



## Gerhard Uys CEO's | REPORT

### Financial Overview

Datacentrix achieved an increase in revenue of 17% to over R1 billion for the first time in the group's history. The group recorded an increase in EBITDA of 14% to R88,7 million and generated strong cash flows from operations of R52,5 million, resulting in R165,6 million cash on hand. Headline earnings per share (HEPS) was up 12% to 28.7 cents and basic earnings per share (EPS) increased by 19% to 25.5 cents. Net asset value improved 14% to 124.9 cents and tangible net asset value increased 20% to 116.2 cents.

### Share Capital

The authorised share capital of the company remained unchanged. Issued share capital increased with the issue of additional shares in respect of the acquisition of a business.

### Operational Review

The past year has been one of mixed fortunes at Datacentrix, with the turnaround of a disappointing first six months to a more positive second half of the year.

Management is confident that the group is back on track in terms of its performance expectations. The reasons for the poor first half performance were short-term, operational issues. Notable progress was made in addressing the three key operational issues that were identified at half year. Briefly these included:

**Sales** - At the beginning of the financial year, Datacentrix embarked on an aggressive growth strategy for the Infrastructure and Related Services Division, involving more value-added, complex solutions, including outsourcing, managed print services (MPS) and enterprise systems. Typically, these types of offerings are distinguished by longer sales cycles and higher costs. It became evident at half-year that the group failed to simultaneously pursue these growth objectives and the normal run-rate business of traditional infrastructure products with typical single-minded focus and vigour.

The second six months have seen the group refocus the sales force in areas of traditional infrastructure supply, while the identified growth areas have been addressed separately through dedicated existing specialist resources. Price competition and price deflation of technology also affected Datacentrix' ability to grow at expected rates, but the group has made significant headway with its technology partners to structure more cost-competitive offerings.

**People Investment** - As part of Datacentrix' organic growth strategy, the group increased its cost base by investing in technical, sales and managerial resources. The group has successfully retained its top performers and employees with key skills to ensure that customers continue to receive quality service and support. But, in order to address the cost issue, staff complement growth was slowed to 568 staff members through attrition and performance management.

**Enterprise Resource Planning (ERP) Business Unit** - Datacentrix Solutions' ERP business unit experienced implementation difficulties and incurred significant costs in the deployment of resources during this reporting period. Management has invested additional resources and better methodologies to enhance the unit's contract management and project planning capability and remains confident in the business unit's execution capability.

### Infrastructure and Related Services

The Infrastructure division produced significant growth in the second half of the year, resulting in the division ending the financial year with healthy organic growth. It is the largest segment of the group and contributes R959,8 million and R44,5 million to revenue and profit for the year respectively. The division continues to be a dominant player in the supply, deployment, maintenance and support of IT infrastructure solutions.

During the year the division had a number of significant wins, retained all its major customers, renewed existing contracts and strengthened its technology partner accreditations. Regarding the latter, the division was recognised as the best performing HP reseller for the ISE (International Sales Europe) region outdoing other EMEA (excluding Western Europe) competitors both in terms of volume and growth.

The division experienced strong performance from most segments of the market, most notably from the coastal region, government sector and enterprise systems unit. The strategic focus remains unchanged, with expected growth areas encompassing managed print services, enterprise systems, government spending and infrastructure refresh projects.

Datacentrix continues to ensure that the group is accredited by its vendors at the highest possible technical level. This competency provides customers with peace of mind that Datacentrix is a cost effective partner for the supply, installation and maintenance of equipment over its entire lifecycle.

The group achieved the objectives set in terms of Service Level Agreements (SLAs) with customers. Customer satisfaction remains extremely high with the product life-cycle focus that Datacentrix has in the supply and support of hardware. This focus ensures customers are assisted through the needs determination, the product evaluation and selection, the configuration and installation process and the support of the infrastructure thereafter.

The additional services, which Datacentrix is extending its competencies in, are performing according to expectation. The advanced infrastructure projects business unit employs highly skilled Microsoft certified engineers and performs large Microsoft-based projects. Datacentrix' innovative approach to outsourcing is finding a very receptive market and this specialised division has gained further momentum this year with the award of two blue chip customers who have outsourced their entire IT infrastructure management to Datacentrix.

### Solutions

The development and integration business unit within the Solutions Division has won major deals in the areas of workflow with the K2.net product and data-mining. The optimisation business unit, serving in the electronic content management and archiving areas, has also performed creditably.

Management is confident that the following turnaround activities have improved the efficiencies of the ERP business unit and looks forward to future contributions by the business unit to the growth in earnings:

- Improved contract management
- Better methodologies employed
- On-going review of the systems and processes
- Strengthened management
- Reinforced customer relationships
- Enhanced service delivery



## Customers

Datacentrix has built up an enviable customer base and is proud of the IT improvements that the group has helped its customers achieve over the years. Datacentrix believes that its value proposition, driven by expertise and ability to integrate offerings across all lines of the business, is the grounds for the customer loyalty that the group has experienced.

