

Directors' report

for the year ended 28 February 2018

PROFILE AND GROUP STRUCTURE

Datatec is an international ICT solutions and services group operating in more than 50 countries across North America, Latin America, Europe, Africa, Middle East and Asia-Pacific. The Group's service offering spans the technology, integration and consulting sectors of the ICT market.

Datatec operates two main divisions:

- > **Technology** – Westcon International: distribution of security, collaboration, networking and data centre products and solutions; and
- > **Integration and managed services** – Logicalis: ICT infrastructure solutions and services.

The specialist activities of Consulting and Datatec Financial Services are included with the corporate head office functions in the "Corporate, Consulting and Financial Services" segment of the Group.

Datatec Limited (the "Company"), a South African company with registration number 1994/005004/06, is the parent company of the Group. The Company's shares are listed on the JSE Limited with share code DTC and ISIN ZAE000017745.

GROUP FINANCIAL RESULTS

Commentary on the financial position and financial results of the Group are set out in the Integrated Report on pages 16 to 21.

STATED SHARE CAPITAL

Authorised stated share capital

The authorised stated share capital of the Company as at 28 February 2018 and 28 February 2017 is R4 000 000 made up of 400 000 000 ordinary shares.

Issued stated capital

As at 28 February 2018, the issued stated share capital amounted to R2 429 600, divided into 242 960 000 ordinary shares (FY17: R2 119 676 divided into 211 967 622 ordinary shares).

STATED CAPITAL CHANGES DURING THE YEAR

Special cash dividend with a scrip alternative

In January 2018, a special dividend of R23 per share, representing a total amount of approximately US\$350 million, was declared to ordinary shareholders with an election to receive non-renounceable capitalisation issue shares *in lieu* of the cash dividend.

As a result, Datatec Limited issued 43 770 095 shares as a scrip distribution to shareholders who elected to receive the scrip distribution alternative in respect of the special distribution. A total cash dividend of US\$244.2 million was paid to shareholders.

In FY17, 2 519 461 shares were issued as a scrip distribution to shareholders arising from the FY16 final and FY17 interim cash dividends with scrip distribution alternatives. No final dividend was declared for FY17.

Share repurchase

The Company repurchased 12 777 717 shares at an average price of R32.86 per share for cancellation in February 2018 under the terms of a general authority given by shareholders at the AGM on 14 September 2017. A total amount of US\$34.6 million was returned to shareholders as a result of the share repurchase.

Share issue expenses relating to the special cash dividend and share buy-back for the year amounted to US\$0.3 million. These were accounted for in equity.

Financial details of the movement in share capital have been reflected in the Group statement of changes in equity and in Note 15 in the consolidated annual financial statements together with the number of shares issued during the year.

DISPOSALS DURING THE YEAR

Effective 1 September 2017, the Datatec Group or Datatec Limited and its subsidiaries (“the Group”) sold its Westcon-Comstor businesses in North America and Latin America (“Westcon Americas”) and a 10% interest in the remaining part of Westcon-Comstor (“Westcon International”) to SYNEX Corporation (“SYNEX”) for a consideration of US\$630 million with a potential earn-out based on the gross profit of the Westcon Americas businesses.

In October 2017, Logicalis also realised significant value from the sale of its non-core SMC consulting business for a consideration of US\$42 million.

Refer to Note 36 for further details on the above discontinued operations.

DIRECTORS

Brief *curricula vitae* of directors are included on pages 10 and 11 of the Integrated Report and further information on the directors, including their interests in the shares of the Company and share-based remuneration schemes, is provided in the Remuneration Report out on pages 45 to 55 and in Note 23 to these consolidated annual financial statements on pages 127 to 130.

All directors are subject to election by shareholders at the first opportunity after their appointment. Subsequently, the terms of the Company’s Memorandum of Incorporation requires one-third of all directors to retire annually (ensuring each director retires at least once every three years) when they may offer themselves for re-election by shareholders.

