



Gary Morolo

## CHAIRMAN'S | REPORT

Datacentrix is proud to announce results that reflect credible performance for the full year after experiencing a particularly tough trading environment in the first half of the year.

### Performance

Growth has been achieved in respect of all the indices as normally reported on, albeit modest growth relative to our past performance. In particular, Datacentrix is proud to announce the achievement of a historic milestone of exceeding one billion Rand in turnover. This milestone was achieved against the headwind of a relatively strong currency and a generally deflationary environment for IT infrastructure, illustrating Datacentrix' resilience and strong market presence.

At the announcement of Datacentrix' disappointing half-year results, management indicated that its assessment was that the group remains strong and vibrant. Management maintained that the concerning results were a result of specific operational issues, which were already identified and were

being addressed. The group is pleased to report that the remedial actions had the desired effect and the strong performance during the second half of the financial year should serve to restore confidence in the group.

The ERP business unit encountered challenges in the year under review. Contract management has been improved and better methodologies employed to curtail the reoccurrence of this situation. The systems and processes continue to be reviewed and management has been strengthened. Client relationships have been reinforced and service delivery enhanced. The division is no longer hemorrhaging and management remains confident that these turnaround activities have improved the efficiencies of the business and look forward to future contributions by the business unit to the growth in earnings.

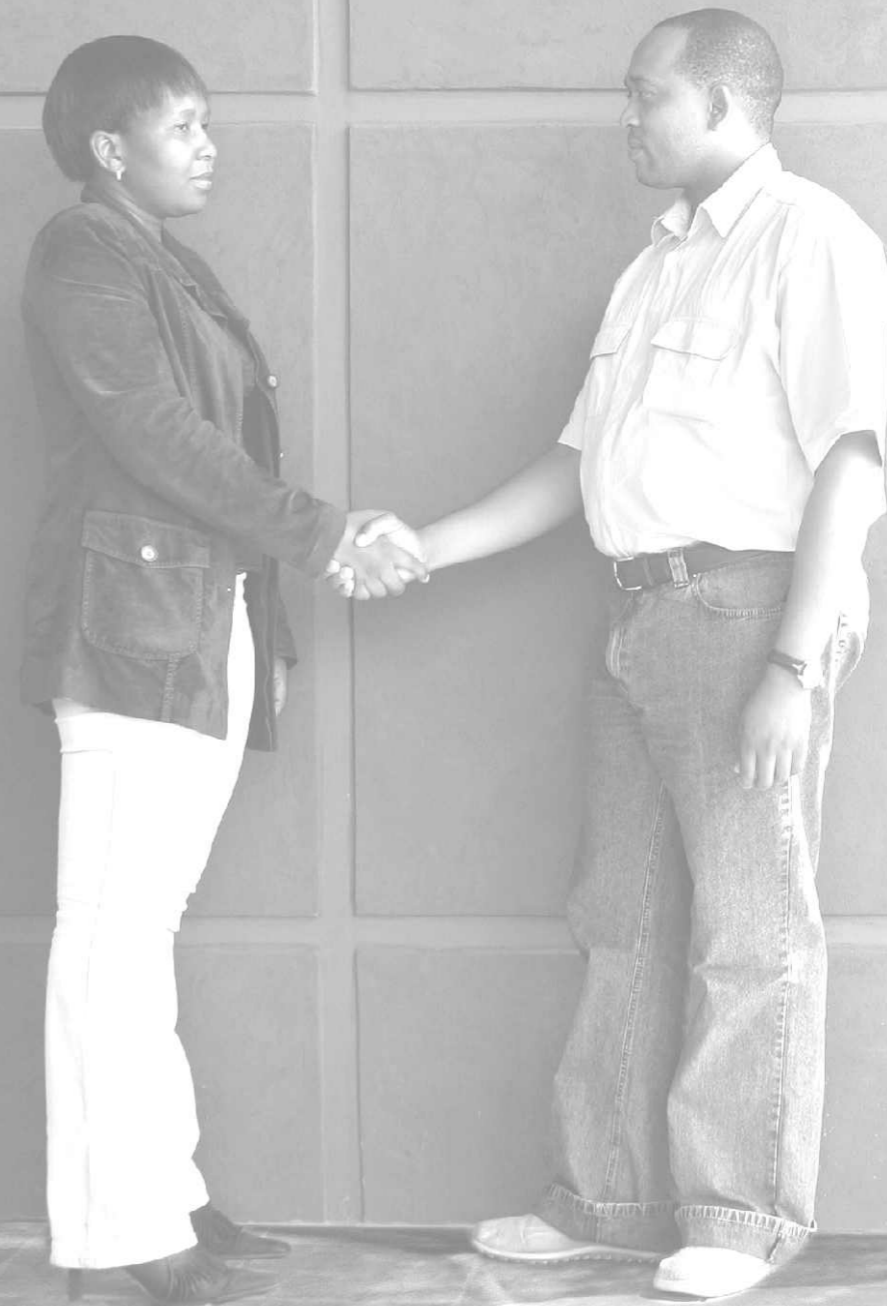
### Market Environment

Consolidation continues to be a feature of the IT landscape, affecting even some of the largest players. While Datacentrix has not been an active player, we should expect that the consolidation will have an impact on the group. As would be the case with almost all other companies in the sector, there have been approaches to Datacentrix to consider consolidation opportunities. Our anticipation is that by and large the consolidation in the sector should create opportunities for Datacentrix in its chosen space. The focus by government on economic growth through various initiatives auger well for the IT sector and should contribute to the demand for more IT capacity.