## Quality Management

In order to offer its customers confidence in structured quality assurance, Datacentrix Infrastructure obtained a Process Control Release (PCR) accreditation as determined by Telkom in December 2005. Process Control Release is a quality management system based on ISO 9001:2001.

The system is intended to compel Datacentrix to concentrate on customer expectations, ensuring all pre-determined deliverables with regards to quality are met. It also standardises group communication through the use of documented policies, procedures and work instructions.

Despite Datacentrix having attained the PCR certification, on-going quarterly product audits and annual maintenance audits of the implemented quality management system will occur.

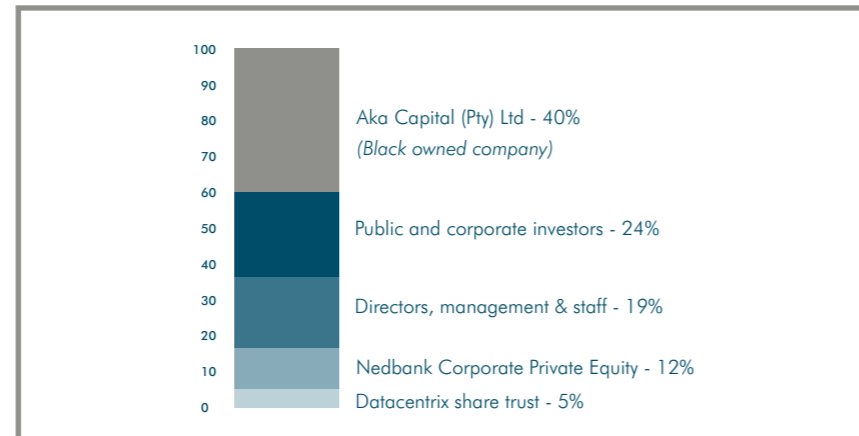
## Black Economic Empowerment (BEE)

With the release of the DTI code of good practice and the proposed ICT charter, empowerment and transformation have been given an even greater importance by Datacentrix. The group continues its efforts to meet transformation targets in all areas. Datacentrix maintained its A-rating with Empowerdex, an independent rating agency, for its compliance to the requirements set out in the Broad Base Black Economic Empowerment Act 53 of 2003. The evaluation involved scoring the group's performance in terms of all seven empowerment factors: ownership,

management, employment equity, skills development, procurement, corporate social responsibility and enterprise development.

## Ownership

40% of Datacentrix' shareholding is held by Aka Capital (Co-ordinated Network Investments), a black owned company. Co-ordinated Network Investments (Proprietary) Limited (CNI) originally acquired 47% of Datacentrix prior to its listing on the JSE Limited in 1998. Aka Capital presently has full beneficial ownership of 20 million shares (10%) in Datacentrix and further voting rights on 60 million shares, giving Aka Capital control of 40% of the company.



## Management

Employment equity statistics on the board of directors are as follows:  
 45% black directors;  
 55% historically disadvantaged directors; and  
 27% female directors.

At year-end, the group's operational management comprised 35% black and 28% female managers.

## Employment Equity

Datacentrix' success can be attributed to its simple business model, the excellent people culture and work ethic. The workforce comprises skilled and committed people who contribute their talents and energy into growing the group and increasing its market share. Attracting and retaining high quality people continues to be a critical ingredient in its continued success.

Employment equity has been embraced at all levels of Datacentrix with its total workforce constituting 51% black and 35% female representatives. Formal employment equity reports were submitted to the Department of Labour in September 2005.

## Skills Development

Skills development amongst staff is another key driver of performance. The focus on training is two-pronged: technology training ensures that technical skills are up to date with the latest developments, while professional training ensures that employees continue to serve customers with excellence and build Datacentrix' reputation in the market place. Human resources



implements and oversees the group's training programmes. During the year, Datacentrix received over R551 000 from the ISSETT SETA as part of the recovery of skills levies compared to R380 000 from the previous year. The required Workplace Skills plan for 2005/2006 was submitted timeously and approved by the necessary authorities.

Additional to the group's skills plan, Datacentrix provides on-going bursaries, in-service training and learnership training programmes as part of an employment creation initiative.

- Datacentrix provides professional training to students from disadvantaged groups by utilising its one million Rand education budget, which the group established in 2000. This training serves to equip students with the necessary qualifications and preparation for their entry into the workplace. Bursaries are offered in the fields of information technology, commerce, marketing and business management. Employment opportunities and further on-the-job training, coupled with mentoring programmes, are offered to students after graduation.
- Students at tertiary institutions are identified to take up permanent employment at Datacentrix after graduating from their respective studies. Selection occurs on an ad hoc basis and is usually in conjunction with presentations that Datacentrix conducts at the respective campuses. These students receive in-service training, which includes subjection to the multi-disciplinary facets of information technology.
- Datacentrix also runs a learnership programme, in conjunction with educational institutions that require students to obtain relevant, practical experience in order to attain their respective certifications. Students may be offered permanent employment once their studies are completed. Based on performance, individual learners may qualify to be fast tracked and trained for future management positions within the group.

