# DATATEC

Driving Technology

2020

Audited Group consolidated annual financial statements

**29 February 2020**

# Contents

# Directors' **responsibility statement**

for the year ended 29 February 2020

The directors are responsible for the preparation and fair presentation of the consolidated annual financial statements of Datatec Limited ("Datatec" or the "Company" or the "Group"), comprising the consolidated statement of financial position at 29 February 2020, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards ("IFRS") and the requirements of the South African Companies Act 71 of 2008 ("the Companies Act").

In terms of the Companies Act, the directors are required to prepare annual financial statements that fairly present the state of affairs and business of the Group at the end of the financial year and of the profit for that year. The consolidated annual financial statements for the year ended 29 February 2020 are prepared in accordance with IFRS of the International Accounting Standards Board, Interpretations issued by the IFRS Interpretations Committee, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the JSE Listings Requirements and the Companies Act and incorporate transparent and responsible disclosure together with appropriate accounting policies. These annual financial statements were compiled under the supervision of Ivan Dittrich CA(SA), the Chief Financial Officer.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management as well as the preparation of the supplementary schedules included in these financial statements.

These annual financial statements have been audited in compliance with the requirements of the Companies Act. The auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with the applicable financial reporting framework.

The directors have made an assessment of the ability of the Company and its subsidiaries to continue as going concerns and believe that the Group and its subsidiaries have adequate resources to continue in operation for the foreseeable future and accordingly these financial statements have been prepared on a going concern basis.

### APPROVAL OF THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

The consolidated annual financial statements of Datatec Limited as identified in the first paragraph were approved by the Board of directors on 26 May 2020 and signed by:

**JP Montanana**
*Chief Executive Officer*
Authorised director

**IP Dittrich**
*Chief Financial Officer*
Authorised director

# Certificate **by Company Secretary**

In terms of section 88(2)(e) of the South African Companies Act 71 of 2008, I certify that for the year ended 29 February 2020 Datatec Limited has filed with the Commissioner of the CIPC all such returns as are required of a public company in terms of the Act. Further, that such returns are true, correct and up to date.

**SP Morris**
For and on behalf of Datatec Management Services (Pty) Ltd
*Company Secretary*

# Independent **auditor's report**

## TO THE SHAREHOLDERS OF DATATEC LIMITED

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of Datatec Limited and its subsidiaries ("the Group") set out on pages 144 to 241, which comprise the consolidated statement of financial position as at 29 February 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 29 February 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together "the IRBA Codes") and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key audit matter

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period.

This matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| **Assessment of Logicalis goodwill for impairment**<br>As disclosed in Note 9 the carrying value of goodwill amounts to US$241 million of which US$222 million relates to the Logicalis cash-generating unit.<br><br>Significant judgement is required by the directors in assessing the impairment of goodwill, which is determined with reference to the value-in-use, including the key assumptions utilised in the goodwill discounted cash flow ("DCF") model for each cash-generating unit. Accordingly, for the purposes of our audit, we identified the impairment of goodwill relating to the Logicalis cash-generating unit as representing a significant risk of material misstatement, due to the significance of this balance.<br><br>The assumption with the most significant effect on the Logicalis valuation was the discount rate, which is based on the weighted average cost of capital. The calculation of the weighted average cost of capital is highly complex and significant movements to the discount rate were noted in the current year due to the recognition of operating leases (in terms of IFRS 16 *Leases*) in the capital structure in the current and reductions in the risk-free interest rates in the USA and United Kingdom. As a result, the assessment of goodwill for Logicalis was considered a key audit matter. | In evaluating the Logicalis goodwill for impairment, we assessed the calculation of its value-in-use, as prepared by the independent party specialist on behalf of the directors, with a particular focus on the discount rate.<br><br>Focused audit procedures were performed on the valuation, including the following:<br>• assessing the competence, capabilities and objectivity of the independent parties used by the directors to evaluate goodwill for impairment;<br>• engaging with our internal specialists to critically evaluate whether the directors' model complies with the requirements of IAS 36 *Impairment of Assets*;<br>• involving our internal corporate finance specialist to assist with the assessment of the discount rate applied. Our specialist's procedures included evaluating the entity's current funding rates, funding structures and risk profile against relevant market data;<br>• re-computing the results of the valuation and comparing the value-in-use to the carrying value of Logicalis net assets including goodwill;<br>• performing sensitivity analyses on the inputs to the valuation model to evaluate the impact on the valuation; and<br>• assessing the adequacy of the Group's disclosures in respect of goodwill with reference to applicable accounting standards.<br><br>Based on the results of the above procedures, we consider the assumptions used in the valuation models to be appropriate and the disclosures in relation to the goodwill balance to be appropriate. |

### Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled “Audited Group consolidated annual financial statements for the year ended 29 February 2020”, which includes the directors’ report, the Audit, Risk and Compliance Committee’s report and the certificate of the Company Secretary, as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the document titled the “Datatec Limited separate financial statements for the year ended 29 February 2020” and the Integrated Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor’s report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

# Independent **auditor's report** continued

### **Auditor's responsibilities for the audit of the consolidated financial statements** continued

We communicate with the Audit, Risk and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit, Risk and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit, Risk and Compliance Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA rule published in *Government Gazette Number 39475* dated 4 December 2015; we report that Deloitte & Touche has been the auditor of Datatec Limited for 25 years.

Deloitte & Touche

**Deloitte & Touche**
*Registered Auditor*
Per: M Rayfield
Partner

26 May 2020

5 Magwa Crescent
Waterfall City
Midrand
2090
South Africa

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer *AF Mackie Audit & Assurance *N Sing Risk Advisory DP Ndlovu Tax & Legal *MR Verster Consulting *JK Mazzocco People & Purpose MG Dicks Risk Independence & Legal *KL Hodson Financial Advisory *B Nyembe Responsible Business & Public Policy *TJ Brown Chairman of the Board

A full list of partners and directors is available on request

** Partner and registered auditor*

# Audit, Risk and Compliance Committee report

for the year ended 29 February 2020

The information below constitutes the report of the Audit, Risk and Compliance Committee ("ARCC" or "the committee").

The ARCC comprises four independent non-executive directors: Johnson Njeke (Chairman), John McCartney, Ekta Singh-Bushell and Rick Medlock. *Curricula vitae* for these directors are on pages 22 and 23 of the Integrated Report, together with their relevant skills and suitable experience.

The following officers are invited to attend all meetings of the ARCC:
- Chairman of the Board, Stephen Davidson;
- Chief Executive Officer, Jens Montanana;
- Chief Financial Officer, Ivan Dittrich;
- Chief Risk Officer, Simon Morris;
- Chief Audit Executive, Marcos Bedendo (internal audit); and
- external audit partner.

The external and internal auditors have unrestricted access to the ARCC and also meet with the committee members, without management present, at least once a year. Attendance at committee meetings is set out in the risk report in Investor Information.

The committee meets at least three times a year. In the year under review and subsequently up to the date of this report, the committee has met six times, with all members in attendance. The Chairman of the committee reports on the committee's activities at each Board meeting.

The committee operates within defined terms of reference as set out in its charter and the authority granted to it by the Board. The charter is reviewed annually to confirm compliance with the King IV™ Code and the Companies Act and to ensure the incorporation of best practice developments.

The charter is available at **www.datatec.com**.

The committee is satisfied that it has met and complied with its legal and regulatory responsibilities for the year under review and to the date of this report with respect to its terms of reference as set out in its charter.

Each of Datatec's main operating divisions has an audit, risk and compliance committee, chaired by the Group Chief Financial Officer, Ivan Dittrich. Reports from these committees are submitted to the Datatec ARCC, which retains all the functions of an audit committee in respect of Datatec's subsidiaries.

In terms of the Companies Act and the JSE Listings Requirements, the committee has considered and satisfied itself of the appropriateness of the expertise and experience of Ivan Dittrich, the Group Chief Financial Officer. Further, the committee considers the appropriateness of the expertise and adequacy of resources of the Group's finance function and the experience of senior management in the finance function and the risk management organisation. For the year under review, the committee is satisfied that the Group has established appropriate financial reporting procedures and controls, and that those procedures and controls are operating effectively.

The committee is responsible for selecting the external auditor and recommending its appointment to the shareholders. Deloitte & Touche has been the external auditor for 25 years and has the policy of rotating the designated partner every five years. The current designated audit partner is M Rayfield who is in the third year of his tenure.

Following the 2019 AGM, the Company undertook a process to identify a new external audit firm for the year ending 28 February 2021 ("FY21") and the ARCC took a leading role in the selection process. After meeting in January 2020 the committee recommended to the Board that PricewaterhouseCoopers ("PwC"), be appointed as the new external auditors for the Group subject to shareholder approval at the 2020 AGM on 29 July 2020.

The committee monitors the external auditor and obtained and reviewed the information specified in Paragraph 22.15(h) of the JSE Listings Requirements. The committee is satisfied that Deloitte & Touche and the designated audit partner are independent of the Company and that the quality of their audit work is of a sufficiently high standard in relation to the FY20 audit.

In relation to the new external auditor, PwC, the committee has also obtained and reviewed the information specified in paragraph 22.15(h) of the JSE Listings Requirements. The committee is satisfied that PwC and the designated audit partner are independent of the Company and assessed them as suitable for appointment.

In its assessment of the quality of the work of the current external auditor and the suitability of the new external auditor, the committee made reference to audit quality indicators included in inspection reports issued by external audit regulators.

The committee is responsible for approving the external auditor's fees and oversees the Company's policy and controls that address the provision of non-audit services by the external auditor and the nature and extent of such services rendered during the financial year. This contributes to maintaining the external auditor's independence.

The committee reviews the activities and effectiveness of the Group's internal audit function and annually reviews the internal audit charter and recommends it to the Board. The ARCC receives reports from the Chief Audit Executive at each of its meetings and reviews the progress of the internal audit programme, results and findings from internal audit work and actions taken by management to resolve issues in a timely manner.

# Audit, **Risk and Compliance Committee report** continued

for the year ended 29 February 2020

The committee assists the Board in reviewing the risk management process and significant risks facing the Group. The committee reviews the Group's risk strategy with the executive directors and senior management and oversees the Group's use of recognised risk management and internal control models and frameworks to maintain a sound system of risk management and internal control. Combined assurance processes are in place throughout the Group to provide the committee with internal management assurance and external assurance from a range of assurance providers including the outsourced internal auditor. The ARCC is satisfied that the appropriate processes are in place, including effective combined assurance, to enable the Board to make an objective assessment of the Group's system of internal controls and risk management.

The committee is closely involved in the JSE proactive monitoring of annual financial statements. It reviews the annual report issued by the JSE on this subject and related information and ensures that all the comments by the JSE are taken into consideration in its review of the Group's financial information.

The committee is tasked with reviewing the interim and annual financial statements and Integrated Report. The ARCC recommended the annual financial statements for the year ended 29 February 2020 for approval to the Board. The Board has subsequently approved the annual financial statements which will be presented at the forthcoming Annual General Meeting.

## KEY SOURCES OF ESTIMATION UNCERTAINTY

The results and statement of financial position presented in the annual financial statements require many areas where key assumptions concerning the future, and other key areas of estimation included in the Group's annual financial statements, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

These are outlined in the notes to the annual financial statements. The committee has considered in particular the qualitative and quantitative aspects of information presented in the statement of financial position and other notes that contain sources of estimation and uncertainty in the following areas:

- estimates made in determining the recoverable amount of goodwill included in the statement of financial position. This is considered to be a key audit matter. Refer to Note 9 for further discussion of the methodology and rationale for selecting these inputs to management's estimations;
- estimates made in determining the probability of future taxable income justifying the recognition of deferred tax assets;
- estimates made in determining the level of provision required for obsolete inventory and the accounting for rebates from suppliers;
- estimates made in determining the amount or timing relating to restructuring, legal claims, taxes, pension and dilapidation obligations; and
- estimates made when measuring the expected credit losses.

In making its assessment in each of the above areas, the committee examined the external auditors' report and questioned senior management in arriving at their conclusions.

Based on their review of the underlying issues and assumptions, the committee considers the accounting treatment for the above to be appropriate.

## CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

### Going concern

On 11 March 2020 the World Health Organization ("WHO") declared the coronavirus outbreak causing the disease COVID-19 to be a global pandemic. The directors have reviewed the future profit and cash flow projections in conjunction with the current economic climate as well as banking facilities in place to support all the operations, in order to express an opinion on the adequacy of working capital and the ability to continue as a going concern for the foreseeable future. These projections covered future financial performance, solvency and liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing of various possible scenarios, varying in severity, related to COVID-19. These scenarios included contingency planning for restructuring actions to be taken in response to the more severe scenarios. It is, however, difficult to predict the overall outcome and impact of COVID-19.

The Group's projections and sensitivity analyses show that the Group has sufficient capital and liquidity to continue to meet its short-term obligations. As a result it is appropriate to prepare these annual financial statements on a going concern basis.

As the WHO declared COVID-19 a global pandemic on 11 March 2020 after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. As a result the financial effects resulting from the impact of COVID-19 have not been reflected in the Group's financial statements as at 29 February 2020.

**MJN Njeke**
*Audit, Risk and Compliance Committee Chairman*
Sandton

26 May 2020

# Directors' **report**

for the year ended 29 February 2020

## 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, Management 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.

## SPECIAL DIVIDEND WITH SCRIP DISTRIBUTION ALTERNATIVE

Following an arbitration process by an independent accountant, the earn-out payment relating to the disposal of Westcon Americas to SYNNEX was determined to be US$14 million and was returned to shareholders by way of a special dividend of R1.00 per share on 29 July 2019 which totalled US$15.4 million. The special dividend resulted in US$11.9 million of cash being distributed to shareholders who did not elect the scrip distribution alternative and 1.25 million shares were issued to shareholders who elected the scrip distribution alternative.

## STATED SHARE CAPITAL

### Authorised stated share capital

The authorised stated capital of the Company as at 29 February 2020 and 28 February 2019 is R4 000 000 made up of 400 000 000 ordinary shares.

### Issued stated capital

As at 29 February 2020, the issued stated capital amounted to R2 014 500, divided into 201 450 000 ordinary shares (FY19: R2 192 000 divided into 219 200 000 ordinary shares).

## STATED CAPITAL CHANGES DURING THE YEAR

### Share repurchases

In total, the Company repurchased 19 000 718 shares for cancellation during FY20 at a total cost of US$44.3 million:

| Shareholder authority | Number of shares repurchased | Average price per share paid ZAR | Cost of shares repurchased ZAR'000 | Cost of shares repurchased including share repurchase expenses US$'000 | Date of cancellation of shares |
|---|---|---|---|---|---|
| Annual General Meeting held on 29 August 2019 | 5 463 435 | 34.30 | 187 383 | 12 819 | 27 February 2020 |
| | 5 086 565 | 34.27 | 174 312 | 11 788 | 21 October 2019 |
| General meeting held on 26 June 2019 | 2 353 558 | 33.31 | 78 388 | 5 330 | 2 September 2019 |
| | 1 697 160 | 34.97 | 59 349 | 4 224 | 19 July 2019 |
| General meeting held on 15 January 2019 | 4 400 000 | 33.22 | 146 148 | 10 184 | 25 June 2019 |
| **Total shares repurchased** | **19 000 718** | **33.98** | **645 580** | **44 345** | |

Share cancellation expenses relating to the shares repurchased for the year amounted to US$0.2 million. These were accounted for in equity.

### Scrip distribution

As a result of the scrip distribution referred to above, the Company issued 1 250 718 shares.

Financial details of the movement in share capital have been reflected in the Group statement of changes in equity and in Note 17 in the consolidated annual financial statements.

## DIRECTORS

Brief *curricula vitae* of directors are included on pages 22 and 23 of the Integrated Report. Directors' interests in the shares of the Company are provided in the remuneration report in Investor Information. Directors' remuneration and their interests in share-based remuneration schemes are provided in Note 26 to these consolidated annual financial statements.

All directors are subject to election by shareholders at the first AGM after their appointment. Subsequently, the terms of the Company's Memorandum of Incorporation require 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

The Board has undertaken a rigorous assessment of whether the Group is a going concern in light of the current economic conditions and available information about future risks and uncertainties.

# Directors' **report** continued

for the year ended 29 February 2020

The projections of the Group have been prepared on a sum-of-the-parts basis to determine the ability of each of its core segments to continue as a going concern. These projections covered future financial performance, solvency and liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing of various possible scenarios, varying in severity, related to COVID-19, which had been declared a global pandemic by the World Health Organization on 11 March 2020. These scenarios included contingency planning for restructuring actions to be taken in response to the more severe scenarios. It is, however, difficult to predict the overall outcome and impact of COVID-19.

The Group currently has no need to undertake a capital restructuring and key executive management is in place. 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 Board has determined that the Group is solvent with net assets at 29 February 2020 of US$572.3 million (FY19: US$648.9 million) and tangible net assets of US$281.0 million (FY19: US$364.1 million). The Group is expected to remain solvent over the next 12 months.

### Liquidity

In February 2020 Logicalis completed a new three-year US$155 million banking facility for its subsidiaries. This new senior facility covers Logicalis' operations throughout the world, excluding Latin America, which has its own separate credit facilities. It is used to fund working capital requirements and also includes a new acquisition credit line. In addition, the Latin American credit facilities are considered adequate in the current environment.

On 14 May Westcon extended its expiring European Invoice Financing facility of US$280 million for a further 12 months until 4 June 2021. The facility has been reduced to US$224 million with effect from 4 June 2020, with an accordion facility to go up to US$280 million during the period November 2020 to February 2021 when working capital utilisation is typically at its highest. This extended facility is considered adequate for Westcon International's working capital requirements, based on prior year utilisation of the facility, as well as projected headroom as per the scenario modelling and stress testing.

The Group performed covenant projections to confirm that banking covenants are unlikely to be breached for the next 12 months.

The Group's liquidity is dependent on customers continuing to pay their invoices. Between the reporting date and the authorisation date of these annual financial statements, customers have continued to pay largely in line with historic norms. Suppliers have also provided extended payment terms where required.

Trade receivables and inventory are of a sound quality and adequate provisions have been recorded.

The Group's forecasts and projections of its current and expected financial performance show that the Group is expected to operate within the levels of its banking facilities for at least 12 months from the authorisation date of these annual financial statements.

### Trading from 1 March 2020 to the date of this report

Trading has remained steady since the beginning of FY21, although some delays and supply disruptions were experienced especially in countries with highly restrictive lockdowns. Initial indications are that Westcon International revenues and order intake for the first quarter of FY21 ("Q1 FY21") are similar to the same period last year. For Logicalis, order intake for Q1 FY21 is similar to the corresponding period last year, with revenues for Q1 FY21 slightly lower than Q1 FY20.

Increased demand for the Group's technology solutions is being experienced to support remote working during the lockdowns enforced throughout the world. In particular, demand for cloud computing, remote access solutions, virtualisation, security and unified communications remains strong. The positioning of the Group's divisions remains strategically sound with good demand for their solutions and services expected to continue as the world emerges from the current crisis and investments towards digital transformation accelerate.

Furthermore, the multi-year investment in systems and processes in Westcon was a key enabler to move all its employees to working remotely, with the exception of warehouse staff, who continue to work in the warehouses subject to increased safety protocols. Most of the Logicalis global workforce also successfully works from home in the current environment.