### Black Economic Empowerment

With the DTI Codes of Practice largely in place, clarity has been provided for companies to begin to purposefully address their empowerment credentials. Accordingly, Datacentrix will be reviewing its credentials. The intention of the group is that this would among other things entail

Datacentrix is proud to announce the achievement of a historic milestone of exceeding one billion Rand in turnover. This milestone was achieved against the headwind of a relatively strong currency and a generally deflationary environment for IT infrastructure, illustrating Datacentrix' resilience and strong market presence.



the empowerment of especially senior staff and management whose contribution is considered key to the current and future success of the business. While Datacentrix has been evaluating a number of options to this end, consolidation in the industry may also provide an opportunity to achieve the same goals.

## Corporate Governance

We have restructured the composition of the board to achieve better compliance with corporate governance guidelines and requirements of the Codes of Good Governance. The board now comprises of eleven people, five of them non-executive; Alwyn Martin was appointed as an independent, non-executive chairman of the Risk and Audit Committee in place of Sam Nematswerani who was not an independent director; the role of the CEO and the chairman have been separated, with the chairman's role being changed to non-executive; there are three women directors, one of whom is executive; and there are five black directors, two of whom are executive.

## Executive Remuneration

Over the past reporting periods the group has routinely disclosed and accounted for the share options awarded to certain key executives. The share options had been granted from 2001 on achievement of specified performance objectives by the board. Recently the group submitted these share options for shareholder approval.

The group did not succeed in obtaining the required majority by shareholders for the approval for the issuing of share options to the key executives. Market sentiment towards share options has turned negative, with decided preference for cash payments to executives.

The key shareholders expressed themselves in favour of appropriate executive remuneration and incentivisation, but had principled objections to share options, preferring cash payments. Shareholders argue that share options do not necessarily align management with shareholder interests and also had a problem with their dilutionary effect. Consequently, the share options have lapsed.

The board has consulted widely with various shareholders about alternative proposals that would result in the substitution of these share options with cash payments to the executives. A formulation has been adopted by the board in line with advice from key shareholders that would result in the payment of the specific bonuses.

## Dividends

In the past few reporting periods the board has repeatedly said that it is reviewing the company's capital structure with a view to improving shareholder returns in the light of excess cash that the group has been accumulating over the years. Having clearly articulated that Datacentrix' growth strategy will not be acquisitive, it has become increasingly imperative to provide a clear plan for the excess cash held by the group.

The directors are pleased to announce a review of the company dividend policy to provide the return of a greater proportion of the cash to shareholders. Accordingly, the normal dividend policy has been adjusted from three times cover to two times cover on HEPS, resulting in a dividend of 14.3 cents per share.

In addition, after due consideration of the group's cash resources, the board has decided to approve the payment of a special dividend of 15.7 cents per share to be paid concurrently with the normal dividend. This, we believe, will contribute significantly to improving shareholder returns.

## Prospects

Having come from a salutary experience, particularly in the first half of the year, the board remains cautiously optimistic about the prospects of the group. Datacentrix continues to be a well-placed partner to government, specifically on the existing SITA contracts. Government spending on IT has increased markedly in the last few months and we expect to see continued activity from this sector.

The anticipated large infrastructure roll-outs including rail and ports, electricity, Gautrain, the hosting of the 2010 World Cup and improved service delivery from government departments, all contribute to a positive economic climate with positive spin-offs for the IT sector. The



pressure to make broadband more accessible and affordable to stimulate economic growth and to make South Africa viable as a call centre destination also adds to positive economic sentiment and a positive outlook for the IT industry.

We have been working with our vendors to provide a more compelling value proposition on the infrastructure products. We have also become significant players in the datacentre space providing high-end infrastructure and middleware products with the associated technical consulting capacity.

The demand for IT infrastructure and related services continues to generate growth to the group's earnings. However it remains to be seen whether there is not an emerging cyclicity to the business where the second and third quarters are slower than the first and fourth quarters.

The Solutions Division is being put on a sound footing and there is confidence that it will return to being a significant contributor to the bottom line.

## Acknowledgements

In what has been a challenging year, it is important to acknowledge the contribution of the staff and management who did not bow down to the weight of the difficulties of the first half of the financial year. The board and the executives of the company have been strong in providing direction and support, and ensuring that Datacentrix returns to its performing ways.

I take this opportunity to thank the board, management and staff in taking the group to a milestone performance and their demonstration of toughness, resilience and determination under trying circumstances.

Gary Morolo  
Chairman

In what has been a challenging year, it is important to acknowledge the contribution of the staff and management who did not bow down to the weight of the difficulties of the first half of the financial year. The board and the executives of the company have been strong in providing direction and support and ensuring that Datacentrix returns to its performing ways.

