



DATATEC
L I M I T E D
(Registration number 94/05004/06)
("Datatec")

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 1998

Adjusted headline earnings per unit up 141% to 101 cents per unit
Operating profit contribution from international operations exceeds 75%
Pro forma net cash resources exceed R800 million

CONSOLIDATED INCOME STATEMENTS

| R000's | Note | Unaudited 6 months to 30 Sept 1998 | Unaudited 6 months to 30 Sept 1997 | Audited 12 months to 31 March 1998 |
|---|------|---|---|---|
| Turnover | | 2 641 585 | 523 517 | 1 373 593 |
| Continuing operations | | 1 095 768 | 339 082 | 672 287 |
| Acquisitions | | 1 545 817 | 184 435 | 701 306 |
| Operating profit before depreciation | | 199 422 | 35 370 | 92 400 |
| Depreciation | | (28 315) | (7 444) | (18 985) |
| Operating profit | 2.3 | 171 107 | 27 926 | 73 415 |
| Net interest (paid)/received | | (7 826) | 1 638 | 1 360 |
| Profit before debenture interest | | 163 281 | 29 564 | 74 775 |
| Debenture interest | | (4 673) | (2 380) | (5 181) |
| Profit before exceptional items | | 158 608 | 27 184 | 69 594 |
| Exceptional items | | — | — | 25 851 |
| Profit before taxation | | 158 608 | 27 184 | 95 445 |
| Taxation | 2.5 | (64 556) | (8 117) | (24 529) |
| Profit after taxation | | 94 052 | 19 067 | 70 916 |
| Share of associated companies' and partnership losses | | (2 010) | (1 515) | (2 270) |
| (Profit)/Loss attributable to outside shareholders | | (16 199) | (266) | 3 399 |
| Attributable earnings | | 75 843 | 17 286 | 72 045 |
| Headline earnings | 2.6 | 75 843 | 17 286 | 44 304 |

CONSOLIDATED BALANCE SHEETS

| R000's | Notes | Pro forma(*) 30 Sept 1998 | Unaudited 30 Sept 1998 | Unaudited 30 Sept 1997 | Audited 31 March 1998 |
|---|-------------|---------------------------------|------------------------------|------------------------------|-----------------------------|
| Capital employed | | | | | |
| Shareholders' funds and debentures | 2.10 + 2.13 | 889 322 | 238 008 | 52 332 | 161 391 |
| Amounts owing to vendors | 2.11 | 804 037 | 888 872 | 127 266 | 195 173 |
| Long-term liabilities | | 5 370 | 5 370 | 3 823 | 4 033 |
| Outside shareholders' interests and non-interest bearing debt | 2.12 | 30 893 | 30 893 | 8 929 | 6 024 |
| | | 1 729 622 | 1 163 143 | 192 350 | 366 621 |
| Employment of capital | | | | | |
| Property, plant and equipment | | 124 046 | 124 046 | 46 135 | 62 001 |
| Associate companies and partnership | | 14 005 | 14 005 | 7 551 | 10 269 |
| Current assets | | 3 167 488 | 2 601 009 | 462 506 | 800 218 |
| Inventories | | 714 607 | 714 607 | 153 597 | 148 859 |
| Accounts receivable | | 1 125 560 | 1 125 560 | 207 227 | 337 961 |
| Cash resources | | 1 327 321 | 760 842 | 101 682 | 313 398 |
| Current liabilities | | 1 575 917 | 1 575 917 | 323 842 | 505 867 |
| Accounts payable | | 1 040 772 | 1 040 772 | 274 326 | 420 512 |
| Taxation | | 47 464 | 47 464 | 13 765 | 24 978 |
| Debenture holders for interest | | 4 762 | 4 762 | 2 424 | 2 856 |
| Bank overdrafts and trade finance facilities | | 482 919 | 482 919 | 33 327 | 57 521 |
| Net current assets | 2.14 | 1 591 571 | 1 025 092 | 138 664 | 294 351 |
| | | 1 729 622 | 1 163 143 | 192 350 | 366 621 |