### Conclusion

The Group's projections and sensitivity analyses shows that the Group has sufficient capital and liquidity to continue to meet its short-term obligations and as a result it is appropriate to prepare these annual financial statements on a going concern basis. This is further supported by trading after the financial year-end, as outlined above.

## INVESTMENTS AND SUBSIDIARIES

Financial information relating to the Group's investments and interests in subsidiaries is contained in Annexure 1 to the consolidated annual financial statements and in Note 11.

## ACQUISITIONS

The Group made the following acquisitions during the financial year ended 29 February 2020:

On 1 March 2019, Analysys Mason Limited acquired 100% of the issued share capital Stelacon Holding AB ("Stelacon"), a Swedish consulting company, for US$2.6 million (including a deferred purchase consideration of US$1.2 million). This was an important further step in building a pan-Scandinavian presence after Analysys Mason's successful expansion into Norway. Stelacon brings experience in areas including smart cities, regional development, digital services, policy and regulation, and telecoms and digital communications.

Effective 30 June 2019, Logicalis SA (Pty) Ltd, acquired 100% of the issued share capital of Mars Investment Holdings (Pty) Ltd ("Mars Technologies"), a South African IT services business, for US$0.4 million (including a deferred purchase consideration of US$0.1 million). With this acquisition, the Logicalis South African operation strengthens and expands its managed services offering to better serve its corporate customers and deliver new services to existing customers from both companies.

On 2 September 2019, Logicalis Group purchased a 70% interest in Cilnet – Comunicações e Projectos Especiais S.A. ("Cilnet"), a Cisco systems integrator and managed services business in Portugal, for US$8.8 million (including US$2.3 million deferred purchase consideration). The acquisition increases Logicalis' Cisco technical expertise in the Iberian region and complements the existing Spanish operation with data centre, collaboration, networking, infrastructure and managed services capabilities, expanding the offering to the region.

Also, on 2 September 2019, Logicalis acquired 100% of Orange Networks GmbH ("Orange Networks"), a Microsoft services business in Germany focused on Microsoft cloud and managed services. The purchase price was US$2.9 million (including US$0.6 million deferred purchase consideration). This acquisition advances Logicalis Germany to Microsoft Gold-Certified Partner status and enhances its hybrid cloud offering.

## SHARE-BASED PAYMENTS AND LONG-TERM INCENTIVE SCHEMES

Details of the Group's share-based payment schemes and long-term incentive schemes are set out in the remuneration report in Investor Information and Note 2 of the consolidated annual financial statements.

## EVENTS OCCURRING SUBSEQUENT TO THE YEAR-END

### COVID-19

On 11 March 2020 the World Health Organization declared the coronavirus outbreak causing the disease COVID-19 to be a global pandemic. This was followed by most countries in which the Group operates instituting "lockdown" restrictions to slow the spread of the disease. The Datatec Group responded by ensuring the safety and wellbeing of its employees and enabling working from home to maintain social distancing. Travel and face-to-face meetings were quickly reduced and eliminated completely in accordance with prevailing regulations. Most of the Group's business activities are able to continue under lockdown conditions and the provision of IT and communications equipment and services is often an essential component of the global response to the pandemic. The effect on the Group's business at the date of this report has been considered in detail by the Board in approving the annual financial statements for FY20. Please refer to Note 39 for detailed consideration of the ability of the Group to continue as a going concern.

The countries in which the Group operates are all in different stages of "lockdown", including travel, trade restrictions and social distancing measures. Outcomes range from successful virus containment with a short-term economic impact, to a prolonged global contagion resulting in a potential global recession or recessions in countries in which the Group operates. At the same time, there are a number of policy and fiscal responses emerging across the globe intended to mitigate potential negative economic impacts. Datatec is monitoring the developments closely and continuously adjusting across all its operations. The Group follows guidelines from the World Health Organization and abides by the requirements as activated by local governments. Contingency plans have been implemented as far as possible to mitigate the potential adverse impact on the Group's employees and operations.

As the WHO declared COVID-19 a global pandemic on 11 March 2020 after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. As a result the financial effects resulting from the impact of COVID-19 have not been reflected in the Group's financial statements as at 29 February 2020.

As the situation remains fluid and rapidly evolving (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak may materially affect the consolidated results of the Group for the first half and full year of its FY21 financial year.

Westcon International extended its European Financing facility on 14 May 2020 (refer to Note 39).

### Acquisitions

Effective 1 April 2020, Analysys Mason acquired 100% of the shares in Allolio&Konrad for €7 million cash, a consultancy based in Bonn, Germany with an extensive track record in the telecommunications industry and long-term client relationships with Europe's leading telecom operators. Allolio&Konrad's services include the design, management and assurance of major business support systems and operational support systems transformation programmes and large-scale, multi-year IT strategy initiatives, alongside other solutions focused on performance and operations management. Due to the timing of this acquisition, the at acquisition accounting has not been finalised and the fair value assessments of assets and liabilities acquired is still in progress, thus the goodwill and intangible asset values related to this acquisition has not been determined. Acquisition-related costs of €0.2 million have been incurred on this acquisition.

There are no other material subsequent events to report.

## DIVIDEND POLICY

The Group's policy is to maintain a fixed three times cover relative to underlying earnings when declaring dividends. However, as a result of the current COVID-19 pandemic and stated focus on preserving cash, the Board has decided not to declare a dividend for FY20.

## ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of Datatec will be held as a virtual meeting at 14:00 South African time on Thursday, 29 July 2020.

# Group **accounting policies**

for the year ended 29 February 2020

## BASIS OF ACCOUNTING AND REPORTING

The consolidated annual financial statements as set out on pages 134 to 241 have been prepared on the historical cost basis except for certain financial instruments and cash-settled share-based payment schemes that are measured at fair values. Significant details of the Group's accounting policies are set out below and are consistent with those applied in the previous year with the exception of changes due to implementation of the new standard, as explained in the adoption of the new accounting standard below.

Accounting policies for which no choice is permitted in terms of International Financial Reporting Standards ("IFRS") have been included only if management considers that the disclosure will assist users in understanding the financial statements as a whole, after taking into account the materiality of the item being discussed. Accounting policies which are not applicable from time to time have been removed, but will be included if the type of transaction occurs in future or becomes material.

The consolidated annual financial statements comply with the IFRS of the International Accounting Standards Board, Interpretations issued by the IFRS Interpretations Committee, the JSE Listings Requirements, the Companies Act of South Africa as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.

## ADOPTION OF THE NEW ACCOUNTING STANDARD

The Group adopted the following new accounting standard:

| Applicable standard | Key requirements or changes in accounting policy | Impact of application of amendment |
|---|---|---|
| **IFRS 16 *Leases***<br><br>*Effective date 1 January 2019* | The new standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors.<br><br>The principal impact of IFRS 16 has been a change to the accounting treatment by lessees of leases previously classified as operating leases. Lease agreements give rise to the recognition by the lessee of an asset, representing the right to use the leased item, and a related liability for future lease payments.<br><br>Lease costs are recognised in profit or loss in the form of depreciation of the right-of-use asset over the lease term, and finance charges representing the unwind of the discount on the lease liability. Certain exemptions from recognising leases on the balance sheet are available for leases with terms of 12 months or less or where the underlying asset is of low value. | During the year, the Group implemented IFRS 16 using the modified retrospective approach, under which the cumulative effect of the initial application is recognised in retained earnings as at 1 March 2019. Accordingly, comparative information presented for FY19 has not been restated.<br><br>The most significant impact on the Group of applying IFRS 16, based on contractual arrangements in place at 28 February 2019, has been the recognition of lease liabilities of US$99.6 million, along with right-of-use assets with a similar aggregate value. This liability corresponds to the minimum lease payments due adjusted for the effects of discounting.<br><br>Lease liabilities principally relate to property where the Group is a lessee under an operating lease arrangement.<br><br>The impact of the standard on underlying earnings and profit before tax following the adoption is not considered to be material although the statement of comprehensive income presentation of the previous operating lease expense is now allocated between the depreciation of the right-of-use assets, and a finance charge representing the unwinding of the discount on the leases.<br><br>In applying IFRS 16 for the first time, the Group has used certain practical expedients permitted by the standard in the application of the initial accounting.<br><br>Refer to Note 37 for further detail on the application of IFRS 16. |

## ADOPTION OF AMENDMENTS TO EXISTING STANDARDS AND INTERPRETATIONS

- Annual Improvements to IFRS Standards 2015 – 2017 Cycle Amendments to IFRS 3 *Business Combinations* effective 1 January 2019, IFRS 10 *Consolidated Financial Statements* and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* effective 1 January 2019;
- IFRIC 23 *Uncertainty over Income Tax Treatments* effective 1 January 2019;
- Amendments to IAS 19 *Employee Benefits Plan Amendment, Curtailment or Settlement* effective 1 January 2019;
- Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* effective 1 January 2019; and
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation* effective 1 January 2019.

The application of the amendments to the existing standards and the interpretation had no material impact on the disclosures or amounts recognised in the Group's consolidated financial statements.

## NEW OR REVISED ACCOUNTING STANDARDS AND AMENDMENTS TO EXISTING STANDARDS NOT YET EFFECTIVE

At the date of authorisation of these annual financial statements, the following new or revised accounting standards and amendments to existing standards applicable to the Group were in issue but not yet effective:

- IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;
- Amendments to IFRS 3 *Definition of a business*;
- Amendments to IAS 1 and IAS 8 *Definition of Material*; and
- Conceptual *Framework Amendments to References to the Conceptual Framework in IFRS Standards.*

The Group does not currently believe that the adoption of these amendments will have a material impact on the consolidated results or financial position of the Group.

## CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION

In the application of the Group's accounting policies described below, the directors are required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors which are considered to be relevant. Actual results may differ from these estimates.

The estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Certain of the Group's assets and liabilities are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent that it is available and the Group also engages third parties to perform valuations on its material acquisitions. Specifically market-observable data is used for derivatives (forward-currency contracts) in the form of the latest foreign currency exchange rates that are available.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed in the relevant notes.

# Group **accounting policies** continued

for the year ended 29 February 2020

## Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key areas of estimation included in the Group's annual financial statements, that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- Estimates made in determining the recoverable amount of goodwill included in the statement of financial position (disclosed in Note 9) and is considered to be a key audit matter. This requires an estimation of the value-in-use of the cash-generating unit to which the goodwill is allocated. The Group's cash-generating units are consistent with the segments (disclosed in Note 33) to these consolidated financial statements. The resulting value-in-use calculations are sensitive to changes in the timing or quantum of future cash flows and weighted average cost of capital. Changes in one or more of these inputs to management's estimations could result in the recognition of an impairment charge. Refer to Note 9 for further discussion of the methodology and rationale for selecting these inputs to management's estimations.
- Estimates made in determining the probability of future taxable income are made on the basis of the budgets and forecasts authorised by directors as well as considering the likely movement in subsequent periods based on growth given from known internal and external factors, thereby justifying the recognition of deferred tax assets included in the statement of financial position (disclosed in Note 12).
- Estimates made in determining the level of provision required for obsolete inventory and the accounting for rebates from suppliers. Inventory obsolescence is determined by reference to the risk profile of a vendor which considers the age of the inventory, the ability to rotate stock, the turnover of the stock and any other extenuating circumstances that management are aware of (disclosed in Note 14).
- Estimates are made in determining the amount or timing relating to restructuring, legal claims, taxes pension and dilapidation obligations. Refer to Note 22 for uncertainties disclosed for each of the categories listed.
- Estimates are utilised when measuring the expected credit losses ("ECLs") which are applied to determine the provision recorded against the gross value of trade receivables (disclosed in Note 15). The Group applies the simplified approach as permitted by IFRS 9 when providing for loss allowances on trade receivables. Factors which are considered for each of the operating segments are as follows:
  - For Logicalis, where publicly available information on future expected performance of entities forming part of the Group's trade receivable balance is present, this information is considered by management in assessing the likelihood of an ECL arising for the trade receivable assessed. Assessments of trade receivables are done at least biannually and all receivables are assessed as to whether there are any factors that might indicate a need to impair any part of the receivable balance.
  - For Westcon International, in measuring ECLs, past experience is considered to be the most significant indicator to determine historic write-off rates for trade receivables that reach different aging categories that fall past due. A provision is then created based on this experience being the estimated likelihood of a debt being written off once it reaches the ageing bucket. For higher value receivables which are lower volume, the receivable is reviewed independently for indicators of impairment such as age past due, the geography in which the customer resides, and the knowledge of the customer's situation based on the Group's discussions and dealings with particular customers. In making the above assessments, the Group considers forward looking information such as known changes in the macroeconomic environment of customers located in a certain geography or the deterioration in the Group's relationship or discussions with a particular customer. For lower value receivables which are higher volume, Westcon International apply a percentage to the ageing buckets of these receivables. These percentages are derived by comparing the amounts ultimately written off in each ageing category to the total amount of customer receivables in each ageing category.
  - For Analysys Mason, trade receivables are assessed monthly for expected credit losses. Factors including the geography in which the customer resides, communication with the client, and any publicly available information regarding the entity are considered.

## Critical judgements in applying accounting policies

### COVID-19

On 11 March 2020 the World Health Organization ("WHO") declared the coronavirus outbreak causing the disease COVID-19 to be a global pandemic. The directors have reviewed the future profit and cash flow projections in conjunction with the current economic climate as well as banking facilities in place to support all the operations, in order to express an opinion on the adequacy of working capital and the ability to continue as a going concern for the foreseeable future. These projections covered future financial performance, solvency and liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing of various possible scenarios, varying in severity, related to COVID-19. The scenario analysis included contingency planning for restructuring actions to be taken in response to the more severe scenarios in order to assess the Group's ability to continue as a going concern in a range of possible outcomes from the impact of COVID-19.

The Group's projections and sensitivity analyses show that the Group has sufficient capital and liquidity to continue to meet its short-term obligations and as a result it is appropriate to prepare these annual financial statements on a going concern basis.

As the date on which the WHO declared COVID-19 a global pandemic (11 March 2020) was after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. Accordingly the financial effects resulting from the impact of COVID-19 after 29 February 2020 have not been retroactively adjusted for in the Group's consolidated financial statements.

## BASIS OF CONSOLIDATION

The Group reports in US Dollar as the US Dollar is the functional currency in which the major part of the Group's trading is conducted and is consistent with the economic substance of most of the Group's transaction flows worldwide. Reporting in US Dollar also simplifies financial analysis and is more meaningful to global investors, shareholders and for international benchmarking.

The translation for the Group components where the functional currency is not US Dollar, including the holding company, is performed as follows:

(a) Assets and liabilities (including comparatives) are translated at the closing rate ruling at the date of each statement of financial position.

(b) Income and expense items for all periods presented (including comparatives) are translated at a weighted average rate that approximates the ruling exchange rates at the dates of the transactions.

Exchange differences arising from the translations in (a) and (b) are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

(c) The functional currency of the parent company is South African Rand. The share capital and share premium of the parent company are translated into US Dollar at the closing exchange rates.

The exchange differences arising on this translation (c) are recognised directly in equity and accumulated in non-distributable reserves.

The average and closing exchange rates of the Group's material currencies are listed below:

| | Average US$ exchange rates FY20 | Closing US$ exchange rates FY20 | Average US$ exchange rates FY19 | Closing US$ exchange rates FY19 |
|---|---|---|---|---|
| US$/British Pound | **1.27** | **1.28** | 1.32 | 1.33 |
| US$/Euro | **1.11** | **1.10** | 1.16 | 1.14 |
| Brazilian Real/US$ | **4.06** | **4.47** | 3.75 | 3.73 |
| Australian Dollar/US$ | **1.46** | **1.52** | 1.37 | 1.39 |
| Singapore Dollar/US$ | **1.37** | **1.39** | 1.36 | 1.35 |
| South African Rand/US$ | **14.67** | **15.61** | 13.56 | 13.94 |

The consolidated financial statements incorporate the financial statements of the Company and all enterprises controlled by the Company during the reporting period. The assessment of whether the Group has control over the investee is carried out at acquisition or inception.

Control is achieved when the Group:
- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there may have been changes to one or more of the elements of control. Total comprehensive income of subsidiaries is attributable to the owners of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

## BUSINESS COMBINATIONS

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions of recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date. Costs associated with the acquisition are expensed, and may include such costs as advisory, legal, accounting, valuation and other professional costs associated with the transaction.

Goodwill arising on acquisition is recognised as an asset and initially measured at the excess of consideration transferred over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

# Group **accounting policies** continued

for the year ended 29 February 2020

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## FOREIGN CURRENCY TRANSACTIONS

The Group operates in various countries with various functional currencies. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange ruling on the dates of the transactions. At each reporting date, assets and liabilities denominated in currencies other than the functional currency are translated at the rates prevailing at the reporting date. Profits and losses arising on such translations are recognised in profit or loss, except for unrealised profits or losses on exchange arising from equity loans, which are accumulated in the foreign currency translation reserve until the loan is derecognised, at which time it is reclassified to profit or loss.

Goodwill and fair value adjustments to identifiable assets acquired and liabilities assumed through acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

## PROPERTY, PLANT AND EQUIPMENT

### Owned assets

All property, plant and equipment have been stated at cost less accumulated depreciation and any recognised impairment loss except land, which is shown at cost less any recognised impairment loss. Depreciation is calculated based on cost using the straight-line method over the estimated useful lives of the assets less their residual value. Estimation of the useful economic life includes an assessment of the expected rate of technological developments and the intensity at which assets are expected to be used based on historic usage of similar property, plant and equipment. Revision of the useful life is considered if there are significant changes to the initial usage assumptions.

The basis of depreciation provided on property, plant and equipment is as follows:

| | Useful lives (years) |
|---|---|
| Office furniture and equipment | 2 – 6 |
| Motor vehicles | 2 – 4 |
| Computer equipment | 2 – 6 |
| Buildings | 20 |
| Leasehold improvements | Shorter of useful life/period of the lease |

Land and buildings comprise mainly warehouses and offices. Software purchased to support the Group's back office, accounting and customer relationship functions that is an integral part of the hardware, is included in computer equipment and is depreciated over its expected useful life.

All assets' residual values and useful lives are reviewed at each reporting date and any changes to these estimates are accounted for on a prospective basis.

## LEASING

### Change in accounting policy

The new IFRS 16 *Leases* standard introduces a single, on-balance sheet lease accounting model for lessees. A lessee is required to recognise right-of-use assets representing its right to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to former practice, ie lessors continue to classify leases as finance or operating leases. Up to and including the FY19 financial year, leases for property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

### Leases as a lessee

**Right-of-use assets**

The Group leases various property, plant and equipment. Rental contracts are typically entered for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a range of terms and conditions. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease agreements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low-value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Items of low value have been determined based on the nature of the assets. Similar items are categorised and assessed to determine whether items are considered to be low value. Low-value items include assets such as laptops and phones.

The right-of-use asset is measured initially at cost and subsequently at cost less any accumulated depreciation and impairment losses. Impairment losses are determined in accordance with IAS 36 (refer to impairment policy below). Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

**Lease liabilities**
The lease liability is measured initially at the present value of the lease payments that are not paid at commencement date, discounted at the Group's incremental borrowing rate, unless the rate implicit in the lease is readily determinable. The lease liability is subsequently increased by lease finance charges and decreased by lease payments made. Lease finance charges are amortised over the duration of the underlying leases, using the effective interest method. Incremental borrowing rates have been determined based on country-specific factors and vary across the Group.

