sale of plant and equipment	-	-
Net cash outflow from investing activities	(2,242)	(2,312)
Cash flows from financing activities		
Dividends paid to company's shareholders	(8,546)	(8,469)
Finance lease payments	(107)	(112)
Net cash outflow from financing activities	(8,653)	(8,581)
Net decrease in cash and cash equivalents held	(119,422)	(84,862)
Cash and cash equivalents at the beginning of the reporting period	135,695	102,279
Cash and cash equivalents at the end of the reporting period	16,273	17,417

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 2017 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 2017 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 98% of external sales for the half-year ended 31 December 2017 (2016: 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 2017 and 2016.

Note 2. Segment information (continued)

	Product Half-year to December 2017 $'000	*Product* Half-year to December 2016 $'000	*Services* Half-year to December 2017 $'000	*Services* Half-year to December 2016 $'000	*Total* Half-year to December 2017 $'000	*Total* Half-year to December 2016 $'000
Revenue						
Total revenue	446,609	413,952	107,188	97,612	553,797	511,564
Inter-segment revenue	(11)	(4)	(7,146)	(6,346)	(7,157)	(6,350)
External revenue	446,598	413,948	100,042	91,266	546,640	505,214
Costs of sale						
Cost of goods sold	(414,878)	(379,228)	-	-	(414,878)	(379,228)
Employee and contractor costs directly on-charged	-	-	(33,970)	(29,647)	(33,970)	(29,647)
Other cost of sales on services	-	-	(26,035)	(22,388)	(26,035)	(22,388)
Gross profit	31,720	34,720	40,037	39,231	71,757	73,951
Gross margin	*7.1%*	*8.4%*	*40.0%*	*43.0%*	*13.1%*	*14.6%*
Other expenses	(23,546)	(24,283)	(38,206)	(35,816)	(61,752)	(60,099)
Segment profit	8,174	10,437	1,831	3,415	10,005	13,852
Unallocated items						
Interest and other revenue					706	809
Other employee and contractor costs					(3,447)	(3,026)
Rent					(978)	(985)
Depreciation and amortisation					(976)	(1,179)
Other					(1,279)	(1,381)
					(5,974)	(5,762)
Profit before income tax					4,031	8,090
Reconciliation of revenue:						
External revenue					546,640	505,214
Unallocated corporate revenue						
Interest and other revenue					706	809
Total revenue					547,346	506,023

Notes to the condensed consolidated financial statements (continued)

Note 3. Business combinations

In July 2017 Data#3 Limited (Data#3) exercised options to acquire an additional 15.8% shareholding in Discovery Technology Pty Ltd at a cost of $646,000, bringing Data#3's total shareholding to 77.4%.

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
16/9/2016	30/9/2016	Final	5.50 cents	5.50 cents	8,469
17/3/2017	31/3/2017	Interim	3.35 cents	3.35 cents	5,158
15/9/2017	29/9/2017	Final	5.55 cents	5.55 cents	8,546

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 1.60 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 2018 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 $2,464,000.

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

Data#3 is currently involved in legal proceedings initiated by a competitor, which relate to a small group of the competitor's former employees that joined Data#3. Data#3 believes the claim that the competitor has raised lacks merit. As such, the claim is being strenuously defended, and a counter-claim has been lodged in respect of this matter. As at the date of this report, it is impracticable for Data#3 to quantify any potential liability. There have been no other material changes in contingent liabilities from those disclosed in the June 2017 annual report.

Directors' declaration

In the opinion of the directors:

(a) the financial statements and notes set out on pages 6 to 12 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 2017 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
21 February 2018

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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NIGEL BATTERS
COLE WILKINSON
SIMON CHUN
JEREMY JONES

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 2017, the consolidated statement of profit or loss and other 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 2017 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 2017 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. Evans

J J Evans
Partner

Brisbane, Queensland
21 February 2018