(*) Refer note 3

CONSOLIDATED CASH FLOW STATEMENTS

| R000's | Unaudited 6 months to 30 Sept 1998 | Unaudited 6 months to 30 Sept 1997 | Audited 12 months to 31 March 1998 |
|---|---|---|---|
| Net cash inflow/(outflow) from operating activities | 56 514 | (20 548) | 91 814 |
| Operating profit | 199 660 | 35 369 | 92 399 |
| Working capital movements | (86 622) | (53 399) | (18 034) |
| | 113 038 | (18 030) | 74 365 |
| Net interest paid including debenture interest | (10 592) | (498) | (3 145) |
| Taxation paid | (45 932) | (2 020) | (11 860) |
| | 56 514 | (20 548) | 59 360 |
| Cash flow from exceptional items | — | — | 32 454 |
| Net cash outflow from investing activities | (1 983 321) | (250 029) | (625 303) |
| Net property, plant and equipment additions | (39 142) | (17 886) | (35 348) |
| Acquisitions and advances to investments | (1 944 179) | (232 143) | (589 955) |
| Net cash inflow from financing activities | 1 948 853 | 259 832 | 710 266 |
| Funds from issue of combined units | 1 269 272 | 185 565 | 570 458 |
| Funds provided by vendors and loans | 679 581 | 74 267 | 139 808 |
| Increase/(decrease) in cash and cash equivalents | 22 046 | (10 745) | 176 777 |
| Cash and cash equivalents at beginning of period | 255 877 | 79 100 | 79 100 |
| Cash and cash equivalents at end of period (*) | 277 923 | 68 355 | 255 877 |

(*) comprises net of cash resources and bank overdrafts

SALIENT FINANCIAL FEATURES

| R000's | Unaudited 30 Sept 1998 | Unaudited 30 Sept 1997 | Audited 31 March 1998 |
|--|------------------------------|------------------------------|-----------------------------|
| Number of combined units in issue ('000) | 77 559 | 48 836 | 58 188 |
| Adjusted number of combined units in issue ('000) | 83 619 | 49 319 | 59 076 |
| Weighted average number of combined units in issue ('000) | 73 319 | 44 862 | 51 156 |
| Adjusted weighted average number of combined units in issue ('000) | 79 371 | 47 082 | 52 038 |
| Earnings per combined unit (cents) | 108,8 | 43,8 | 151,0 |
| – attributable earnings | 103,4 | 38,7 | 141,1 |
| – debenture interest | 5,4 | 5,1 | 9,9 |
| Headline earnings per combined unit (cents) | 108,8 | 43,8 | 96,7 |
| – attributable earnings | 103,4 | 38,7 | 86,8 |
| – debenture interest | 5,4 | 5,1 | 9,9 |
| Adjusted headline earnings per combined unit (cents) | 101,0 | 41,9 | 95,1 |
| – attributable earnings | 95,6 | 36,8 | 85,2 |
| – debenture interest | 5,4 | 5,1 | 9,9 |
| Net asset value per combined unit (cents) | 306,9 | 111,7 | 277,4 |
| Adjusted net asset value per combined unit (cents) | 1 347,6 | 364,2 | 603,6 |

1. PROFILE AND GROUP STRUCTURE

The Datatec group is a rapidly expanding Network Technology and Services group with international operations in many of the world's leading economies. The group's principal lines of business are value added distribution of industry leading advanced networking products ("Technology Products" division), network systems integration ("Network Integration and Services" division) and Internet and web services ("Internet and Networking Operations" division).

2. COMMENTARY ON RESULTS

2.1 The group is pleased to report another strong set of results reflecting continuing organic and acquisition based growth in all divisions. Turnover and operating profit were significantly up at 405% and 513% respectively on the corresponding period to 30 September 1997. Adjusted headline earnings per combined unit continued to grow at over 100% per period, increasing from 41,9 cents per unit for the previous period to 101,0 cents per unit in the current period, an increase of 141%.