**Lease as a lessor**
Amounts due from lessees under finance leases are recognised as receivables at the amount of the net investment in the lease, which is determined by discounting the gross investment in the lease at the interest rate implicit in the lease or the entities cost of borrowing. The gross investment in the lease is the aggregate of the minimum lease payments accruing to the lessor. Finance lease income is allocated to accounting periods using the effective interest rate method.

**Practical expedients**
In applying IFRS 16 for the first time, the Group used the following practical expedients permitted by the standard in the application of the initial accounting:
- the application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments in determining whether leases are onerous;
- not reassessing whether a contract is, or contains, a lease at the date of initial application;
- the use of hindsight in determining the lease term where contracts contain options to extend or terminate the lease;
- accounting for leases that, at 1 January 2019, had a remaining lease term of 12 months or less on a straight-line basis over the remaining lease term;
- accounting for leases for which the underlying asset is of low value continue on a straight-line basis over the lease term; and
- exclusion of initial direct costs from the measurement of the right-of-use asset at 1 January 2019.

The Group has also made the election to recognise the right-of-use asset on adoption of IFRS 16 at an amount equal to the lease liability, adjusted by the amount of any accrued or prepaid lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rates as at 1 March 2019.

## CAPITALISED SOFTWARE DEVELOPMENT EXPENDITURE
An intangible asset arising from internal development (or from the development phase of an internal project) is recognised only if the Group can demonstrate all of the conditions as described in IAS 38.

Capitalised development assets are amortised using the straight-line method over their useful lives, which generally do not exceed seven years. The estimation of useful lives of capitalised development assets is based on the term of the initial software licences or expectations about the future use after taking into account technological developments.

All other expenditure on research activities is recognised as an expense in the period in which it is incurred.

## OTHER INTANGIBLE ASSETS
Other intangible assets include those intangible assets acquired and identified as part of a business combination, and software acquired separately. An intangible asset acquired in a business combination is recognised separately when it meets the recognition criteria in terms of IAS 38. Intangible assets acquired as part of a business combination are capitalised at fair value on acquisition date whereas purchased intangible assets are capitalised at cost.

# Group **accounting policies** continued

for the year ended 29 February 2020

Other intangible assets are amortised using the straight-line method over their useful lives. Factors considered in estimating the useful life of an intangible asset include:

- legal, regulatory or contractual provisions that may limit or extend the useful life;
- the effects of obsolescence, demand, competition, and other economic factors;
- the expected useful lives of related assets;
- the expected use of the intangible asset by the Company;
- the level of maintenance expenditures expected;
- the expected retention period of customers; and
- the expected completion date of the backlog projects.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

| | Useful lives (years) |
|---|---|
| Trademarks, marketing, customer and vendor relationships | Maximum of 10 |
| Software | 2 – 6 |

Intangible assets which do not meet the criteria listed above are recognised as expenses in the period in which they are incurred.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in profit or loss.

## GOODWILL

Goodwill represents the excess cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquiree at the date of acquisition. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the business combination and is measured and managed at an operating segment level. Goodwill is carried at cost less accumulated impairment losses.

Impairment tests are conducted annually or more frequently when an indication of impairment exists on goodwill attributed to the cash-generating units, based on the value-in-use, determined by assessing the discounted cash flows associated with expected budgeted and forecast results of the cash-generating units. In determining the recoverable amount of goodwill, the Group obtains external valuations to support the impairment test of the cash-generating unit. Determining whether goodwill is impaired requires an estimate of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable pre-tax discount rate in order to calculate present value. The impairment review is therefore conducted by reference to a discounted cash flow model applied to the underlying cash-generating unit including the carrying value of goodwill to ensure that the business remains profitable, cash generative and supports the ongoing recognition of the goodwill.

If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit *pro rata* based on the carrying amount of each asset in the unit.

## INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The results and assets and liabilities of associates and joint ventures are incorporated in these financial statements using the equity method of accounting.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate and joint venture recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment.

## IMPAIRMENT

At each reporting date, or more frequently when an indication of impairment exists, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount is the higher of fair value less costs to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, its carrying amount is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately in profit or loss.

## INVENTORIES

Inventories, comprising spares/maintenance inventory, finished goods and merchandise for resale, are stated at the lower of cost and net realisable value and are mainly valued on the weighted average cost basis.

Contract work-in-progress is recognised on the percentage of completion method by reference to the milestones for each contract.

## FINANCIAL INSTRUMENTS

Financial instruments are valued at either:
- at fair value through profit and loss ("FVTPL"); or
- at amortised cost.

The Group determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Group's business model for managing financial assets and their contractual cash flow characteristics. Financial liabilities are measured at amortised cost unless they are required to be measured at FVTPL (such as derivatives).

### a) Classification and measurement

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instruments and are initially measured at fair value. In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs are inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly or indirectly; and
- level 3 inputs are inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available for its level 2 financial instruments.

#### Foreign exchange gains and losses

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the operating costs line item; and
- For financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the operating costs line item.

#### Derivative instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risk and interest rate risk, including forward exchange contracts, interest rate swap agreements and foreign currency collars. Further details of derivative financial instruments are disclosed in Note 27 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Derivatives are not offset in the financial statements unless the Group has both legal right and intention to offset. A derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months.

Other derivatives are presented as current assets or current liabilities.

# Group **accounting policies** continued

for the year ended 29 February 2020

### Bonds

Bonds with a fixed maturity date are classified as financial assets at amortised cost and are measured using the effective interest method.

### Trade receivables

Trade receivables are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method (where credit exceeds normal terms), less any expected credit losses. The Group holds collateral in the form of credit insurance policies against trade receivables, where appropriate. The insured levels are taken into account when estimating the expected credit losses against specific customer debts.

### Other receivables

Other receivables include prepayments, accrued income and claims/refunds due for value added tax as well as rebates due (from vendors according to vendor rebate programmes). Prepayments mainly represent prepaid vendor costs on services that are recognised over time where the cost of providing the service is deferred over the same time period. Accrued income arises on certain contracts where a deferred timetable for billing a customer has been agreed. These items are all recognised at amortised cost.

### Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held on call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts and are measured at amortised cost using the effective interest method. Bank overdrafts are presented in current liabilities on the statement of financial position. Revolving credit facilities are short term in nature and are drawn down to cover short-term trading needs.

The Group has a syndicate revolving line of credit that is classified as overdrafts. This consists of an Invoice Finance facility which is secured on the trade receivables of the Group. The revolving line of credit is classified as being short term as it is repayable on demand in certain conditions (refer to Note 24).

### Borrowings

Borrowings are initially recorded at fair value, net of direct issue costs, and are subsequently measured at amortised cost using the effective interest method. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

### Trade and other payables

Trade and other payables are recognised initially at fair value and are subsequently measured at amortised cost using the effective interest method.

### Equity instruments

Equity instruments issued by the Company are recorded as the proceeds are received, net of the direct issue costs. Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12 *Income Taxes*.

### Interest income

Interest income mainly arises from bank and other deposits. Interest income is recognised using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset.

### b) Impairment of financial assets

A financial asset not measured at FVTPL is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. The Group assesses on a forward looking basis the expected credit losses, defined as the contractual cash flows and the cash flows that are expected to be received associated with its assets at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The simplified approach has been applied to trade receivables as permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of trade receivables.

The expected credit loss model applies a percentage, based on an assessment of historical default rates and certain forward looking information, against receivables that are grouped into certain age brackets. This method for calculating a provision is further supplemented by a specific review against higher value and aged trade receivables where there are other more specific risk factors identified from publicly available information such as insolvency proceedings. Other specific risk factors considered in this assessment are the age past due of the receivable, the probability of default by reference to past experience, the extent to which the customer is engaging in discussions to settle the debt or conversely whether there is a dispute ongoing as well as the macroeconomic environment of the geography/market in which the customer is located.

Losses are recognised in the income statement.

#### (i) Significant increase in credit risk

In assessing whether the credit risk on trade receivables have increased significantly since initial recognition, the Group compares the risk of a default occurring at the reporting date with the risk of default occurring at the date of initial recognition. The Group considers both quantitative and qualitative information that is reasonable and supportable including historical and forward looking information (where publicly available information is present) that is available without undue cost or effort.

Forward looking information includes:

- emerging or anticipated changes in the macroeconomic environment where a customer is located, for example geographies where there is sensitive fluctuations to foreign currency rates and/or where the customer debt is in a volatile currency; and
- anticipated changes in the ownership or management of a customer which is in default, or where long-term relationships with customer management are likely to be compromised.

In particular, the following information is considered when assessing whether credit risk has increased significantly since initial recognition:

- knowledge of financial hardship of a customer, eg liquidation or bankruptcy proceedings, deterioration in a publicly available credit rating, information readily available in the public domain such as media information;
- requests for delays to settlement dates or recurring missed settlement dates;
- deterioration in financial performance of the customer as known through publicly available information or internal discussions; and
- ageing of the trade receivable.

*Low risk of default*

Customers with a global presence are deemed to have a low credit risk as there is an assumption that they pose a low risk of default. Typically, when these customers are in default it is due to disputes over the provision of a good or service, or billing technicalities, and not due to a credit risk due to an inability to settle their accounts.

The Group assess trade receivables as a low risk of default if the trade receivable has enough capacity to settle their debts.

#### (ii) Definition of default

A customer is deemed to be in default once the due date for payment per agreed terms and conditions is missed, and no alternative method or timetable for settlement has been agreed to.

#### (iii) Write-off policy

When the debtor is in severe financial difficulty and there is no prospect of recovering the debt and every effort to collect a customer receivable balance has been exhausted, the balance is written off with approval required through the matrix of authorities defined by each operating segment. A write off will only be approved if there is no realistic prospect of recovery, for example when a customer is in liquidation of subject to bankruptcy proceedings.

# Group **accounting policies** continued

for the year ended 29 February 2020

### c) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## PROVISIONS

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not associated with the ongoing activities of the entity.

Provisions for dilapidations and asset retirement obligations are recognised when the Group has a present obligation to return modified or utilised assets to a specified standard. Provisions for dilapidations and asset retirement obligations are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value using the entities' cost of borrowing where the effect is material.

## TAXATION

The tax expense represents the sum of the current tax and deferred tax. Current taxation comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted or substantially enacted at the statement of financial position date, and any adjustment of tax payable for previous years.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Group's consolidated annual financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. However, in some jurisdictions goodwill relating to the purchase of trade and assets is tax deductible, resulting in a temporary difference.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying value of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also dealt with in other comprehensive income or equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for a business combination.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## REVENUE

The following is the Group's accounting policy for revenue under IFRS 15:

The Group recognises revenue from the following sources:

### Revenue from product sales

- Revenue from sales of hardware/direct product sales
- Revenue from sales of software
- Revenue from vendor resold services and product maintenance sales

### Revenue from services

- Revenue from professional services
- Revenue from other services

### Revenue from annuity services

- Revenue from cloud services
- Revenue from other annuity services

Revenue is measured based on the price specified in a contract when it transfers control of a product or service to a customer.

In recognising revenue, the practical expedient in IFRS 15 paragraph 63 is applied as at inception in contracts with customers the period between the recognition of revenue and expected payment date is always less than one year.

### Revenue from product sales

**Revenue from sales of hardware/direct product sales**

The Group's principal revenue stream is the resale of vendor provided hardware and maintenance goods. The Group acts primarily as a reseller and as such revenue is recognised at a point in time when control passes to the customer, being when the goods are delivered to the customer per the chosen delivery method.

**Revenue from sales of software/fulfilment product sales**

Revenue from sales of software represents the resale of software licensing. The Group acts primarily as a reseller and as such revenue is recognised at a point in time where access to the licensing product has passed to the customer.

For the above two revenue streams, a receivable is recognised by the Group when the goods are delivered as this represents the point in time at which the right to consideration becomes unconditional, and only the passage of time is required before payment is due. Where part delivery has taken place and the Group has agreed to invoice the customer once all goods are delivered, an accrual of revenue is recognised for the goods delivered (together with their associated costs).

The Group has standard terms and conditions for customer sales that are tailored to suite individual contracts. A contract is therefore deemed to be in place upon submission of a purchase order (or evident of buying request) from the customer alongside confirmation from the subsidiary. Alternatively, fulfilment of an order by the Group is deemed to represent a contract per the standard terms and conditions. The contract in place with the customer per the above will include a sales price that is fixed or determinable.

Payment terms are on a customer-by-customer basis but typically there are no financing components or, where there are, these are accounted for separately based on the financing component which can be separately established. Discounts are agreed with suppliers and passed on to a client, this is treated as a reduction in both the cost of the item and consequently to the standalone selling price of that item.

# Group **accounting policies** continued

for the year ended 29 February 2020

**Revenue from vendor resold services and product maintenance services**

The Group sells maintenance contracts on behalf of its vendors which are accounted for on a net basis because the Group is acting as an agent. The commission or gross profit earned on these sales is recognised as revenue.

For vendor resold services and maintenance, the obligation is to provide the licence to the client. As such this performance obligation is met as the licence(s) is passed over to the client (this may be for instance when licence keys are handed to the client or when a contract representing the licence is assigned dependent on the applicable deal). Thus, vendor resold maintenance is recognised "upfront" at a single point in time.

### Revenue from services

**Revenue from professional and other services**

The Group earns revenue from professional services contracts with customers which are categorised by "milestone", "time and material" and "block hour" contracts. Customers gain immediate use of the output of the service once the professional service has been rendered.

The performance obligations are recognised over time where the performance obligation complies with the criteria under IFRS 15 of providing an asset with no alternative use. The revenue on the performance obligation is recognised based on the progress towards complete satisfaction of the performance obligation.

The directors have assessed that the progress towards complete satisfaction of the performance obligation is measured by the amount of time that is needed to complete the performance obligation. Where a performance obligation does not meet the necessary criteria under IFRS 15 to be able to recognise the revenue over time, it will be recognised in time once the performance obligation has been satisfied and delivered to the customer.

Where recorded revenue exceeds amounts invoiced to clients, the excess is classified as contract assets and where recorded revenue is less than the amounts invoiced to clients, the difference is classified as contract liabilities.

### Revenue from annuity services

**Revenue from cloud services**

Cloud services are recognised at a point in time when control passes. This typically is a very short period for a cloud or subscription type products (ie one month). Intangible cloud services are sold as agent and these are typically subscription billed and recognised.

**Revenue from other annuity services**

The Group provides annuity services to perform the specified service over a specified period of time. The specified service would comprise a single series of services that are transferred to the client over the agreed period. Annuity services performed by the Group primarily relate to the provision of managed IT and cloud and in-house maintenance services and are recognised as the customer simultaneously receives and consumes the benefit of the services provided. Annuity services are recognised over time and equally over the life of the annuity service.

### Agent versus principal

Revenue from sales arrangements where the Group acts as agent (primarily vendor provided services and maintenance agreements) is recognised on a net basis and the commission or gross profit earned on these contracts is recognised as revenue.

When deciding the most appropriate basis for presenting revenue or related costs, both legal form and substance of the agreement between the Group and the counterparty are reviewed to determine each party's respective role in the transaction.

The Group has no continuing obligation following delivery of the goods, and does not provide warranty of the goods or licences, but helps to facilitate repairs and/or returns to the vendor where delivered goods are shown to be faulty.

## FINANCE COSTS

Finance costs include the borrowing costs on bank overdrafts and trade finance, finance leases and debt issuance costs which are recognised in profit or loss using the effective interest method.

## SHARE-BASED PAYMENTS

The Group issues equity-settled and cash-settled share-based incentives to certain employees.

Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest, and adjusted for the effect of non-market-based vesting conditions. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payments reserve.

For cash-settled share-based payments, the liability for the fair value of all unexercised share rights which are expected to vest is determined initially at grant date and then revalued at each reporting date and amortised over the applicable vesting period.

Fair value is measured by independent experts using appropriate pricing models. The expected life used in the models has been adjusted, based on the directors' best estimate, for the effects of non-transferability, exercise restrictions and exercise behavioural considerations.

## PENSION SCHEME ARRANGEMENTS

Certain subsidiaries of the Group make contributions to various defined contribution retirement plans on behalf of employees, in accordance with the local practice in the country of operation. These contributions are charged against profit or loss as incurred.

The Group has no liability to these defined contribution retirement plans other than the payment of its share of the contribution in terms of the agreement with the funds and employees concerned, which differs from country to country.