## Preferential Procurement

A procurement initiative was launched during March 2004 with the objective to increase overhead expenditure from enterprises that have made a significant progress in the area of BEE. Datacentrix' existing supplier list has been examined and procurement procedures reviewed and formalised to allow more black-owned companies access to the procurement budget as well as to manage the costs of goods and services purchased. Datacentrix' operating expenditure mostly comprises its purchases from its international technology partners. These partners' local offices have made much progress in conforming to the required BEE schedules of the ICT charter over the last year.

## Corporate Social Investment

Datacentrix fully recognises the need to create a tangible improvement in the quality of life of disadvantaged South Africans and has set aside funds for a corporate social investment (CSI) programme to tackle areas of need in the communities in which it operates.

Datacentrix has built up an enviable customer base and is proud of the IT improvements that the group has helped its customers achieve over the years. We believe that our value proposition, driven by expertise and ability to integrate offerings across all lines of Datacentrix' business is the grounds for the customer loyalty that the group has experienced.

During the financial year, the group donated funding to various organisations and charities, either in the form of monetary donations or computer equipment donations.

The following organisations are some of those that have benefited from Datacentrix' CSI programme:

Abraham Kriel, Be a Friend, CANSA, Casa Caritas, CRS Fundraiser, Endeni Orphanage, FNB Big Walk 2005, Heart of Healing, Loreto Convent School, Menlopark Hoërskool, Mercy Ships, Military Police School, National Aids Week Business, National Scrabble Association, New South Baptist Christian School, Ondersteuningsraad Klipheuwel Primary School, Pop Up Charity, Rainbow Day Care, Ribbons and Wrappings, Roundabout Playpumps, SANASE, Sesheng United Soccer Club, St Dominic's School, St Mary's Diocesan School for Girls, TFMC, Timios Homes, University of Pretoria, Western Cape Council for the Blind, Zifuneleni Junior Secondary School.

Datacentrix operates in an office based environment and as a result does not have a formal environmental policy. The group is however mindful of conducting its operations in an environmentally responsible manner. It controls the extent of its paper, energy and water consumption. It recycles both paper and toner cartridges, engages in effective waste management and disposes of old computer equipment to charities.

#### *Enterprise Development*

Datacentrix believes in the support and development of SME companies from historically disadvantaged communities and is committed to supporting emerging and black-owned SMEs through its discretionary spend. Enterprise development is a key component of the group's BEE and transformation framework.

Datacentrix' strategy is to identify enterprises that enhance and complement the group's product and service offerings to its customers, and provide mentoring and skills development through on-the-job training. There are presently 42 SMEs that form a comprehensive network of partners across South Africa to assist in the servicing of outlying customers. These relationships have been developed since 1999.

#### **Industry Review**

Datacentrix believes that trends such as the deflation in cost of technology will continue, but that the local IT arena will also see commoditisation of the IT infrastructure, growth within selective outsourcing markets, new ERP systems replacing legacy systems and huge planned investment in infrastructure, including IT, from government. We are also expecting the continued wave of Microsoft usage, with users having to upgrade to keep pace with new products, and customers becoming increasingly aware of the significance of legislative compliance in terms of the Electronic Communications and Technology Act and Sarbanes-Oxley Act.

#### **Prospects**

Datacentrix' growth strategy focuses strongly on extending its presence with existing customers. Future growth will be primarily organic not acquisitive, although the group will consider acquiring teams of skills excellence or small acquisitions to expedite growth of targeted areas, specifically within selective outsourcing, enterprise, managed print services, the government sector and in the Johannesburg region.

Subsequent to the financial year-end, the organisation entered into two new areas of business on the enterprise systems side with a focus on HP OpenView Management Software and a Software Asset Management joint venture with German-based IT services provider, PC Ware (Proprietary) Limited.

Critical goals for the new year include the improvement of our management employment equity profile conforming to BEE charters, growing the selective outsourcing business, investing in capacity to execute and further investment in internal IT systems.

In addition, Datacentrix will be focusing on the execution of solutions projects, maintaining control of the cost structure, preserving vendor relations, while remaining performance driven, upgrading the service desk and developing and retaining human capital.

In conclusion, Datacentrix strives to be the partner of choice for IT infrastructure, business solutions and related services to corporate South Africa by investing in people, maximising stakeholder wealth, embracing economic empowerment and representing leading technology partners with distinction.



**Gerhard Uys**  
Chief Executive Officer