2.2 Operating margins increased to 6,5% from the previous period's 5,3%, an increase of 21%, reflecting both the tight containment of operating expenses and the group's strategy of increasing its investments in higher operating margin businesses.

2.3 Operating profit is made up as follows:

| R'000 | Unaudited 6 months to 30 Sept 1998 | Unaudited 6 months to 30 Sept 1997 | Audited 12 months to 31 March 1998 |
|------------------------------------|--|--|--|
| Technology Products | 123 946 | 19 550 | 41 182 |
| Network Integration and Services | 48 423 | 9 164 | 37 745 |
| Internet and Networking Operations | (1 262) | (788) | (5 512) |
| | 171 107 | 27 926 | 73 415 |

2.4 The continued operating losses in the Internet and Networking Operations division reflect the group's continuing investment into new Internet technologies and capacity for UUNET Internet Africa, as well as new investments in Web solutions

2.13 Tradenames and goodwill amounting to R2 035 990 000 (30 September 1997: R365 809 000) have been set-off against share premium to reflect the directors' intention to write off such tradenames and goodwill against the share premium account through a reduction of capital, in terms of the Companies Act, before the end of the financial year. Comparative figures have been adjusted to reflect the same accounting treatment.

2.14 Working capital levels have increased in line with the growth of the group's operations. Bank overdrafts and trade finance facilities relate primarily to the group's working capital facilities for its international operations.

2.15 Capital expenditure for the period under review amounted to R73,7 million.

3. PRO FORMA BALANCE SHEET

A pro forma balance sheet has been shown to reflect the effects of the recent specific issue of units for cash to raise US\$97,0 million to fund, *inter alia*, further international acquisitions, as well as the settlement of the purchase consideration owing through the issue of further units in respect of the acquisition of Network SI Limited.

4. PROSPECTS

4.1 Datatec's strategy to remain a focused Networking Technology and Services group and to expand internationally has positioned the group as a major player in a number of leading international markets such as the United Kingdom ("UK"), USA, Canada, Australia and France. The group intends to continue its strategy by expanding aggressively across Europe and Australia and broadening its North American operations by focusing on increasing its investment in the higher margin skills based areas, such as network integration.

4.2 The group has created a single brand entity for its worldwide value added distribution businesses, Westcon, which supplies networking equipment and provides value added services through multiple reseller channels. Further expansion in this division will be mainly organic through the addition of new product lines in fast growing areas such as Internet security and Virtual Private Network solutions. Westcon operates on all major continents and represents the major networking equipment vendors such as Nortel/Bay, Cisco Systems, Lucent Technologies and 3Com Corporation.

4.3 Datatec has established a significant presence in the UK with its Network Integration and Services division and is currently pursuing a number of initiatives,

| | | | |
|------------------------------------|---------|--------|---------|
| Technology Products | 123 946 | 19 550 | 41 182 |
| Network Integration and Services | 48 423 | 9 164 | 37 745 |
| Internet and Networking Operations | (1 262) | (788) | (5 512) |
| | 171 107 | 27 926 | 73 415 |

- 2.4
- The continued operating losses in the Internet and Networking Operations division reflect the group's continuing investment into new Internet technologies and capacity for UUNET Internet Africa, as well as new investments in Web solutions ventures.
- 2.5
- The effective tax rate of 40,7% (1997: 29,9%) is a consequence of the high average tax rates in the United States of America ("USA") as well as operating losses in certain of the Internet and Networking Operations companies.
- 2.6
- Determination of headline earnings

| R'000 | Unaudited 6 months to 30 Sept 1998 | Unaudited 6 months to 30 Sept 1997 | Audited 12 months to 31 March 1998 |
|--|--|--|--|
| Attributable earnings per the income statement | 75 843 | 17 286 | 72 045 |
| Exceptional items net of tax and outside shareholders interest | — | — | (27 741) |
| Headline earnings | 75 843 | 17 286 | 44 304 |