# Consolidated **statement of comprehensive income**

for the year 29 February 2020

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| **Revenue** | 1 | **4 304 845** | 4 332 381 |
| Continuing operations | | **4 281 591** | 4 277 186 |
| Revenue from acquisitions | | **23 254** | 55 195 |
| Cost of sales | | **(3 563 267)** | (3 644 637) |
| **Gross profit** | | **741 578** | 687 744 |
| Operating costs | | **(571 598)** | (569 896) |
| Net impairment of financial assets | | **(3 700)** | (3 817) |
| Restructuring costs | | **–** | (17 506) |
| Share-based payments | 2 | **(7 623)** | (9 764) |
| **Operating profit before interest, tax, depreciation, amortisation and impairment ("EBITDA")** | | **158 657** | 86 761 |
| Depreciation of property, plant and equipment | 3 | **(27 011)** | (25 889) |
| Depreciation of right-of-use assets | 3 | **(32 991)** | – |
| Amortisation of capitalised development expenditure | 3 | **(3 217)** | (972) |
| Amortisation of acquired intangible assets and software | 3 | **(12 901)** | (11 477) |
| **Operating profit** | 3 | **82 537** | 48 423 |
| Interest income | 4 | **14 911** | 9 568 |
| Finance costs | 4 | **(40 785)** | (32 145) |
| Share of equity-accounted investment losses | 11.1 | **(204)** | (1 403) |
| Acquisition-related fair value adjustments | | **696** | (35) |
| Other income | | **918** | 62 |
| Gain/(loss) on disposal of investment | | **415** | (255) |
| **Profit before taxation** | | **58 488** | 24 215 |
| Taxation | 5 | **(31 809)** | (20 959) |
| **Profit for the year from continuing operations** | | **26 679** | 3 256 |
| **DISCONTINUED OPERATIONS** | | | |
| Profit for the year from discontinued operations | 36 | **1 332** | 11 694 |
| **Profit for the year** | | **28 011** | 14 950 |
| **Other comprehensive loss** | | | |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences arising on translation to presentation currency | | **(38 184)** | (54 735) |
| Translation of equity loans | | **1 711** | 3 490 |
| Tax on translation of equity loans | | **(607)** | (616) |
| Transfers and other items | | **978** | 948 |
| **Total comprehensive loss for the year** | | **(8 091)** | (35 963) |
| **Profit attributable to:** | | | |
| Owners of the parent | | **14 239** | 13 134 |
| Non-controlling interests | | **13 772** | 1 816 |
| | | **28 011** | 14 950 |
| **Total comprehensive loss attributable to:** | | | |
| Owners of the parent | | **(17 826)** | (30 734) |
| Non-controlling interests | | **9 735** | (5 229) |
| | | **(8 091)** | (35 963) |
| **Earnings per share (US cents)** | | | |
| Basic | 6 | **6.8** | 5.5 |
| – Continuing operations | | **6.2** | 0.6 |
| – Discontinued operations | | **0.6** | 4.9 |
| Diluted | 6 | **6.7** | 5.5 |
| – Continuing operations | | **6.1** | 0.6 |
| – Discontinued operations | | **0.6** | 4.9 |

# Consolidated **statement of financial position**

as at 29 February 2020

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | **512 598** | 437 786 |
| Goodwill | 9 | **241 369** | 234 551 |
| Property, plant and equipment | 7 | **43 300** | 60 306 |
| Right-of-use assets | 8 | **83 953** | – |
| Capitalised development expenditure | 10.1 | **19 908** | 12 711 |
| Acquired intangible assets and software | 10.2 | **30 002** | 37 615 |
| Investments | 11 | **10 908** | 22 382 |
| Deferred tax assets | 12 | **46 544** | 52 134 |
| Finance lease receivables | 13 | **27 111** | 13 363 |
| Sundry receivables and contract costs | 16 | **9 503** | 4 724 |
| **Current assets** | | **2 083 928** | 2 284 521 |
| Investments | 11 | **5 842** | – |
| Inventories | 14 | **253 271** | 332 256 |
| Trade receivables | 15 | **1 110 510** | 1 258 853 |
| Prepaid expenses | | **151 569** | 152 500 |
| Other receivables | | **85 742** | 80 465 |
| Contract assets and contract costs | 16 | **105 133** | 98 798 |
| Current tax assets | 29 | **16 091** | 11 442 |
| Finance lease receivables | 13 | **8 581** | 5 807 |
| Cash and cash equivalents | 32 | **347 189** | 344 400 |
| **Total assets** | | **2 596 526** | 2 722 307 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | **572 315** | 648 927 |
| Stated capital | 17 | **113 123** | 172 998 |
| Non-distributable reserves | | **101 861** | 85 614 |
| Foreign currency translation reserve | | **(134 802)** | (102 527) |
| Share-based payments reserve | | **9 041** | 7 828 |
| Distributable reserves | | **483 092** | 485 014 |
| Non-controlling interests | | **70 778** | 63 303 |
| **Total equity** | | **643 093** | 712 230 |
| **Non-current liabilities** | | **187 610** | 100 805 |
| Long-term interest-bearing liabilities | 18 | **18 638** | 9 450 |
| Lease liabilities | 19 | **95 148** | 21 933 |
| Liability for share-based payments | | **5 595** | 1 888 |
| Amounts owing to vendors | 21 | **2 052** | 1 393 |
| Deferred tax liabilities | 12 | **26 127** | 28 616 |
| Deferred revenue | | **28 980** | 26 506 |
| Provisions | 22 | **11 070** | 11 019 |
| **Current liabilities** | | **1 765 823** | 1 909 272 |
| Trade and other payables | 20.1 | **1 259 013** | 1 358 928 |
| Short-term interest-bearing liabilities | 20.2 | **75 145** | 100 702 |
| Lease liabilities | 19 | **34 325** | 9 049 |
| Contract liabilities | 23 | **4 197** | 3 476 |
| Deferred revenue | | **100 893** | 98 788 |
| Provisions | 22 | **8 335** | 17 548 |
| Amounts owing to vendors | 21 | **3 438** | 936 |
| Current tax liabilities | 29 | **16 677** | 15 826 |
| Bank overdrafts | 24 | **263 800** | 304 019 |
| **Total equity and liabilities** | | **2 596 526** | 2 722 307 |

# Consolidated **statement of changes in equity**

for the year 29 February 2020

| | Stated capital US$'000 | Foreign currency translation reserve US$'000 |
|---|---|---|
| **Balance at 1 March 2018** | 258 461 | (58 378) |
| Total comprehensive (loss)/income recognised for the year | – | (44 149) |
| Profit attributable to the owners of the parent | – | – |
| Profit attributable to the non-controlling interests | – | – |
| Translation of equity loans | – | 3 490 |
| Tax on translation of equity loans | – | (616) |
| Exchange differences arising on translation to presentation currency | – | (47 023) |
| Transfers and other items | – | – |
| Translation of stated capital** | (39 806) | – |
| Dividend to non-controlling interests | – | – |
| Share repurchases | (43 881) | – |
| Acquisitions of subsidiaries | – | – |
| Share-based payments*** | (1 776) | – |
| Other | – | – |
| **Balance at 1 March 2019** | **172 998** | **(102 527)** |
| Total comprehensive (loss)/income recognised for the year | **–** | **(32 275)** |
| Profit attributable to the owners of the parent | **–** | **–** |
| Profit attributable to the non-controlling interests | **–** | **–** |
| Translation of equity loans | **–** | **1 711** |
| Tax on translation of equity loans | **–** | **(607)** |
| Exchange differences arising on translation to presentation currency | **–** | **(33 379)** |
| Transfers and other items | **–** | **–** |
| Translation of stated capital** | **(14 491)** | **–** |
| Dividend to shareholders* | **3 204** | **–** |
| Dividend to non-controlling interests | **–** | **–** |
| Share repurchases | **(44 345)** | **–** |
| Share-based payments*** | **(2 013)** | **–** |
| Acquisition of subsidiary | **–** | **–** |
| Treasury shares | **(2 230)** | **–** |
| **Balance at 29 February 2020** | **113 123** | **(134 802)** |

### Share repurchases for the year ended 29 February 2020

The Company repurchased the following shares during the year:

| Shareholder authority | Number of shares repurchased | Average price per share paid ZAR | Cost of shares repurchased ZAR'000 | Cost of shares repurchased including share repurchase expenses US$'000 | Date of cancellation of shares |
|---|---|---|---|---|---|
| Annual General Meeting held on 29 August 2019 | 5 463 435 | 34.30 | 187 383 | 12 819 | 27 February 2020 |
| | 5 086 565 | 34.27 | 174 312 | 11 788 | 21 October 2019 |
| General meeting held on 26 June 2019 | 2 353 558 | 33.31 | 78 388 | 5 330 | 2 September 2019 |
| | 1 697 160 | 34.97 | 59 349 | 4 224 | 19 July 2019 |
| General meeting held on 15 January 2019 | 4 400 000 | 33.22 | 146 148 | 10 184 | 25 June 2019 |
| **Total shares repurchased** | 19 000 718 | 33.98 | 645 580 | 44 345 | |

All of the above shares that have been cancelled have reverted to authorised but unissued shares.

Share repurchase expenses for the FY20 year amounted to US$0.2 million. These were accounted for in equity and are reflected as part of the US$44.3 million.

| Non-distributable reserves US$'000 | Share-based payments reserve US$'000 | Distributable reserves US$'000 | Equity attributable to equity holders of the parent US$'000 | Non-controlling interests US$'000 | Total equity US$'000 |
|---|---|---|---|---|---|
| 45 331 | 4 883 | 471 306 | 721 603 | 69 217 | 790 820 |
| 203 | (667) | 13 879 | (30 734) | (5 229) | (35 963) |
| – | – | 13 134 | 13 134 | – | 13 134 |
| – | – | – | – | 1 816 | 1 816 |
| – | – | – | 3 490 | – | 3 490 |
| – | – | – | (616) | – | (616) |
| – | (667) | – | (47 690) | (7 045) | (54 735) |
| 203 | – | 745 | 948 | – | 948 |
| 39 806 | – | – | – | – | – |
| – | – | – | – | (53) | (53) |
| – | – | – | (43 881) | – | (43 881) |
| – | – | – | – | (459) | (459) |
| – | 3 612 | – | 1 836 | – | 1 836 |
| 274 | – | (171) | 103 | (173) | (70) |
| **85 614** | **7 828** | **485 014** | **648 927** | **63 303** | **712 230** |
| **1 768** | **(768)** | **13 449** | **(17 826)** | **9 735** | **(8 091)** |
| **–** | **–** | **14 239** | **14 239** | **–** | **14 239** |
| **–** | **–** | **–** | **–** | **13 772** | **13 772** |
| **–** | **–** | **–** | **1 711** | **–** | **1 711** |
| **–** | **–** | **–** | **(607)** | **–** | **(607)** |
| **–** | **(768)** | **–** | **(34 147)** | **(4 037)** | **(38 184)** |
| **1 768** | **–** | **(790)** | **978** | **–** | **978** |
| **14 491** | **–** | **–** | **–** | **–** | **–** |
| **–** | **–** | **(15 371)** | **(12 167)** | **–** | **(12 167)** |
| **–** | **–** | **–** | **–** | **(2 970)** | **(2 970)** |
| **–** | **–** | **–** | **(44 345)** | **–** | **(44 345)** |
| **(12)** | **1 981** | **–** | **(44)** | **–** | **(44)** |
| **–** | **–** | **–** | **–** | **710** | **710** |
| **–** | **–** | **–** | **(2 230)** | **–** | **(2 230)** |
| **101 861** | **9 041** | **483 092** | **572 315** | **70 778** | **643 093** |

## * CASH DIVIDEND WITH A SCRIP DISTRIBUTION ALTERNATIVE TO SHAREHOLDERS

In July 2019, the earn-out payment relating to the disposal of Westcon Americas to SYNNEX of US$14.0 million was returned to shareholders by way of a cash dividend with scrip distribution alternative which totalled US$15.4 million as follows:

- a cash dividend of R1.00 per share totalling US$12.2 million was paid to shareholders who retained the default cash dividend; and
- 1 250 718 fully paid new ordinary shares were issued on 29 July 2019 to shareholders who elected the scrip alternative of non-renounceable capitalisation issue shares *in lieu* of the cash dividend. The value of this scrip portion was US$3.2 million.

** *Non-distributable reserves relate to the translation of stated capital of the parent company from South African Rand to United States Dollar.*

*** *During FY20, 0.9 million (FY19: 1.1 million) shares to the value of US$2.0 million (FY19: US$1.8 million) were issued from Treasury relating to the DBP scheme (refer to Note 2).*

Foreign currency translation reserve includes the translation of subsidiaries and the parent company into presentation currency.

# Consolidated **statement of cash flows**

for the year ended 29 February 2020

| | Notes | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **Cash flow from operating activities** | | | |
| Cash generated from operations | 28 | **215 569** | 68 990 |
| Interest income | | **8 300** | 9 562 |
| Finance costs# | | **(39 272)** | (31 996) |
| Taxation paid | 29 | **(36 941)** | (38 531) |
| **Net cash inflow from operating activities** | | **147 656** | 8 025 |
| **Cash flow from investing activities** | | | |
| Cash outflow for acquisitions | 34 | **(9 300)** | (25 450) |
| Disposal of investments | 11 | **7 841** | 10 201 |
| Additions to investments | 11 | **(1 592)** | (7 283) |
| Additions to property, plant and equipment | 30 | **(15 536)** | (23 769) |
| Additions to capitalised development expenditure | 10.1 | **(10 517)** | (11 264) |
| Additions to software | 10.2 | **(1 983)** | (1 853) |
| Proceeds on disposal of property, plant and equipment and software | | **121** | 132 |
| **Net cash outflow from investing activities** | | **(30 966)** | (59 286) |
| **Cash flow from financing activities** | | | |
| Dividend paid to shareholders | | **(12 167)** | – |
| Share repurchases | | **(44 345)** | (43 881) |
| Treasury shares purchased | | **(2 230)** | – |
| Shares purchased for equity-settled share-based payments | | **(5 108)** | – |
| Earn-out received net of costs | | **13 966** | – |
| Dividends paid to non-controlling interests | | **(2 970)** | (53) |
| Amounts paid to vendors | | **(196)** | (927) |
| Repayment of lease liabilities – principal | 31.2 | **(16 260)** | – |
| Proceeds from short-term liabilities | 31.2 | **53 110** | 65 203 |
| Repayment of short-term liabilities | 31.2 | **(61 620)** | (77 830) |
| Proceeds from long-term liabilities | 31.2 | **16 002** | 13 366 |
| Repayment of long-term liabilities | 31.2 | **(14 963)** | (10 462) |
| **Net cash outflow from financing activities** | | **(76 781)** | (54 584) |
| **Net increase/(decrease) in cash and cash equivalents** | | **39 909** | (105 845) |
| Cash and cash equivalents at the beginning of the year | | **40 381** | 161 342 |
| Translation differences on cash and cash equivalents | 31.1 | **3 099** | (15 116) |
| **Cash and cash equivalents at the end of the year** | 32 | **83 389** | 40 381 |
| **Cash flows from discontinued operations** | | | |
| Net cash outflow from operating activities | | **(144)** | (606) |
| Net cash inflow from financing activities | | **13 966** | – |
| **Net increase/(decrease) in cash and cash equivalents** | | **13 822** | (606) |

# *Includes non-cash accruals.*

# Notes to the Group consolidated annual financial statements

for the year ended 29 February 2020

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **1. REVENUE** | | |
| **Revenue from product sales** | **3 408 222** | 3 566 196 |
| Revenue from sales of hardware/direct product sales | **2 523 022** | 2 734 005 |
| Revenue from sales of software/fulfilment product sales | **823 613** | 773 372 |
| Revenue from vendor resold services and product maintenance services | **61 587** | 58 819 |
| **Timing of revenue from product sales** | **3 408 222** | 3 566 196 |
| At a point in time | **3 408 222** | 3 566 196 |
| Over time | **–** | – |
| **Revenue from services** | **403 163** | 380 984 |
| Revenue from professional services | **403 163** | 380 045 |
| Revenue from other services | **–** | 939 |
| **Timing of revenue from services** | **403 163** | 380 984 |
| At a point in time | **67 898** | 65 536 |
| Over time | **335 265** | 315 448 |
| **Annuity revenue** | **493 460** | 385 201 |
| Revenue from cloud services | **123 737** | 44 049 |
| Revenue from other annuity services | **369 723** | 341 152 |
| **Timing of annuity revenue** | **493 460** | 385 201 |
| At a point in time | **81 224** | – |
| Over time | **412 236** | 385 201 |
| | **4 304 845** | 4 332 381 |

The revenue categories above are consistent with the revenue information presented in the segmental report in Note 33.

A once-off tax credit in Brazil increased gross profit by US$13.6 million in FY20, following a court ruling in favour of Logicalis with regard to certain overpaid indirect taxes. The ruling is not subject to appeal by the Brazilian tax authorities.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | 2020 Number of shares ('000) | 2020 Weighted average grant price | 2019 Number of shares ('000) | 2019 Weighted average grant price |
|---|---|---|---|---|
| **2. SHARE-BASED PAYMENTS** | | | | |
| The Group plans are detailed in the remuneration report on pages 107 to 109. They provide for a grant price equal or approximately equal to the market price at the date of the grant. | | | | |
| **Datatec Group schemes (equity-settled)** | | | | |
| **Datatec Conditional Share Plan ("CSP")** | | **ZAR** | | ZAR |
| Outstanding at the beginning of the year | **2 267** | **20.78** | – | – |
| Granted during the year | **1 229** | **33.05** | 2 267 | 20.78 |
| **Outstanding at the end of the year** | **3 496** | **25.09** | 2 267 | 20.78 |
| At 29 February 2020, the CSP awards had a weighted average remaining contractual life of 1.6 years (FY19: 2.3 years). | | | | |
| **Datatec Deferred Bonus Plan 2017 ("new DBP")** | | **ZAR** | | ZAR |
| Outstanding at the beginning of the year | **1 092** | **22.50** | – | – |
| Shares purchased by participants in the year from pre-tax bonus of the prior year | **435** | **33.05** | 546 | 22.50 |
| Shares purchased by the Company for participants | **435** | **33.05** | 546 | 22.50 |
| **Forfeitable shares at the end of the year** | **1 962** | **27.18** | 1 092 | 22.50 |
| Participants in the DBP defer a portion of their pre-tax bonus to which an equal Company co-investment is added and used to purchase Datatec shares which the participants hold under the terms of the DBP. These shares are forfeitable if the participant leaves the employment of the Group within the three-year holding period (from date of grant). At 29 February 2020, the weighted average remaining life of the awards until the end of the holding period was 1.7 years. | | | | |
| **Datatec Share Appreciation Rights ("SARs") schemes** | | **ZAR** | | ZAR |
| Outstanding at the beginning of the year | **4 712** | **31.74** | 4 712 | 31.74 |
| Forfeited/lapsed during the year | **(2 073)** | **27.20** | – | – |
| **Outstanding at the end of the year** | **2 639** | **35.32** | 4 712 | 31.74 |
| Exercisable at the end of the year | **1 168** | **35.79** | 1 168 | 35.79 |
| The SARs scheme was discontinued after the final awards in FY18. SARs outstanding at 29 February 2020 comprised grant prices in the range R34.94 to R35.79 (FY19: R27.20 to R35.79) and had a weighted average remaining contractual life of 3.4 years (FY19: 4.3 years). | | | | |

| | 2020 Number of shares ('000) | 2020 Weighted average grant price | 2019 Number of shares ('000) | 2019 Weighted average grant price |
|---|---|---|---|---|
| **2. SHARE-BASED PAYMENTS** (continued) | | | | |
| **Datatec Group schemes (equity-settled)** (continued) | | | | |
| **Datatec Long-Term Incentive Plan ("LTIP")** | | | | |
| Outstanding at the beginning of the year | **3 091** | | 4 097 | |
| Settled during the year – share price on vesting: R33.05 (FY19: n/a) | **(910)** | | – | |
| Forfeited/lapsed during the year | **–** | | (1 006) | |
| **Outstanding at the end of the year** | **2 181** | | 3 091 | |

The LTIP was discontinued after the final awards in FY18. The LTIP awards outstanding at 29 February 2020 had been granted when the share price was in the range R27.20 to R35.79 (FY19: R27.20 to R35.79) and had a weighted average remaining contractual life of 0.3 years (FY19: 0.7 years).

| | 2020 Number of shares ('000) | 2020 Weighted average grant price | 2019 Number of shares ('000) | 2019 Weighted average grant price |
|---|---|---|---|---|
| **Datatec Deferred Bonus Plan 2005 ("old DBP")** | | | | |
| Outstanding at the beginning of the year | **149** | | 291 | |
| Arising during the year (performance condition) | **75** | | 71 | |
| Settled during the year – share price on vesting: R33.05 (FY19: R20.78) | **(224)** | | (213) | |
| **Outstanding at the end of the year** | **–** | | 149 | |

The old DBP was discontinued with the last awards having been made in FY17. At 29 February 2020, no further awards were outstanding. Participants were entitled to receive shares *in lieu* of dividends during the performance period in addition to the awards shown above.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 2. SHARE-BASED PAYMENTS (continued)

### Datatec Group schemes (equity-settled) (continued)

**Fair value**

The CSP awards are conditional upon specific non-market conditions and the completion of a service period. The DBP awards are solely conditional upon completion of a service period. The fair value of these awards, referred to as the "unconditional" fair value, is equal to the underlying share price of Datatec shares at the grant date for which the 30-day volume weighted average price ("VWAP") of a Datatec share is used.