GOING CONCERN

Having undertaken a thorough solvency and liquidity test and review of going concern assertions across the Group, the directors believe that the Datatec Group has adequate financial resources to continue in operation for the 12 months after the date of this report and accordingly the financial statements have been prepared on a going concern basis.

The Group has no need to undertake a capital restructuring and key executive management is in place. The Board is not aware of any new material changes that may adversely impact the Group relative to customers, suppliers, services or markets. The Board is not aware of any material non-compliance with statutory or regulatory requirements and there are no pending legal proceedings other than in the normal course of business.

Solvency

The Group has determined from the solvency tests that the Group is solvent with net assets at 28 February 2018 at US\$721.6 million (2017: US\$855.0 million) and tangible net assets of US\$452.0 million (2017: US\$263.9 million). The Group is also expected to remain solvent over the next 12 months.

Liquidity

The Group is anticipated to generate sufficient cash to settle liabilities as they fall due. Working capital remains well controlled. Trade receivables and inventory are of a sound quality and adequate provisions are held against both.

It should be noted that the US\$375 million syndicated banking facility in Westcon Europe expires in July 2018. See Note 20 in the annual financial statements. Management is in an advanced stage of negotiation of a replacement facility for up to US\$280 million, which we believe is adequate for Westcon Europe’s working capital needs. There is a high probability that the facility will be replaced, as terms have been agreed with existing and new banks and credit approval for the facility has been received. In addition, the Group has cash at the centre, which it could use for working capital funding until the facility is renewed.

The Group is expected to have sufficient liquidity and borrowing capacity to meet its ongoing operating needs, including approved capital expenditure.

INVESTMENTS AND SUBSIDIARIES

Financial information relating to the Group’s investments and interests in subsidiaries is contained in Annexure 1 of the consolidated annual financial statements (see pages 152 to 155).

Directors' report continued

for the year ended 28 February 2018

ACQUISITIONS

The following acquisitions were concluded during the financial year ended 28 February 2018 within the Logicalis Group and Analysys Mason:

Effective 1 June 2017, Analysys Mason Limited acquired 100% of the share capital of Nexia Management Consulting AS, a telecommunications management consultancy company registered in Norway.

On 4 July 2017, Logicalis acquired 51% of the share capital in NubeliU Limited, a South American company specialising in cloud computing projects based on OpenStack. The 51% interest in NubeliU was acquired for a cash consideration of US\$3.8 million. NubeliU's expertise in OpenStack will accelerate the global expansion of Logicalis' cloud computing and SDx (Software Defined everything) practices, strengthening its position as a cloud integrator and ensuring its ability to meet its customers' requirements on their journey to digital transformation.

On 4 September 2017, Logicalis acquired 54% of the share capital in PT Packet Systems Indonesia, Inc. ("PSI") a leading ICT systems integrator and services company. The 54% interest in PSI was acquired for a cash consideration of US\$6.8 million. The acquisition has allowed Logicalis to strengthen its position within Indonesia and the Asia market.

CANCELLATION OF AIM LISTING

The AIM listing of Datatec shares was cancelled on 8 December 2017. The AIM listing has not had the desired effect of diversifying Datatec's investor base and trading of the shares on AIM has dwindled to negligible volumes.

SHARE-BASED PAYMENTS AND OTHER MANAGEMENT INCENTIVE SCHEMES

Details of the Group's share-based payment schemes and other management incentive schemes are set out in the remuneration section of the consolidated annual financial statements on pages 47 to 54.

EVENTS OCCURRING SUBSEQUENT TO THE YEAR-END

On 14 May 2018, Logicalis signed an agreement to acquire 100% of the issued share capital of Coasin Chile S.A., a Chilean and Peruvian ICT services and solutions provider, for a maximum purchase consideration of US\$20.2 million. The acquisition is subject to certain third-party consents as well as approval from the Chilean Competition Authorities.

There are no other material subsequent events to report.

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of Datatec will be held at the JSE, 1st Floor Training Room, One Exchange Square, Gwen Lane, Sandown, Sandton, 2196, Republic of South Africa, at 12:00 on Thursday, 20 September 2018.