- 2.7
- Headline earnings per combined unit ("HEPCU") reflects the earnings for the period excluding exceptional items based on the weighted average number of units in issue.
- 2.8
- Adjusted HEPCU is based on the weighted average number of units in issue together with units issued or to be issued subsequent to the period end relating to acquisitions concluded during the period for which the full purchase considerations are now payable (i.e. the relevant profit warranties have been fulfilled). The earnings for the period have been adjusted for the debenture interest in respect of these additional units.
- 2.9
- On the basis that the remaining profit warranties are fulfilled (in respect of those acquisitions not included in the adjusted HEPCU calculation in 2.7 above), all options granted are exercised and the relevant adjustments are made to the earnings for the period, fully diluted HEPCU would not be materially different to adjusted HEPCU.
- 2.10
- Shareholders' funds and debentures have increased as a result of the combined units issued in partial settlement of the purchase considerations owing in respect of the acquisitions concluded in the period under review and in settlement of the remaining purchase considerations owing in respect of the acquisitions concluded in the last financial period where profit warranties have been fulfilled.
- 2.11
- Amounts owing to vendors represent purchase considerations owing in respect of the acquisitions and will be funded through the issue of combined units once the relevant profit warranties are fulfilled.
- 2.12
- Outside shareholders' interests have increased primarily as a result of the acquisition of an 80% interest in Westcon Group Inc. in the USA.

- 4.2
- The group has created a single brand entity for its worldwide value added distribution businesses, Westcon, which supplies networking equipment and provides value added services through multiple reseller channels. Further expansion in this division will be mainly organic through the addition of new product lines in fast growing areas such as Internet security and Virtual Private Network solutions. Westcon operates on all major continents and represents the major networking equipment vendors such as Nortel/Bay, Cisco Systems, Lucent Technologies and 3Com Corporation.
- 4.3
- Datatec has established a significant presence in the UK with its Network Integration and Services division and is currently pursuing a number of initiatives, mainly in Europe and the USA, to complement its existing UK, France, Australian and Southern African operations. These businesses will all trade under the Logical brand. In addition to increasing its international coverage, the group will expand its service and support capabilities to offer a broader range of networking competencies including facilities management, outsourced network management services and MicroSoft solution skills.
- 4.4
- The group will continue to invest in and create new initiatives within its Internet and Network Operations division. Examples of such new initiatives are Affinity Logic, an e-commerce joint venture with one of South Africa's largest retail groups, Wooltru Limited, and the establishment of a South African "The Web Factory" operation to mirror the group's UK business. These initiatives reflect the group's belief that investments in Internet security, Web solutions and electronic commerce are the critical technologies required to compete and will yield significant benefits in the future.

5. YEAR 2000 COMPLIANCE ("Y2K")

The group has reviewed and will continue to monitor the levels of Y2K compliance in all of its significant business operations to achieve full compliance internally by June 1999. Where appropriate, detailed plans, with agreed upon milestone dates for implementation, have been put in place to address the identified areas of non-compliance. In a number of instances, group companies have implemented new systems as part of the on-going improvement of systems of internal control, and in all instances the new systems have been certified as being Y2K compliant. The cost of such new systems has been dealt with in accordance with the group's normal accounting policies for the treatment of computer software. The cost of any modification to existing computer software to make it Y2K compliant is expensed in the period in which it is incurred. To date, these costs have not been significant.

6. DISTRIBUTION TO UNITHOLDERS

- 6.1
- Debenture interest**
Debenture interest of 5,4 cents per unit has been paid in respect of the six-month period ended 30 September 1998.
- 6.2
- Dividends**
In view of the continuing alternative investment opportunities available to the group, the group's policy is to retain attributable income for growth without a dividend distribution to shareholders.

On behalf of the board

JP Montanana
Executive Chairman

6 November 1998

JS James
Group Finance Director

Directors: JP Montanana* (*Executive Chairman*), J Cavill*, JS James, DRL Jones†*, M Karpul, DR Lello, MJ Lamberti†, JF McCartney†^, R MichalowskiΔ, LM Piepke†, RS Rindel, CS Seabrooke†, ^American *British ΔPolish †Non-executive