| | 2020 CSP | 2020 DBP | 2019 CSP | 2019 DBP |
|---|---|---|---|---|
| Grant date | 1 June 2019 | 1 June 2019 | 1 June 2018 | 14 June 2018 |
| Vesting date | 1 June 2022 | 1 June 2022 | 1 June 2021 | 15 June 2021 |
| Performance period/employment period | 28 February 2019 to 28 February 2022 | | 28 February 2018 to 28 February 2021 | |
| **Share price and fair values:** | | | | |
| Share price grant (closing price) | R35.90 | | R21.89 | |
| Share price at grant (30-day VWAP) | R33.05 | | R20.78 | |

| | 2020 Number of shares ('000) | 2020 Weighted average grant price | 2019 Number of shares ('000) | 2019 Weighted average grant price |
|---|---|---|---|---|
| **Subsidiary schemes (cash-settled)** | | | | |
| **Logicalis** | | | | |
| **Logicalis CSP** | | US$ | | US$ |
| Outstanding at the beginning of the year | 619 | 4.84 | – | – |
| Granted during the year | 603 | 4.92 | 619 | 4.84 |
| **Outstanding at the end of the year** | 1 222 | 4.88 | 619 | 4.84 |
| The Logicalis CSP awards outstanding at 29 February 2020 comprised grant prices in the range of US$4.84 to US$4.92 (FY19: US$4.84). At 29 February 2020, the CSP awards had a weighted average remaining contractual life of 5.8 years (FY19: 6.3 years). | | | | |
| **Logicalis SAR scheme** | | US$ | | US$ |
| Outstanding at the beginning of the year | 2 962 | 4.36 | 3 411 | 4.51 |
| Granted during the year | 476 | 4.92 | 493 | 4.84 |
| Exercised during the year – share price on exercise US$4.92 (FY19: US$4.84) | (79) | 4.04 | (172) | 4.11 |
| Forfeited/lapsed during the year | (862) | 4.46 | (770) | 5.41 |
| **Outstanding at the end of the year** | 2 497 | 4.44 | 2 962 | 4.36 |
| Exercisable at the end of the year | 553 | 5.05 | 633 | 4.92 |
| The Logicalis SARs outstanding at 29 February 2020 comprised grant prices in the range of US$3.70 to US$5.84 (FY19: US$3.70 to US$5.84) and had a weighted average remaining contractual life of 4.0 years (FY19: 4.4 years). | | | | |

| | 2020 Number of shares ('000) | 2020 Weighted average grant price | 2019 Number of shares ('000) | 2019 Weighted average grant price |
|---|---|---|---|---|
| **2. SHARE-BASED PAYMENTS** (continued) | | | | |
| **Subsidiary schemes (cash-settled)** (continued) | | | | |
| **PromonLogicalis Latin America ("PLLAL") CSP** | | **US$** | | US$ |
| Outstanding at the beginning of the year | **119** | **8.16** | – | – |
| Granted during the year | **114** | **8.87** | 119 | 8.16 |
| **Outstanding at the end of the year** | **233** | **8.51** | 119 | 8.16 |
| The PLLAL CSP awards outstanding at 29 February 2020 comprised grant prices in the range of US$8.16 to US$8.67 (FY19: US$8.16). At 29 February 2020, the CSP awards had a weighted average remaining contractual life of 5.8 years (FY19: 6.3 years). | | | | |
| **PLLAL SAR scheme** | | **US$** | | US$ |
| Outstanding at the beginning of the year | **827** | **6.14** | 1 106 | 6.62 |
| Granted during the year | **184** | **8.87** | 152 | 8.16 |
| Exercised during the year – share price on exercise US$8.87 (FY19: US$8.16) | **(174)** | **5.39** | (90) | 5.82 |
| Forfeited/lapsed during the year | **–** | **–** | (341) | 8.66 |
| **Outstanding at the end of the year** | **837** | **6.92** | 827 | 6.14 |
| Exercisable at the end of the year | **146** | **5.22** | 30 | 7.58 |
| The PLLAL SARs outstanding at 29 February 2020 comprised grant prices in the range of US$5.08 to US$8.87 (FY19: US$5.08 to US$9.25) and had a weighted average remaining contractual life of 4.8 years (FY19: 5.0 years). | | | | |
| **Westcon International** | | | | |
| **Westcon International Equity Appreciation Plan ("EAP")** | | **US$** | | US$ |
| Outstanding at the beginning of the year | **142** | **125.00** | – | – |
| Granted during the year | **9** | **125.00** | 159 | 125.00 |
| Forfeited/lapsed during the year | **(6)** | **125.00** | (17) | – |
| **Outstanding at the end of the year** | **145** | **125.00** | 142 | 125.00 |
| The Westcon International EAP commenced during FY19. Units were granted with a strike price of US$125 per unit. Some adjustments to the number of awards were made in FY20. At 29 February 2020, the EAP awards had a remaining contractual life of 3.3 years (FY19: 4.0 years). | | | | |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | 2020 Number of shares ('000) | 2020 Weighted average grant price | 2019 Number of shares ('000) | 2019 Weighted average grant price |
|---|---|---|---|---|
| **2. SHARE-BASED PAYMENTS** (continued) | | | | |
| **Subsidiary schemes (cash-settled)** (continued) | | | | |
| **Westcon International SAR scheme** | | **US$** | | US$ |
| Outstanding at the beginning of the year | **2 319** | **1.25** | – | – |
| Granted during the year | **566** | **1.25** | 2 319 | 1.25 |
| Forfeited/lapsed during the year | **(290)** | **1.25** | – | – |
| **Outstanding at the end of the year** | **2 595** | **1.25** | 2 319 | 1.25 |
| The Westcon International SAR scheme commenced during FY19. It is a one-time scheme and SARs were granted in FY19 and FY20 with a strike price of US$1.25. At 29 February 2020, the SAR awards had a remaining contractual life of 3.3 years (FY19: 4.3 years). | | | | |
| **Analysys Mason Performance Share Scheme** | | **GBP** | | GBP |
| *Note: a proportion of this scheme is settled in Analysys Mason equity* | | | | |
| Outstanding at the beginning of the year | **217** | **14.21** | 209 | 14.17 |
| Granted during the year | **87** | **15.98** | 86 | 14.64 |
| Exercised during the year – share price on exercise £15.98 (FY19: £14.64) | **(55)** | **14.43** | (64) | 14.67 |
| Forfeited/lapsed during the year | **(16)** | **14.38** | (14) | 14.18 |
| **Outstanding at the end of the year** | **233** | **14.80** | 217 | 14.21 |
| The awards outstanding at 29 February 2020 had a weighted average remaining contractual life of 1.1 years (FY19: 1.1 years). | | | | |

## 2. SHARE-BASED PAYMENTS (continued)

The fair value of CSP and performance share awards, referred to as the "unconditional" fair value, is equal to the underlying share price of subsidiary shares at the grant date.

Where awards have optionality, as is the case for SARs and the Westcon International EAP, fair value is measured by the use of Black-Scholes-Merton or binomial tree models.

The main inputs into the models used by subsidiaries, in addition to those recorded above fall into the following ranges:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| Grant date | **1 March 2019** | **1 July 2019** | 14 March 2018 | 1 July 2018 |
| Vesting date | **1 March 2020** | **12 March 2023** | 1 March 2019 | 1 March 2023 |
| Risk-free rate | **0.46%** | **1.40%** | 1.29% | 3.84% |
| Expected life (years) | **3.0** | **7.0** | 3.0 | 7.0 |
| Dividend yield | **0.00%** | **2.00%** | 0.00% | 0.00% |
| Volatility of subsidiary | **31.60%** | **35.00%** | 32.07% | 35.00% |

The expected life used in the models has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected volatility of subsidiaries has been determined by reference to peer group data.

| | **2020 US$'000** | 2019 US$'000 |
|---|---|---|
| **Expense in respect of equity-settled schemes** | | |
| Datatec Limited | **4 760** | 4 792 |
| Subsidiaries | **344** | 279 |
| | **5 104** | 5 071 |
| **Expense in respect of cash-settled schemes (all in subsidiaries)** | **2 519** | 4 693 |
| | **7 623** | 9 764 |

Settlements of US$3.2 million have been made relating to equity-settled schemes for the year ended 29 February 2020 (FY19: US$1.5 million).

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **3. OPERATING PROFIT** | | |
| Operating profit is arrived at after taking into account the following items: | | |
| Auditors' remuneration | | |
| Audit fees | **4 122** | 3 758 |
| Other services | **1 039** | 903 |
| Taxation services | **595** | 686 |
| Other services and expenses | **444** | 217 |
| Prior year underaccrual | **811** | 259 |
| **Total auditors' remuneration** | **5 972** | 4 920 |
| **Depreciation: Property, plant and equipment** | **27 011** | 25 889 |
| Office furniture, equipment and motor vehicles | **4 810** | 2 950 |
| Computer equipment | **13 293** | 16 212 |
| Leasehold improvements | **8 752** | 6 629 |
| Land and buildings | **156** | 98 |
| **Depreciation: Right-of-use assets** | **32 991** | – |
| Office furniture, equipment and motor vehicles | **5 899** | – |
| Computer equipment | **271** | – |
| Land and buildings | **26 821** | – |
| **Amortisation** | **16 118** | 12 449 |
| Amortisation of software | **1 604** | 1 260 |
| Amortisation of capitalised development expenditure | **3 217** | 972 |
| Amortisation of acquired intangible assets | **11 297** | 10 217 |
| **Total depreciation and amortisation** | **76 120** | 38 338 |
| Foreign exchange losses/(gains) | **1 743** | (8 168) |
| Realised | **496** | (701) |
| Unrealised | **1 247** | (7 467) |
| Impairment losses recognised on trade receivables | **7 044** | 6 675 |
| Reversal of impairment losses on trade receivables | **(3 345)** | (2 858) |
| Fees for professional services | **17 427** | 20 468 |
| Administrative and managerial | **2 086** | 255 |
| Consulting | **10 045** | 12 019 |
| Accounting and advisory | **5 296** | 8 194 |
| Short-term lease payments | **4 597** | – |
| Low-value assets payments | **925** | – |
| Variable lease payments | **190** | – |
| Operating lease rentals | **–** | 31 064 |
| (Profit)/loss on disposal of office furniture and equipment, computer equipment, leasehold improvements, motor vehicles and software | **(65)** | 93 |
| Staff costs | **645 524** | 642 983 |
| Staff costs included in cost of sales | **235 427** | 237 862 |
| Retirement benefit contributions | **13 323** | 13 414 |
| Staff costs | **396 774** | 391 707 |
| Directors' emoluments* | **3 722** | 5 021 |
| Executive directors | **3 105** | 4 363 |
| Salaries | **1 643** | 1 988 |
| Bonuses | **1 069** | 2 006 |
| Benefits | **393** | 369 |
| Non-executive directors' emoluments – fees | **617** | 658 |

Long-term incentives for executive directors are included in the share-based payments charge reflected in Note 2.

* *Full details of directors' emoluments are provided in Note 26 on pages 202 to 205.*

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **4. NET FINANCE COSTS** | | |
| **Finance costs** | | |
| Bank overdrafts and long-term liabilities | **(34 797)** | (30 809) |
| Finance leases | **(5 988)** | (1 336) |
| **Total finance costs** | **(40 785)** | (32 145) |
| **Interest income** | | |
| Bank and other deposits | **5 276** | 8 354 |
| Investments | **4** | – |
| Other* | **9 631** | 1 214 |
| **Total interest income** | **14 911** | 9 568 |
| **Net finance costs** | **(25 874)** | (22 577) |

** FY20 includes US$7.5 million of interest income recognised by Logicalis Brazil on multi-year taxes overpaid.*

## 5. TAXATION

### 5.1 Taxation charge

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| South African normal taxation: | | |
| Current taxation – Current year | **1 430** | 3 901 |
| – Prior year | **(117)** | 3 |
| Deferred taxation – Current year | **(718)** | (440) |
| – Prior year | **42** | (233) |
| | **637** | 3 231 |
| Foreign taxation: | | |
| Current taxation – Current year | **28 677** | 33 319 |
| – Prior year | **2 065** | 1 300 |
| Deferred taxation – Current year | **1 727** | (16 886) |
| – Rate adjustment | **398** | 445 |
| – Prior year | **(1 695)** | (450) |
| | **31 172** | 17 728 |
| Total taxation charge | **31 809** | 20 959 |

### 5.2 Reconciliation of taxation rate to profit before taxation

| | 2020 | 2019 |
|---|---|---|
| South African statutory tax rate | **28.0%** | 28.0% |
| **Reconciling items expected to reoccur:** | | |
| Equity-accounted earnings (1) | **0.0%** | 1.4% |
| Intra-group management fees (2) | **1.8%** | 3.9% |
| Non-deductible property, plant and equipment, inventory and other asset impairments (3) | **4.4%** | 7.8% |
| Other non-deductible expenses and permanent differences (4) | **0.9%** | 4.0% |
| Share-based payments (5) | **(2.5%)** | 6.8% |
| Exempt profits/incentives (6) | **(0.8%)** | (3.4%) |
| Non-recoverable withholding taxes (7) | **2.8%** | 6.5% |
| Tax arising on dividend flows (8) | **(1.5%)** | (3.5%) |
| Tax loss utilised/recognised (9) | **(6.4%)** | (19.7%) |
| Foreign taxation rate differential (10) | **10.9%** | 31.7% |
| Tax losses and other deferred tax assets not recognised (11) | **15.8%** | 34.5% |
| Rate adjustment (12) | **0.7%** | 1.8% |
| Prior year adjustments (13) | **0.5%** | 2.6% |
| **Reconciling items that are not expected to recur:** | | |
| Disposal related to intra-group management fees (14) | **0.0%** | 2.7% |
| US goodwill (15) | **0.0%** | (18.7%) |
| Acquisition-related adjustments (16) | **0.1%** | 0.2% |
| Non-taxable profits on disposals (17) | **(0.3%)** | 0.0% |
| **Effective taxation rate** | **54.4%** | 86.6% |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 5. TAXATION (continued)

### 5.2 Reconciliation of taxation rate to profit before taxation (continued)

**Notes to the Group tax rate reconciliation**

The tax rate reconciliation uses the 28% South African statutory tax rate as a starting point. The Group operates in over 50 countries and the head office is based in South Africa. Datatec Limited is listed on the JSE and the majority of the Group's shareholders are based in South Africa. If a weighted average tax rate were to be used, the starting point would change every year making comparability difficult. The South African statutory tax rate is therefore deemed to be the most appropriate starting point. This is a key judgement applied by management.

(1): Arises as the net profit after taxation from equity-accounted investments is presented as a single line item in the Group's profit before taxation.

(2): Arises as a result of the imputation of income for tax purposes where certain management fees are not billed to the entities benefitting from the services provided.

(3): Relates to property, plant and equipment depreciation, inventory and work-in-progress write-offs and other asset impairments not deductible for tax purposes.

(4): Includes entertaining expenses, donations, gifts and other expenses not deductible for tax purposes.

(5): Reflects the differing tax treatments of share-based payments which varies across jurisdictions, and the associated current or deferred tax credits arising often do not directly correspond to the expenses booked in the accounts.

(6): Relates to profits arising that are not chargeable to taxation and tax credits or additional tax deductions given in relation to certain types of expenditure.

(7): Represents tax deducted on cross-border commercial payments that cannot be recovered directly from a tax authority or offset against other income tax liabilities.

(8): Reflects the additional tax benefit obtained as a result of intra-group dividends which have no net impact on the consolidated statement of comprehensive income.

(9): Relates to the utilisation of tax losses and other timing differences that have not previously been recognised as a deferred tax asset.

(10): The tax reconciliation starts by applying the 28% South African tax rate to the profits arising in the year. The Group has earned profits in jurisdictions with significantly higher statutory tax rates such as Brazil at 34% and has also incurred losses in jurisdictions with significantly lower statutory tax rates such as the UK at 19%. This line item reflects the additional taxation of these profits and the reduced tax benefit of these losses.

(11): Relates to those timing differences that arise in the year for which a deferred tax asset has not been recognised, typically because of the uncertainty that future taxable income will be available against which deductible temporary differences can be utilised.

(12): Refers to changes in the carrying value of deferred tax assets and liabilities as a result of a change in local statutory rates of taxation in the prior year.

(13): Reflects changes to the current and deferred tax recorded in relation to prior accounting periods.

(14): Relates to costs incurred in providing services to entities that have been disposed of which are not deductible for tax purposes.

(15): The tax benefit that arises due to goodwill being deducted for tax purposes in the US, for which no previous benefit was recorded.

(16): Relates to acquisition costs or aborted acquisition costs that are not deductible for tax purposes.

(17): Relates to profits arising on the disposal of investments that are exempt for tax purposes.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **Taxation charge/(credit) by region:** | | |
| North America | **398** | (4 963) |
| Latin America | **16 701** | 14 131 |
| Europe | **9 588** | 2 748 |
| Asia-Pacific | **5 657** | 5 284 |
| MEA | **(535)** | 3 759 |
| Total taxation charge | **31 809** | 20 959 |
| **Unutilised tax losses** | | |
| Certain subsidiaries had tax losses at the end of the financial year that are available to reduce the future taxable income of the Group and are estimated to be: | **215 572** | 186 810 |
| Future tax relief at a blended tax rate of 21.4% (FY19: 21.4%) is US$46.2 million (FY19: US$40.0 million). Deferred tax assets of US$17.8 million (FY19: US$16.3 million) have been recognised in respect of a portion of these losses as set out in Note 12 | **46 224** | 39 962 |

## 6. EARNINGS PER SHARE

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **Reconciliation of attributable profit to headline earnings** | | |
| **Total profit for the year attributable to the equity holders of the parent** | **14 239** | 13 134 |
| Profit for the year from continuing operations (net of non-controlling interests) | **12 907** | 1 440 |
| Profit for the year from discontinued operations | **1 332** | 11 694 |
| **Total headline earnings adjustments:** | **(1 789)** | (11 375) |
| (Gain)/loss on disposal of investment | **(415)** | 255 |
| Profit on disposal of discontinued operations | **(1 332)** | (11 694) |
| (Profit)/loss on disposal of property, plant and equipment and right-of-use assets | | |
| – Gross | **(65)** | 93 |
| – Tax effect | **23** | (29) |
| Non-controlling interests | **41** | (101) |
| **Total headline earnings** | **12 491** | 1 658 |
| **Reconciliation of attributable profit to headline earnings – continuing operations** | | |
| **Total profit for the year attributable to the equity holders of the parent – continuing operations** | **12 907** | 1 440 |
| ***Headline earnings adjustments – continuing operations*** | **(457)** | 319 |
| (Gain)/loss on disposal of investment | **(415)** | 255 |
| (Profit)/loss on disposal of property, plant and equipment and right-of-use assets | | |
| – Gross | **(65)** | 93 |
| – Tax effect | **23** | (29) |
| Non-controlling interests | **41** | (101) |
| **Headline earnings – continuing operations** | **12 491** | 1 658 |
| **Reconciliation of total headline earnings to underlying* earnings** | | |
| **Total headline earnings** | **12 491** | 1 658 |
| ***Total underlying* earnings adjustments:*** | **8 352** | 14 070 |
| Unrealised foreign exchange losses/(gains) | | |
| – Gross | **1 247** | (7 467) |
| – Tax effect | **(525)** | 1 771 |
| Acquisition-related fair value adjustments | | |
| – Gross | **(696)** | 35 |
| – Tax effect | **–** | (14) |
| Amortisation of acquired intangible assets | | |
| – Gross | **11 297** | 10 217 |
| – Tax effect | **(2 907)** | (3 001) |
| Restructuring costs | | |
| – Gross | **–** | 17 506 |
| – Tax effect | **–** | (3 460) |
| | **8 416** | 15 587 |
| Non-controlling interests | **(64)** | (1 517) |
| **Total underlying* earnings** | **20 843** | 15 728 |

** Underlying earnings exclude impairments of goodwill and intangible assets, profit or loss on sale of investments and assets, amortisation of acquired intangible assets, unrealised foreign exchange movements, acquisition-related adjustments, fair value movements on acquisition-related financial instruments, restructuring costs relating to fundamental reorganisations, and the taxation effect on all of the aforementioned.*

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | 2020 US cents | 2019 US cents |
|---|---|---|
| **6. EARNINGS PER SHARE** (continued) | | |
| Basic earnings per share | **6.8** | 5.5 |
| Continuing operations | **6.2** | 0.6 |
| Discontinued operations | **0.6** | 4.9 |
| Headline earnings per share | **5.9** | 0.7 |
| Underlying* earnings per share | **9.9** | 6.6 |
| The earnings metrics above are calculated on the weighted average number of shares in issue during the year of 210 474 639 (FY19: 237 771 003), after the deduction of the weighted average number of treasury shares and shares relating to the Deferred Bonus Plan ("DBP") of 2 415 350 (FY19: 897 614). As at 29 February 2020, the Group held 1 000 000 (680 781 weighted average) shares as treasury shares held in a broker account (refer to Note 17). As at 29 February 2020, there were 1 962 856 (1 734 569 weighted average) shares relating to the DBP (refer to Note 2). | | |
| Diluted earnings per share | **6.7** | 5.5 |
| Continuing operations | **6.1** | 0.6 |
| Discontinued operations | **0.6** | 4.9 |
| Diluted headline earnings per share | **5.8** | 0.7 |
| Diluted underlying* earnings per share | **9.7** | 6.5 |
| | **Number of shares** | Number of shares |
| Weighted average number of shares | **210 474 639** | 237 771 003 |
| The diluted earnings metrics above are calculated using the weighted average number of shares in issue during the year, taking into account the dilutive effect of: | | |
| Shares related to share-based payment schemes | **3 461 798** | 2 614 111 |
| Diluted weighted average number of shares | **213 936 437** | 240 385 114 |

The share repurchase programme has an anti-dilutive effect on earnings and headline earnings per share.

Headline earnings per share is calculated using the weighted average number of ordinary shares in issue during the year and is based on the earnings attributable to ordinary shareholders, after excluding these items as required by Circular 4/2018 Headline Earnings issued by the South African Institute of Chartered Accountants ("SAICA") as amended from time to time and as required by the JSE Limited.

In addition to the presentation of headline earnings per share and earnings per share, the Group presents underlying* earnings per share. Underlying* earnings per share is determined on the same weighted average number of shares as used in earnings per share.

The underlying* earnings measure is specific to Datatec and is not required in terms of IFRS or the JSE Listings Requirements.

Headline and underlying* earnings from discontinued operations were US$nil.

** Underlying earnings exclude impairments of goodwill and intangible assets, profit or loss on sale of investments and assets, amortisation of acquired intangible assets, unrealised foreign exchange movements, acquisition-related adjustments, fair value movements on acquisition-related financial instruments, restructuring costs relating to fundamental reorganisations, and the taxation effect on all of the aforementioned.*

| | **2020** | | | 2019 | | |
|---|---|---|---|---|---|---|
| | **Cost US$'000** | **Accumulated depreciation US$'000** | **Net book value US$'000** | Cost US$'000 | Accumulated depreciation US$'000 | Net book value US$'000 |
| **7. PROPERTY, PLANT AND EQUIPMENT** | | | | | | |
| Office furniture, equipment and motor vehicles | **31 404** | **(23 999)** | **7 405** | 32 050 | (20 872) | 11 178 |
| Computer equipment | **111 480** | **(92 224)** | **19 256** | 135 209 | (108 506) | 26 703 |
| Leasehold improvements | **58 040** | **(43 206)** | **14 834** | 56 422 | (36 088) | 20 334 |
| Land and buildings | **1 997** | **(192)** | **1 805** | 2 189 | (98) | 2 091 |
| | **202 921** | **(159 621)** | **43 300** | 225 870 | (165 564) | 60 306 |

A register of land and buildings is maintained at the registered office of the applicable Logicalis entities and may be inspected by shareholders or their duly authorised agents.

The fair value of property, plant and equipment approximates its net book value.

## 7. PROPERTY, PLANT AND EQUIPMENT (continued)

| Movement of property, plant and equipment | Office furniture, equipment and motor vehicles US$'000 | Computer equip-ment US$'000 | Lease-hold improve-ments US$'000 | Land and buildings US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| **Balance at 1 March 2018** | 12 582 | 25 331 | 20 031 | 1 787 | 59 731 |
| Subsidiaries acquired | 200 | 1 611 | 2 688 | – | 4 499 |
| Subsidiaries disposed | (3) | (3) | (2) | – | (8) |
| Additions | 1 833 | 17 010 | 4 584 | 342 | 23 769 |
| Translation and other movements | (423) | (991) | (128) | (36) | (1 578) |
| Disposals | (69) | (78) | (68) | – | (215) |
| Transfers | 8 | 35 | (142) | 96 | (3) |
| Depreciation | (2 950) | (16 212) | (6 629) | (98) | (25 889) |
| **Balance at 28 February 2019** | **11 178** | **26 703** | **20 334** | **2 091** | **60 306** |
| Capitalised leased assets transferred to right-of-use assets on adoption of IFRS 16 | **–** | **(5 332)** | **–** | **–** | **(5 332)** |
| Subsidiaries acquired | **844** | **914** | **26** | **765** | **2 549** |
| Additions | **1 367** | **9 749** | **4 420** | **–** | **15 536** |
| Translation and other movements | **(360)** | **(1 127)** | **(1 192)** | **(7)** | **(2 686)** |
| Disposals | **(60)** | **–** | **(2)** | **–** | **(62)** |
| Transfers | **(754)** | **1 642** | **–** | **(888)** | **–** |
| Depreciation | **(4 810)** | **(13 293)** | **(8 752)** | **(156)** | **(27 011)** |
| **Balance at 29 February 2020** | **7 405** | **19 256** | **14 834** | **1 805** | **43 300** |

Included in property, plant and equipment in FY19 were assets held under finance lease agreements with a net book value of US$8.5 million (computer equipment: US$6.4 million and leasehold improvements: US$2.1 million) which were encumbered as security for liabilities under finance lease agreements. In the current year, these assets are included in "right-of-use assets" and disclosed in Note 8.

## 8. RIGHT-OF-USE ASSETS

| | 2020 Cost US$'000 | 2020 Accum-ulated depreciation US$'000 | 2020 Net book value US$'000 |
|---|---|---|---|
| Office furniture, equipment and motor vehicles | **14 310** | **(5 771)** | **8 539** |
| Computer equipment | **8 895** | **(3 735)** | **5 160** |
| Land and buildings | **94 657** | **(24 403)** | **70 254** |
| | **117 862** | **(33 909)** | **83 953** |

| Movement of right-of-use assets | Office furniture, equipment and motor vehicles US$'000 | Computer equip-ment US$'000 | Land and buildings US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Balance at 28 February 2019*** | **–** | **–** | **–** | **–** |
| Take-on balances on adoption of IFRS 16 | **7 362** | **298** | **86 910** | **94 570** |
| Capitalised leased assets transferred from property, plant and equipment on adoption of IFRS 16 | **–** | **5 332** | **–** | **5 332** |
| Additions | **7 565** | **854** | **20 911** | **29 330** |
| Translation and other movements | **(207)** | **(982)** | **(2 598)** | **(3 787)** |
| Disposals | **(59)** | **(496)** | **(7 946)** | **(8 501)** |
| Transfers | **(223)** | **425** | **(202)** | **–** |
| Depreciation | **(5 899)** | **(271)** | **(26 821)** | **(32 991)** |
| **Balance at 29 February 2020** | **8 539** | **5 160** | **70 254** | **83 953** |

Refer to Note 37 for details of the impact of the adoption of IFRS 16.

* *The Group has initially applied IFRS 16 at 1 March 2019 using the cumulative effect method, under which the comparative information is not restated.*

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **9. GOODWILL** | | |
| Net book value | **241 369** | 234 551 |
| At the beginning of the year | **234 551** | 227 321 |
| Arising on acquisition of subsidiaries | **13 016** | 13 090 |
| Translation and other movements | **(6 198)** | (5 860) |
| Balance at the end of the year | **241 369** | 234 551 |
| Goodwill at cost | **241 369** | 234 551 |
| Accumulated impairment | **–** | – |
| Per cash-generating unit: | **241 369** | 234 551 |
| Logicalis | **222 593** | 216 451 |
| Management Consulting | **18 776** | 18 100 |

### Goodwill impairment assessment

The Group completed its annual impairment tests which are performed at the segmental cash-generating unit level. Goodwill has been allocated for impairment testing purposes to the Logicalis and Management Consulting cash-generating units.

External valuations are obtained for the Logicalis and Management Consulting cash-generating units and compared to the corresponding net asset value including goodwill. The recoverable amount of each cash-generating unit is determined based on a value-in-use calculation which is compared to values arising from a comparable company's market approach and a market transaction method to ensure the reasonableness of the value-in-use assessment. Value-in-use is based on discounted cash flow calculations and includes the following key assumptions:

*Future earnings:* Cash flow forecasts are prepared and derived from the most recent financial budgets for the next three years which are approved by management. Cash flows are extrapolated for a further two to three-year period with estimated annual growth reducing gradually, to a rate which is considered not to exceed the long-term market growth, in perpetuity used to calculate the terminal value.

*Discount rates:* Estimated discount rates used are post-tax rates of return that reflect current market assessments of the time value of money and the risks specific to the cash-generating units to which goodwill is attributable.

*Growth rates:* Growth rates are based on budgeted figures and management estimates/assumptions in respect of the three to six-year cash flow projections, a terminal growth rate and a discount rate. The growth rates are based on industry growth forecasts.

*Expected changes to selling prices and direct costs:* Changes in selling prices and direct costs are based on past practices and reasonable expectations of future changes in the market.

As a result of the impairment analyses, it was concluded that no impairments were required to be recorded in the year.

The table below contains the key assumptions that were used in the value-in-use calculations:

| | Logicalis | Management Consulting |
|---|---|---|
| Weighted average cost of capital (post-tax rate) | **16.0%** | **14.1%** |
| Revenue growth rate in discrete period | **4.0% – 7.0%** | **(2.0%) – 5.1%** |
| Terminal growth rate | **2.0%** | **2.0%** |

## 9. GOODWILL (continued)

The directors believe that a possible change in the key assumptions, on which recoverable amounts are based, would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating units.

Although the current COVID-19 pandemic is a non-adjusting event after the reporting period, the key assumptions on which the recoverable amounts are based have been reassessed, to determine whether the outcome of the sensitivity calculations would result in a possible impairment of the cash-generating units.

The following key assumptions were factored in to determine the sensitivity calculations for each of the cash-generating units:

### Logicalis

While it is not possible for the directors to assess the implications of the pandemic for the Logicalis Group with any certainty, a high-level analysis was conducted which indicated that a 10% decrease in equity value may be appropriate (supported by the external independent third-party valuation). Due to the diverse nature of the Logicalis cash-generating unit in terms of geography, the valuation takes into account the various economics and discount rates of the relevant geographies.

The sensitivity analyses have considered elements such as:

- valuation movements in market comparable companies;
- high-level forecast scenarios which assume a negative short-term impact with a return to expected growth rates in subsequent years; and
- IT service industry-specific analysis and impact expectations due to COVID-19.

The weighted average cost of capital was also adjusted to account for the potential impact of COVID-19. This includes an estimated premium of 1.5% which was arrived at after considering movements in value of comparable companies, high-level forecasts, and industry-specific analyst reports.

Even after considering the lower range of the sensitivity analyses performed, there is still sufficient headroom in the valuation of the cash-generating unit to support the carrying value of goodwill.

### Management Consulting

The sensitivity calculation was performed under the following possible scenarios:

- Scenario 1: the cash flows for FY21 were delayed by one year, assuming that these will be delayed or take more time to achieve. This implied an 11% reduction in the valuation from the original valuation; and
- Scenario 2: In addition to scenario 1 above, the discount rate was increased by 1% to incorporate the additional market risk arising as a result of COVID-19. This implied an 18% reduction in the valuation from the original valuation.

In both scenarios listed above, the recoverable amount (as per the external independent third-party valuation) exceeded the aggregate carrying value of the Management Consulting cash-generating unit.

The directors have factored the range of sensitivity results and taking into account the most conservative outcome, the directors believe that there is no indicator of impairment for each of the cash-generating units.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **10. INTANGIBLE ASSETS** | | |
| **10.1 Capitalised development expenditure** | | |
| Included in amounts capitalised below was US$3.7 million (FY19: US$4.6 million) of SAP-related capitalised development expenditure for Westcon International. Non-SAP-related expenditure included digital transformation and cloud projects. US$18.9 million of capitalised development expenditure relates to Westcon International and US$1.0 million of capitalised development expenditure relates to Logicalis. | | |
| Net book value | **19 908** | 12 711 |
| At the beginning of the year | **12 711** | 1 665 |
| Amounts capitalised | **10 517** | 11 264 |
| Arising on acquisition of subsidiaries | **28** | 734 |
| Translation | **(131)** | 20 |
| Amortisation | **(3 217)** | (972) |
| Balance at the end of the year | **19 908** | 12 711 |
| Capitalised development expenditure at cost | **34 201** | 24 121 |
| Accumulated amortisation and impairment | **(14 293)** | (11 410) |
| Capitalised development assets are amortised using the straight-line method over their useful lives, which generally do not exceed seven years. | | |
| **10.2 Acquired intangible assets and software** | | |
| **10.2.1 Trademarks, customer and vendor relationships** | | |
| Net book value | **25 915** | 33 577 |
| At the beginning of the year | **33 577** | 36 984 |
| Arising on acquisition of subsidiaries | **3 864** | 8 070 |
| Translation | **(229)** | (1 260) |
| Amortisation | **(11 297)** | (10 217) |
| Balance at the end of the year | **25 915** | 33 577 |
| Acquired intangible assets at cost | **99 440** | 97 786 |
| Accumulated amortisation and impairment | **(73 525)** | (64 209) |
| Acquired intangible assets are amortised using the straight-line method over their useful lives, which generally do not exceed 10 years. | | |
| **10.2.2 Software** | | |
| Net book value | **4 087** | 4 038 |
| At the beginning of the year | **4 038** | 3 677 |
| Arising on acquisition of subsidiaries | **47** | 61 |
| Additions | **1 983** | 1 853 |
| Transfers from property, plant and equipment | **–** | 3 |
| Translation and other movements | **(332)** | (287) |
| Disposals | **(45)** | (9) |
| Amortisation | **(1 604)** | (1 260) |
| Balance at the end of the year | **4 087** | 4 038 |
| Software at cost | **13 500** | 13 162 |
| Accumulated amortisation | **(9 413)** | (9 124) |
| Software is amortised using the straight-line method over their useful lives, which range from two to six years. | | |
| **Total acquired intangible assets and software** | **30 002** | 37 615 |

## 11. INVESTMENTS

### 11.1 Equity-accounted investments

The investments comprise associates and a joint venture that are equity-accounted. Details of the Group's investments are:

| | Country of incorporation and principal place of business | Nature of business | Effective ownership 2020 % | Effective ownership 2019 % | Carrying value 2020 US$'000 | Carrying value 2019 US$'000 |
|---|---|---|---|---|---|---|
| **Equity-accounted:** | | | | | | |
| Neteks | Turkey | Distribution | **–** | 45.0 | **–** | 1 585 |
| Esource Resources, LLC. | USA | ICT Solutions | **45.0** | 45.0 | **552** | 733 |
| Directus AS | Norway | Management Consulting | **41.0** | – | **1 691** | – |
| Mason Advisory Limited | UK | Management Consulting | **44.7** | 44.7 | **1 389** | 1 014 |
| | | | | | **3 632** | 3 332 |

Directus AS' year-end is 31 December, the reporting date when the investment in Directus AS was made. The Group does not control Directus and cannot amend its year-end date. The year-ends of the other associates are the same as the Group.

#### Significant joint venture

Istanbul-based networking and security distributor, Neteks, previously accounted for as a joint venture, was sold on 28 February 2020. The gain on disposal was US$0.4 million.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **Associates that are not material** | | |
| Carrying amount | **3 632** | 1 747 |
| **Total share of equity-accounted investment (losses)/profits** | | |
| Neteks | **(398)** | (2 143) |
| Esource Resources, LLC | **(181)** | 468 |
| Directus AS | **–** | – |
| Mason Advisory Limited | **375** | 272 |
| | **(204)** | (1 403) |

### 11.2 Bonds (Angola government bonds)

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **Bonds (Angola government bonds)** | **13 118** | 18 960 |
| ISIN: AOTNX0322G17 | **4 960** | 5 001 |
| ISIN: AOTNTX529D15 | **882** | 882 |
| ISIN: AOTNX0519L18 | **7 276** | 7 276 |
| ISIN: AOTNX0315G17 | **–** | 4 001 |
| ISIN: AOTNX0318A17 | **–** | 1 800 |
| Long-term portion | **7 276** | 18 960 |
| Short-term portion | **5 842** | – |
| | **13 118** | 18 960 |

#### Westcon International

The Angolan government bonds are indexed to the US Dollar. The amount of US$13.12 million is fixed and the Kwanza equivalent of this will be repaid at maturity. The prevailing National Bank of Angola official US Dollar rate at the maturity date will be used for conversion. Bonds to the value of US$0.88 million were purchased in December 2015 and mature in December 2020. The coupon rate on these bonds is 7.8%. Bonds to the value of US$4.96 million were purchased in August 2017 and mature in August 2020. The coupon rate on these bonds is 7.0%. Bonds to the value of US$7.28 million were purchased in July 2018 and mature in July 2023. The coupon rate on the bonds is 5.0%.

US$5.8 million of Angolan bonds were redeemed during the year. The cost of early realisation of the bonds was US$0.2 million.

The weakened economic outlook for Angola, which arose in prior years, mainly as a consequence of the fall in the price of crude oil, has led to a decline in the exchange rate of the Kwanza to the US Dollar. The National Bank of Angola has instituted capital controls that render the timing and quantum of conversion from Kwanza to US Dollar unpredictable. The further decline in the price of crude oil has increased uncertainty in the Angolan market. Management has instituted a series of actions to control the exposure and seek to reduce further losses, including the purchase of the bonds referenced above.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 11. INVESTMENTS (continued)

### 11.2 Bonds (Angola government bonds) (continued)

Expected credit losses in respect of the bonds are considered to be negligible. There have been no defaults by the Angolan government on bond maturity in the past and the National Bank of Angola has been settling bonds as they fall due.

The bonds are classified as level 1 financial instruments and are valued using quoted market rates.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| Equity-accounted investments | **3 632** | 3 332 |
| Other investments | **–** | 90 |
| Bonds | **13 118** | 18 960 |
| **Total investments** | **16 750** | 22 382 |
| Long-term portion | **10 908** | 22 382 |
| Short-term portion | **5 842** | – |
| | **16 750** | 22 382 |

## 12. DEFERRED TAX ASSETS/(LIABILITIES)

### 12.1 Movement of deferred tax assets

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| At the beginning of the year | **52 134** | 41 104 |
| Arising on acquisition of subsidiaries | **–** | 2 234 |
| (Charge)/credit to profit or loss | **(2 358)** | 11 361 |
| Translation and other movements | **(3 232)** | (2 565) |
| | **46 544** | 52 134 |
| **Analysis of deferred tax assets** | | |
| Capital allowances | **6 826** | 5 931 |
| Expense accruals and similar items | **20 040** | 25 674 |
| Effect of tax losses* | **17 840** | 16 343 |
| Goodwill | **51** | 18 |
| Other individually immaterial temporary differences | **1 787** | 4 168 |
| | **46 544** | 52 134 |

### 12.2 Movement of deferred tax liabilities

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| At the beginning of the year | **(28 616)** | (30 240) |
| Arising on acquisition of subsidiaries | **(859)** | (3 841) |
| Charge to profit or loss | **2 604** | 6 203 |
| Credit to other comprehensive income | **(607)** | (616) |
| Translation and other movements | **1 351** | (122) |
| | **(26 127)** | (28 616) |
| **Analysis of deferred tax liabilities** | | |
| Capital allowances | **(1 813)** | (2 482) |
| Goodwill | **(17 935)** | (16 887) |
| Intangible assets | **(4 440)** | (6 848) |
| Other individually immaterial temporary differences | **(1 939)** | (2 399) |
| | **(26 127)** | (28 616) |

* *Deferred tax assets of US$11.6 million (included in the US$17.8 million above) have been recognised in respect of losses incurred by entities that were loss making in either the current or prior year. Of this, US$7.2 million relates to entities that were loss making in both the current and prior year. The recognition of the deferred tax asset on tax losses is based on the strong probability that future profits will arise based on budgets, in excess of the profits arising on the reversal of existing taxable differences, against which these losses can be offset.*

Potential deferred tax assets of US$28.4 million on assessed/estimated losses have not been recognised in the current financial year. Included in this amount is US$4.3 million relating to Angola that will expire by February 2023.

## 13. FINANCE LEASE RECEIVABLES

| | 2020 Minimum lease payments US$'000 | 2020 Present value of minimum lease payments US$'000 | 2019 Minimum lease payments US$'000 | 2019 Present value of minimum lease payments US$'000 |
|---|---|---|---|---|
| Current portion receivable within one year | **10 719** | **8 581** | 6 654 | 5 807 |
| Receivable between two and five years | **26 768** | **23 271** | 14 531 | 13 363 |
| Receivable after five years | **3 300** | **3 840** | – | – |
| | **40 787** | **35 692** | 21 185 | 19 170 |
| *Less:* unearned finance income | **(5 095)** | **–** | (2 015) | – |
| **Present value of minimum lease assets** | **35 692** | **35 692** | 19 170 | 19 170 |
| Current portion | | **8 581** | | 5 807 |
| Long-term portion | | **27 111** | | 13 363 |
| **Finance lease receivables** | | **35 692** | | 19 170 |

Leases are provided to customers as part of financing for large product deals. In order to manage the risk associated with rights retained in the underlying assets, large penalty clauses are included in contracts whereby customers are required to pay off the remainder of the value of the products should they exit the lease contract.

Unguaranteed residual values of assets leased under finance leases at the end of the year are US$nil (FY19: US$3.4 million).

The carrying value of finance lease receivables approximates fair value, therefore no fair value disclosures are provided.

### Logicalis

One of Logicalis' Latin American subsidiaries has entered into various finance leases, bearing interest between 0.00% and 14.20%. These leases are repayable at various dates between 21 March 2020 and 28 December 2024. At 29 February 2020, US$1.7 million was receivable.

One of Logicalis' European subsidiaries has entered into various finance leases, bearing interest between 0.60% and 9.10%. These leases are repayable at various dates between 30 August 2021 and 30 June 2025. At 29 February 2020, US$33.6 million was receivable.

One of Logicalis' Asia-Pacific subsidiaries has entered into a finance lease, bearing interest at 4.30%. This lease is repayable on 29 September 2022. At 29 February 2020, US$0.4 million was receivable.

The majority of the exposure (US$33.6 million) is in Europe (refer to Note 27.4). Expected credit losses for the year are, however, negligible.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **14. INVENTORIES** | | |
| Merchandise for resale | **234 969** | 323 232 |
| Spares/maintenance inventory | **9 878** | 10 184 |
| Work-in-progress | **23 578** | 16 802 |
| | **268 425** | 350 218 |
| Inventory provisions | **(15 154)** | (17 962) |
| | **253 271** | 332 256 |

Obsolete inventory amounting to US$0.6 million (FY19: US$2.0 million) was written off during the year.

During the year, inventories of US$2.3 billion (FY19: US$2.5 billion) were recognised as part of cost of sales. There were no inventories encumbered as at 29 February 2020 (FY19: US$nil).

Westcon International has certain inventory return arrangements with its major vendors to reduce the risk of technological obsolescence.

Westcon International's European and Middle Eastern subsidiaries have an inventory purchase financing agreement with a financing company for a specific vendor's purchases for a maximum availability of US$220.0 million (FY19: US$220.0 million) which extends payment terms to 60 and 90 days respectively. The agreement may be cancelled at any time with a 60-day notice by either Westcon International or the vendor. As at 29 February 2020, US$182.5 million (FY19: US$176.4 million) was outstanding and is included in trade payables per Note 20. Purchases within 0 to 30 days are described as unfunded and are also included in trade payables. The funded availability limit of US$220 million is treated as a group limit which is transferable for usage by the subsidiaries.

Westcon International's Singapore subsidiary has an inventory purchase financing agreement for purchases with a vendor for a maximum of US$48.5 million (FY19: US$40.5 million) which extends payment terms from 30 days to 90 days. The agreement may be cancelled at any time with a 90-day notice by either Westcon International or the vendor. As at 29 February 2020, US$28.1 million (FY19: US$25.8 million) was outstanding and is included in trade payables per Note 20.

Some of Westcon International's other Asia-Pacific subsidiaries have inventory purchase financing agreements for specific vendors' purchases for a maximum of US$17.0 million (FY19: US$14.1 million). These agreements may be cancelled at any time with a 60-day or 90-day notice by either Westcon International or the vendors. As at 29 February 2020, US$7.3 million (FY19: US$10.2 million) was outstanding and is included in trade payables per Note 20.

Westcon International's South African subsidiary has an inventory purchase financing agreement with a financing company for a specific vendor's purchases for a maximum availability of US$26.5 million (FY19: US$26.5 million) which extends payment terms from 30 days to 60 days. The agreement may be cancelled at any time with a 60-day notice by either Westcon International or the vendor. As at 29 February 2020, US$5.34 million (FY19: US$6.69 million) was outstanding and is included in trade payables per Note 20.

## 15. TRADE RECEIVABLES

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| Trade receivables | **1 140 012** | 1 290 514 |
| Expected credit loss allowance | **(29 502)** | (31 661) |
| | **1 110 510** | 1 258 853 |

All trade receivables represent financial assets of the Group and are measured at amortised cost.

The carrying value of trade receivables balances approximates their fair value, therefore no fair value disclosures are provided.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The Group recognises lifetime expected credit losses for trade receivables, which are estimated using a provision matrix. This matrix takes into consideration the payment profiles of trade receivables over a period of 12 months in preceding financial years, the Group's historical credit loss experience, adjusted for factors that are specific to the receivables including insurance held and other securities in place, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group considers forward-looking information such as known changes in the macroeconomic environment of customers located in a certain geography, the deterioration in the Group's relationship or discussions with a particular customer. Consideration of these factors enables an estimation of future expected credit losses to be made. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. Particular focus is placed on higher value and aged trade receivables where there are other more specific risk factors. The concentration of credit risk in each of the Group's geographic segments is limited due to the customer base being large and geographically diverse. Accordingly, the directors believe that no further credit loss allowance is required.

There has been no change in the estimation techniques or significant assumptions made during the current period.

Before accepting any new customer, use is made of local external credit agencies where necessary, to assess the potential customer's credit quality and to define credit limits by customer. Limits attributed to customers are reviewed regularly.

There is one customer in Latin America with a gross value of US$72.6 million, which represents more than 5% of the total balance of trade receivables (FY19: US$141.7 million). Refer to Note 27.4 for details of the concentration risk.

The Group does not hold any collateral over its trade receivables balances. US$430.0 million of credit insurance is held over trade receivables (FY19: US$504.8 million credit insurance and US$191.9 million of credit guarantees).

US$244.3 million (FY19: US$283.4 million of which US$22.5 million in MEA was pledged against long-term interest-bearing liabilities and short-term interest-bearing funding) of trade receivables are pledged as collateral against long-term interest-bearing liabilities and bank overdrafts (refer to Notes 18.1 and 24).

The weighted average write-off rate over recent years across all classes of trade receivables is 0.38% (FY19: 0.37%). The Group therefore has sufficient expected credit loss allowances.

In determining the possible extent of future credit losses as a consequence of COVID-19, the Group has performed sensitivity analyses and stress testing on a range of possible scenarios, varying in severity, related to COVID-19. While some of the scenarios suggest that further credit losses could be incurred if COVID-19 affects the ability the Group's customer base to delay payment, there has been little evidence post-year-end to date to suggest any slow down in payment behaviour. Customer receipts subsequent to the year-end have been in line with historic norms. Management has concluded that the likelihood of material expected credit losses is low.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 15. TRADE RECEIVABLES (continued)

The following table details the credit risk profile of trade receivables based on the Group's provision matrix.

### Days past due

| | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| Current | **57 829** | **160 795** | **478 075** | **102 133** | **81 299** | **880 131** |
| 1 – 30 days past due | **18 807** | **8 381** | **42 451** | **39 197** | **15 080** | **123 916** |
| 31 – 60 days past due | **522** | **2 591** | **7 237** | **14 492** | **4 922** | **29 764** |
| 61 – 90 days past due | **1 229** | **2 752** | **5 507** | **3 859** | **2 133** | **15 480** |
| 91 – 120 days past due | **235** | **463** | **5 464** | **2 948** | **3 857** | **12 967** |
| Over 120 days | **1 652** | **7 246** | **27 144** | **11 041** | **30 671** | **77 754** |
| Gross trade accounts receivable | **80 274** | **182 228** | **565 878** | **173 670** | **137 962** | **1 140 012** |
| Credit loss allowance | **(59)** | **(833)** | **(10 017)** | **(4 658)** | **(13 935)** | **(29 502)** |
| Net trade receivables | **80 215** | **181 395** | **555 861** | **169 012** | **124 027** | **1 110 510** |
| Expected credit loss rate (%) | **0.05** | **0.13** | **0.19** | **0.15** | **1.55** | **0.33** |
| **2019** | | | | | | |
| Current | 73 983 | 223 037 | 506 445 | 133 049 | 86 787 | 1 023 301 |
| 1 – 30 days past due | 3 835 | 11 858 | 58 135 | 42 010 | 15 534 | 131 372 |
| 31 – 60 days past due | 1 927 | 8 151 | 16 939 | 12 776 | 6 877 | 46 670 |
| 61 – 90 days past due | 1 902 | 1 545 | 4 737 | 4 904 | 3 694 | 16 782 |
| 91 – 120 days past due | 389 | 1 956 | 2 978 | 2 751 | 7 203 | 15 277 |
| Over 120 days | 2 208 | 6 815 | 14 457 | 11 766 | 21 866 | 57 112 |
| Gross trade accounts receivable | 84 244 | 253 362 | 603 691 | 207 256 | 141 961 | 1 290 514 |
| Credit loss allowance | (533) | (927) | (8 822) | (4 556) | (16 823) | (31 661) |
| Net trade receivables | 83 711 | 252 435 | 594 869 | 202 700 | 125 138 | 1 258 853 |
| Expected credit loss rate (%) | 0.11 | 0.04 | 0.38 | 0.34 | 1.59 | 0.42 |

### Reconciliation of the expected credit loss allowance account

| | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Balance at 1 March 2018 | (830) | (1 189) | (8 689) | (3 517) | (19 915) | (34 140) |
| Impairment losses recognised on trade receivables | (86) | (650) | (3 835) | (1 563) | (541) | (6 675) |
| Impairment losses reversed | 426 | 738 | 1 422 | 159 | 113 | 2 858 |
| Bad debt write-offs | – | 21 | 2 201 | 281 | 1 999 | 4 502 |
| Net exchange gains and losses | (43) | 153 | 79 | 84 | 1 521 | 1 794 |
| Balance at 28 February 2019 | **(533)** | **(927)** | **(8 822)** | **(4 556)** | **(16 823)** | **(31 661)** |
| Impairment losses recognised on trade receivables | **(356)** | **(773)** | **(4 205)** | **(1 071)** | **(639)** | **(7 044)** |
| Impairment losses reversed | **744** | **590** | **1 824** | **183** | **4** | **3 345** |
| Bad debt write-offs | **86** | **91** | **1 074** | **650** | **2 410** | **4 311** |
| Net exchange gains and losses | **–** | **186** | **112** | **136** | **1 113** | **1 547** |
| Balance at 29 February 2020 | **(59)** | **(833)** | **(10 017)** | **(4 658)** | **(13 935)** | **(29 502)** |

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **16. CONTRACT ASSETS AND CONTRACT COSTS** | | |
| **Non-current** | | |
| Non-current costs to obtain contracts^ | **43** | 86 |
| **Current** | | |
| Current contract assets | **105 104** | 98 741 |
| Current costs to obtain contracts | **29** | 57 |
| **Total current contract assets and contract costs** | **105 133** | 98 798 |
| **Total contract assets and contract costs** | **105 176** | 98 884 |
| **Changes during the period** | | |
| At the beginning of the year | **98 798** | – |
| Changes due to adoption of IFRS 15 | **–** | 81 537 |
| Change in the time frame for a right to consideration to become unconditional | **(3 783)** | (4 732) |
| Amounts recognised during the year | **10 266** | 21 880 |
| Translation and other movements | **(148)** | 113 |
| **Total revenue contract assets and contract costs** | **105 133** | 98 798 |

^ *Included in sundry receivables and contract cost balance of US$9.5 million (FY19: US$4.7 million).*

Amounts relating to contract assets are balances due where products have been sold and services have been performed with contractual payment terms based on performance or time-based milestones. Once these milestones have been reached, customers are invoiced and reclassified to trade receivables. The contract asset amount represents the full remaining amount due under the contract adjusted for financing and risk of loss components.

Expected credit losses for the year were negligible.

Contract costs are amortised on a straight-line basis over three years.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **17. STATED CAPITAL** | | |
| **Authorised share capital** | | |
| 400 000 000 (FY19: 400 000 000) ordinary shares | | |
| **Issued share capital** | | |
| 201 450 000 (FY19: 219 200 000) ordinary shares, including treasury and DBP shares | | |
| **Stated capital** | **113 123** | 172 998 |
| | **113 123** | 172 998 |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | Number of shares | Stated capital US$'000 |
|---|---|---|
| **17. STATED CAPITAL** (continued) | | |
| **Balance at 1 March 2018** | 242 960 000 | 258 461 |
| Cancellation of shares repurchased | (23 760 000) | (43 881) |
| Deferred Bonus Plan ("DBP") shares and treasury shares | (1 106 828) | (1 776) |
| Effects of foreign currency translation | – | (39 806) |
| **Balance at 28 February 2019** | **218 093 172** | **172 998** |
| Issue of shares for scrip distribution | **1 250 718** | **3 204** |
| Cancellation of shares repurchased | **(19 000 718)** | **(44 345)** |
| DBP shares and treasury shares | **(1 856 028)** | **(2 013)** |
| Effects of foreign currency translation | **–** | **(16 721)** |
| **Balance at 29 February 2020** | **198 487 144** | **113 123** |

Stated capital is in the Rand-denominated accounts of the holding company and is translated into US$ each year in the Group accounts in accordance with the accounting policy.

During the year ended 29 February 2020, 1 250 718 (FY19: nil) shares were issued as a scrip distribution to shareholders.

The Company repurchased the following shares during the year:

- 4 400 000 shares under the terms of a general authority given by shareholders at a general meeting on 15 January 2019.
- 4 050 718 shares under the terms of a general authority given by shareholders at a general meeting on 26 June 2019.
- 10 550 000 shares up to 29 February 2020 under the terms of a general authority given by shareholders at the AGM on 29 August 2019.

In total, the Company repurchased 19 000 718 shares during FY20 at a total cost of US$44.3 million.

As at 29 February 2020, the Group held 1 000 000 (FY19: 14 315) shares as treasury shares that are held in a broker account. These treasury shares have been set off against stated capital.

As at 29 February 2020, there were 1 962 856 shares (FY19: 1 092 513 shares) relating to the DBP (refer to Note 2). These shares have been set off against stated capital.

Share cancellation expenses for the year amounted to US$0.2 million (FY19 share issue and cancellation expenses: US$0.2 million) and were accounted for in equity.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **18. LONG-TERM INTEREST-BEARING LIABILITIES** | | |
| Secured loans | **13 052** | 14 458 |
| Other long-term liabilities – unsecured | **29 980** | 30 948 |
| | **43 032** | 45 406 |
| *Less:* current portion included in trade payables (Note 20) | **(24 394)** | (35 956) |
| **Long-term portion** | **18 638** | 9 450 |
| Repayable between one and two years | **15 379** | 8 518 |
| Repayable between two and three years | **1 337** | 841 |
| Repayable between three and four years | **1 036** | – |
| Repayable between four and five years | **796** | – |
| Repayable after five years | **90** | 91 |
| | **18 638** | 9 450 |

Logicalis has a US$45.0 million committed facility to fund future acquisitions as part of the Barclays syndicate. This facility matures in January 2023 after a three-year term, thereafter there is the option to extend this facility for a year. The applicable interest rate is London Interbank Offered Rate ("LIBOR") plus a margin rate determined from a margin ratchet on quarterly leverage. The margin ranges between 2.00% and 3.00%. The facility includes covenants which are tested quarterly. No amounts were drawn under this facility at 29 February 2020.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 18. LONG-TERM INTEREST-BEARING LIABILITIES (continued)

### 18.1 Secured loans and other long-term liabilities

| Counterparty | Currency | Interest rate | Final repayment date | Repayment terms | Principal amount (loan currency) '000 | Principal amount US$'000 | Total capital amount out-standing US$'000 |
|---|---|---|---|---|---|---|---|
| **Secured:** | | | | | | | **13 052** |
| **Westcon International** | | | | | | | **12 900** |
| Futuregrowth Asset Management | ZAR | 3-month JIBAR + 2.5% | September 2021 | Full capital repayable every two years, interest paid quarterly | 200 000 | 12 810 | **12 810** |
| Tokyo Century Leasing (Singapore) Pte Ltd | SGD | 5.19% | August 2024* | Monthly instalments | 180 | 129 | **90** |
| **Management Consulting** | | | | | | | **152** |
| Handelsbanken | SEK | 3.50% | December 2021 | Quarterly instalments | 4 000 | 416 | **152** |
| **Unsecured:** | | | | | | | **29 980** |
| **Logicalis** | | | | | | | **29 533** |
| Cisco Systems Capital Corporation | AU$ | 0.00% | December 2020* | Quarterly instalments | 9 719 | 6 328 | **6 192** |
| Cisco Systems Capital Corporation | US$ | 2.00% | August 2020* | Quarterly instalments | 20 569 | 20 569 | **5 494** |
| Cisco Systems Capital Corporation | US$ | 1.82% | November 2024* | Quarterly instalments | 3 946 | 3 946 | **3 967** |
| Cisco Systems Capital Corporation | US$ | 3.00% | January 2020^ | Biannual instalments | 4 957 | 4 957 | **3 372** |
| IBM Financed invoices | EUR | 1.40% | March 2021* | Biannual instalments | 4 170 | 4 602 | **2 322** |
| IBM Financed invoices | EUR | 1.40% | January 2021* | Annual instalments | 3 063 | 3 381 | **1 690** |
| Cisco Systems Capital Corporation | US$ | 4.42% | October 2020* | Quarterly instalments | 3 465 | 3 465 | **1 291** |
| Cisco Systems Capital Corporation | AU$ | 0.00% | March 2023* | Annual instalments | 567 | 369 | **1 052** |
| Other | Various | Interest-free to 11.80% | Between March 2020 and December 2025* | Monthly, quarterly, biannual and annual instalments | Various | 13 575 | **4 153** |
| **Datatec Financial Services** | | | | | | | **447** |
| PEAC UK Limited | GBP | 4.80% | August 2021 | Quarterly instalments | 522 | 522 | **447** |

** The amount due within 12 months is included in current portion of long-term liabilities.*
*^ The repayment date for this loan has been extended. There is no fixed repayment date.*

The Futuregrowth Asset Management liability is secured by trade receivables to the value of US$20.6 million (FY19: US$21.5 million). The Tokyo Century Leasing loan is secured by a car to the value of US$0.14 million. The Handelsbanken loan is secured by business assets to the value of US$0.05 million.

The carrying value of long-term liabilities approximates their fair value, therefore no fair value disclosures are provided.

## 19. LEASE LIABILITIES

| | 2020 US$'000 | 2019* US$'000 |
|---|---|---|
| Non-current | **95 148** | 21 933 |
| Current | **34 325** | 9 049 |
| | **129 473** | 30 982 |
| Current portion repayable within one year | **34 325** | 9 049 |
| Repayable between one and two years | **30 067** | 8 278 |
| Repayable between two and three years | **23 388** | 6 875 |
| Repayable between three and four years | **15 544** | 4 610 |
| Repayable between four and five years | **11 443** | 1 754 |
| Repayable between five and 10 years | **14 706** | 416 |
| | **129 473** | 30 982 |

** Previously included in long-term interest-bearing borrowings (liabilities under capitalised finance leases).*

| Geographic segment | Currency | Classes of right-of-use assets leased | Interest rate | Final repayment date | Principal amount US$'000 | Total capital amount outstanding US$'000 |
|---|---|---|---|---|---|---|
| **Westcon International** | | | | | | **31 350** |
| North America | US$ | Equipment, motor vehicles and land and buildings | 4.50% | Unspecified – over five years | 2 445 | **2 436** |
| Europe | Various | Equipment, motor vehicles and land and buildings | 4.50% | February 2025 | 30 242 | **22 898** |
| Asia-Pacific | Various | Equipment, motor vehicles and land and buildings | Between 5.22% and 10.17% | Between February 2021 and February 2023 | 4 874 | **2 293** |
| MEA | Various | Equipment, motor vehicles and land and buildings | Between 10.00% and 15.00% | Between February 2021 and February 2025 | 1 271 | **3 723** |
| **Logicalis** | | | | | | **89 013** |
| North America | US$ | Equipment, computer equipment and land and buildings | Between 3.8% and 7.6% | Between July 2020 and September 2026 | 27 045 | **18 124** |
| Latin America | Various | Equipment, leasehold improvements and land and buildings | Between 0.0% and 22.8% | Between March 2020 and November 2025 | 20 937 | **13 297** |
| Europe | EUR and GBP | Office furniture, equipment, motor vehicles, computer equipment, leasehold improvements and land and buildings | Between 0.6% and 9.1% | Between March 2020 and January 2030 | 61 949 | **43 958** |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| Geographic segment | Currency | Classes of right-of-use assets leased | Interest rate | Final repayment date | Principal amount US$'000 | Total capital amount outstanding US$'000 |
|---|---|---|---|---|---|---|
| **19. LEASE LIABILITIES** (continued) | | | | | | |
| **Logicalis** (continued) | | | | | | |
| Asia-Pacific | Various | Office furniture, equipment, computer equipment, leasehold improvements and land and buildings | Between 3.0% and 10.6% | Between March 2020 and September 2024 | 15 834 | **12 253** |
| MEA | ZAR | Land and buildings | Between 7.0% and 10.25% | Between October 2020 and March 2025 | 1 532 | **1 381** |
| **Corporate and Management Consulting** | | | | | | **9 110** |
| Europe | Various | Computer equipment and land and buildings | Between 2.75% and 3.02% | Between October 2022 and January 2023 | 7 288 | **8 422** |
| MEA | ZAR | Equipment and land and buildings | 9.25% | Between December 2023 and November 2030 | 664 | **688** |

Generally, these lease contracts are entered into for fixed periods but may have extension options.

The Group's finance lease arrangements include immaterial variable lease payments.

Short-term leases (lease term of 12 months or less) and leases of low-value assets are recognised as an operating expense on a straight-line basis over the term of the lease (refer to Note 3).

No residual value guarantees have been provided.

Refer to Note 37 for details of the impact of the adoption of IFRS 16.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **20. TRADE AND OTHER PAYABLES AND SHORT-TERM INTEREST-BEARING LIABILITIES** | | |
| **20.1 Trade and other payables** | **1 259 013** | 1 358 928 |
| Trade payables | **928 201** | 1 056 451 |
| VAT/sales tax | **37 933** | 29 868 |
| Accruals | **204 651** | 195 882 |
| Sundry payables | **85 498** | 70 026 |
| Short-term portion of share-based payments | **2 730** | 6 701 |
| **20.2 Short-term interest-bearing liabilities** | **75 145** | 100 702 |
| Unsecured short-term funding – Cisco Systems Capital Corporation | **19 802** | 45 240 |
| Unsecured short-term funding – Banco Santander | **17 583** | 1 148 |
| Unsecured short-term funding – Banco Bradesco | **7 354** | 8 277 |
| Unsecured short-term funding – Banco Votorantim | **2 752** | 2 762 |
| Unsecured short-term funding – Banco AV Villas | **1 094** | 553 |
| Unsecured short-term funding – Matthias Seitle | **105** | – |
| Unsecured short-term funding – Billie GmbH | **22** | – |
| Secured short-term funding – Tanner Servicios Financieros | **1 865** | – |
| Secured short-term funding – Factoring Security S.A. | **174** | 5 251 |
| Secured short-term funding – Futuregrowth Asset Management | **–** | 717 |
| Secured short-term funding – BCI Factoring S.A. | **–** | 698 |
| Secured short-term funding – Banco Internacional and Banco de Chile | **–** | 100 |
| Current portion of other long-term liabilities (Note 18) | **24 394** | 35 956 |
| | **1 334 158** | 1 459 630 |

The carrying value of trade and other payables and short-term interest-bearing liabilities approximates their fair value, therefore no fair value disclosures are provided. Trade accounts payable will be settled in the normal course of business.

Logicalis' subsidiaries have four inventory financing arrangements, described below, with financing companies for specific vendors' purchases which extend payment terms beyond the vendors' normal payment terms. Purchases within the normal vendor credit terms are described as unfunded and are included in trade payables.

Logicalis United Kingdom: Extended payment terms begin at 60 days+ for a maximum of US$26.0 million. At 29 February 2020, US$1.4 million was utilised (FY19: US$1.7 million). Logicalis United States: Extended payment terms begin at 60 days+ for a maximum of US$50.0 million. At 29 February 2020, US$3.4 million was utilised (FY19: US$5.0 million). Logicalis United States: Extended payment terms begin at 75 days+ for a maximum of US$28.0 million. At 29 February 2020, US$19.0 million was utilised (FY19: US$0.9 million). Logicalis Latin America: Extended payment terms begin at 90 days+ for a maximum of US$125.0 million. At 29 February 2020, US$6.0 million was utilised (FY19: US$21.5 million).

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 20. TRADE AND OTHER PAYABLES AND SHORT-TERM INTEREST-BEARING LIABILITIES (continued)

### 20.2 Short-term interest-bearing liabilities (continued)

**Unsecured loans**

Some of Logicalis' subsidiaries has entered into various loans with Cisco Systems Capital Corporation, between US$0.06 million and US$3.5 million each, bearing interest at between 0.00% and 3.00%. These loans are repayable at various dates between February 2020 and September 2020. At 29 February 2020, US$19.8 million was outstanding.

Some of Logicalis' subsidiaries have entered into various forfaiting arrangements with Banco Santander, between US$0.007 million and US$0.6 million each, bearing interest between 3.25% and 3.95%. These loans are repayable in April 2020. At 29 February 2020, US$6.8 million was outstanding.

One of Logicalis' subsidiaries has factoring arrangements with Banco Santander, payable in September 2020 and bearing interest at 3.97%. At 29 February 2020, US$10.8 million was outstanding.

One of Logicalis' subsidiaries has entered into various forfaiting arrangements with Banco Bradesco, between US$0.003 million and US$0.4 million each, bearing interest at between 3.20% and 3.30%. These liabilities are repayable at various dates between April 2020 and June 2020. At 29 February 2020, US$7.4 million was outstanding.

One of Logicalis' subsidiaries has entered into various forfaiting arrangements with Banco Votorantim, between US$0.4 million and US$0.6 million each, bearing interest at 4.55%. These liabilities are repayable in April 2020. At 29 February 2020, US$2.8 million was outstanding.

One of Logicalis' subsidiaries has entered into factoring arrangements with Banco AV Villas of between US$0.3 million and US$0.4 million each, payable in April 2020, bearing interest at between 8.24% and 8.27%. These liabilities are repayable in April 2020. At 29 February 2020, US$1.1 million was outstanding.

One of Logicalis' subsidiaries entered into a short-term loan with Matthias Seitle, payable in April 2020 and bearing interest at 0.00%. At 29 February 2020, US$0.1 million was outstanding.

One of Logicalis' subsidiaries entered into a factoring arrangement with Billie GmbH, payable in March 2020 and bearing interest at 0.00%. At 29 February 2020, US$0.02 million was outstanding.

**Secured loans**

One of Logicalis' subsidiaries entered into various funding arrangements with Tanner Servicios Financieros, S.A., between US$0.06 million and US$0.8 million each, bearing interest between 5.80% and 7.56%. These loans are repayable between March 2020 and May 2020. At 29 February 2020, US$1.9 million was outstanding. The liability is secured by invoices to the value of US$1.9 million.

One of Logicalis' subsidiaries entered into various funding arrangements with Factoring Security S.A., between US$0.005 million and US$0.1 million each, bearing interest at 5.80%. These loans are repayable at various dates between March 2020 and April 2020. At 29 February 2022, US$0.2 million was outstanding. The liability is secured by invoices to the value of US$0.2 million.

Refer to Note 14 for details of inventory purchase financing arrangements. Amounts outstanding under these arrangements are included in trade payables.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **21. AMOUNTS OWING TO VENDORS** | | |
| Long-term portion | **2 052** | 1 393 |
| Short-term portion | **3 438** | 936 |
| | **5 490** | 2 329 |

Amounts owing to vendors represent purchase considerations owing in respect of acquisitions. The purchase considerations are to be settled with the vendors in cash or shares on achievement of agreed performance criteria. The amounts owing are interest-free.

Amounts owing to vendors are classified as financial liabilities designated at fair value through profit or loss. They are classified as level 3 financial instruments, whose fair value measurements are derived from inputs that are unobservable for the liability. Movements are presented in the statement of comprehensive income as acquisition-related fair value adjustments.

**Logicalis**

Effective 4 September 2017, Logicalis acquired Packets Systems Indonesia ("PSI"), a leading ICT systems integrator and services company. The consideration payable comprised an initial cash consideration of US$6.8 million and deferred cash consideration of up to US$0.8 million, split into two payments over two years. The payment of deferred cash consideration is dependent on certain targets being met for each of these two periods.

Effective 8 October 2018, Logicalis acquired Computer Networks Integration (Pty) Ltd ("CNI"), a Microsoft Gold-Certified Partner based in Melbourne. The consideration payable comprised an initial cash consideration of US$1.8 million (AU$2.5 million) and deferred cash consideration of up to US$1.3 million (the equivalent of AU$1.8 million) split into three payments over three years. The payment of the deferred consideration is dependent on certain targets being met for each of these three periods. During the year, US$0.7 million (the equivalent of AU$1.0 million) was released to the statement of comprehensive income as the targets were not met. At year-end, US$0.5 million (the equivalent of AU$0.8 million) remains outstanding with payment of US$0.3 million (the equivalent of AU$0.4 million) due shortly after year-end.

On 30 June 2019, Logicalis completed the acquisition of Mars Investment Holdings (Pty) Ltd ("Mars Technologies"), a South African IT services business, offering managed IT services ranging from the remote monitoring of networks and servers, managed desktop, anti-virus, cloud backup, and printers, to full outsourcing, with a strong offering to small and mid-market enterprises. The consideration payable comprised an initial amount of US$0.3 million (the equivalent of R4.0 million) with a deferred consideration payable of US$0.1 million (the equivalent of R1.2 million) due within three years, provided certain conditions are met.

Logicalis purchased a 70% interest in Comunicações e Projectos Especiais S.A. ("Cilnet") on 2 September 2019, a Cisco systems integrator and managed services business in Portugal which increases Logicalis' Cisco technical expertise in the Iberian region and complements the existing Spanish operation with data centre, collaboration, networking, infrastructure and managed services capabilities, expanding the offering to the region. The consideration payable comprised an initial amount of US$6.4 million (the equivalent of EUR5.8 million) with a deferred consideration payable of US$2.3 million (the equivalent of EUR2.1 million) due over two years, provided certain conditions are met.

Logicalis acquired Orange Networks GmbH ("Orange Networks") on 2 September 2019, a Microsoft services business focused on Microsoft cloud and managed services, with Germany-wide presence including Hamburg, Munich, Offenbach and Düsseldorf. This acquisition advances Logicalis Germany to Microsoft Gold-Certified Partner status and enhances its hybrid cloud offering. The consideration payable comprised an initial amount of US$2.4 million (the equivalent of EUR2.1 million) with a deferred consideration payable of US$0.6 million (the equivalent of EUR0.5 million) due within three years, provided certain conditions are met.

**Management Consulting**

Effective 17 July 2018, Analysys Mason acquired Access Markets International-Partners, Inc., a global research and consulting firm based in the US. The consideration payable comprised an initial cash consideration of US$3.3 million and a deferred cash consideration of up to US$0.2 million. The deferred cash consideration was dependent on certain conditions being met. The deferred cash consideration of US$0.2 million was paid during the year based on certain conditions being met.

Effective 1 March 2019, Analysys Mason acquired Stelacon Holding AB, a consultancy based in Sweden. The consideration payable comprised an initial consideration of US$1.4 million (the equivalent SEK13.0 million) paid as a mix of cash and Analysys Mason shares, and deferred cash consideration of up to US$1.3 million (the equivalent of SEK12.0 million). US$1.2 million (the equivalent of SEK11.8 million) was agreed as the final deferred consideration based on certain targets being met. The agreed deferred consideration is to be paid in FY21.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 22. PROVISIONS

| | Restructuring US$'000 | Legal claims and costs US$'000 | VAT/ sales tax US$'000 | Pension obligations US$'000 | Dilapidations/ asset retirement obligations US$'000 | Onerous contracts US$'000 | Other US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 March 2019** | 8 546 | 1 739 | 710 | 5 451 | 7 018 | 705 | 4 398 | 28 567 |
| Amounts added | 6 865 | 1 471 | 802 | 545 | 822 | 3 179 | 3 472 | 17 156 |
| Utilised | (13 231) | (1 410) | (723) | (33) | (153) | (194) | (1 819) | (17 563) |
| Amounts reversed | (177) | (569) | – | (168) | (2 170) | – | (2 989) | (6 073) |
| Translation and other | (460) | (239) | (440) | (78) | (139) | (529) | (797) | (2 682) |
| **Balance at 29 February 2020** | 1 543 | 992 | 349 | 5 717 | 5 378 | 3 161 | 2 265 | 19 405 |
| **Expected maturity** | | | | | | | | |
| Within one year | 1 543 | 214 | 349 | 834 | 605 | 2 955 | 1 835 | 8 335 |
| Between two to five years | – | 778 | – | 1 036 | 2 610 | 206 | 285 | 4 915 |
| More than five years | – | – | – | 3 847 | 2 163 | – | 145 | 6 155 |
| | 1 543 | 992 | 349 | 5 717 | 5 378 | 3 161 | 2 265 | 19 405 |

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **22. PROVISIONS** (continued) | | |
| Long-term portion | **11 070** | 11 019 |
| Short-term portion | **8 335** | 17 548 |
| | **19 405** | 28 567 |

Restructuring provisions include expected costs for certain restructuring activities of the Group where the details have already been announced to affected parties. Legal claims and costs are provisions for anticipated settlements including costs, for various legal matters that the Group is defending. VAT/sales tax provisions relate to provisions for potential taxes in foreign jurisdictions. Pension obligations relate to a pension scheme operated by Logicalis Group, for which a full defined benefit pension disclosure has not been disclosed due to its immaterial value. Dilapidations and asset retirement obligations relate to provisions where the Group is expected to restore certain leased property and assets to its original condition. Onerous contracts consist of projects in progress in which the costs of meeting the obligations under the contract exceed the economic benefits expected to be received. Other provisions include asset vendor credits, employee settlement claims and other provisions, which are individually insignificant.

The timing of restructuring provisions is fairly certain and is expected to be settled within 12 months. There is little uncertainty with regard to the amounts but some provisions are subject to final agreement.

There is uncertainty regarding the timing of legal claims as the finalisation of certain lawsuits cannot be determined. There is some uncertainty regarding the amounts but best estimates have been provided by legal counsel.

The VAT/sales tax provision relates to tax exposures in foreign jurisdictions and external tax consultants are being utilised to investigate these exposures.

The timing of pension obligations is uncertain and is determined by external actuaries. The amounts of pension obligations are determined by external actuaries. The uncertainty related to assumptions include discount rates, retirement ages and estimates of growth in retirement funding.

The timing of some dilapidations/asset retirement obligations are fairly certain and based on the lease agreement end dates but there is uncertainty regarding one dilapidation obligation. There is uncertainty with regard to the amount as they are subject to the properties' conditions, the position and behaviour of the landlord and the local rates prevailing at the time.

Some uncertainty exists over the timing and amount of onerous contracts. These have been determined using management's best estimate of the duration and costs to complete the relevant projects.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **23. CONTRACT LIABILITIES** | | |
| Current contract liabilities | **4 197** | 3 476 |
| **Changes during the period:** | | |
| At the beginning of the year | **3 476** | – |
| Changes due to adoption of IFRS 15 | **–** | 3 800 |
| Change in the time frame for a right to consideration to become unconditional | **(3 325)** | (3 800) |
| Amounts recognised during the year | **4 166** | 3 435 |
| Translation | **(120)** | 41 |
| | **4 197** | 3 476 |
| The aggregate amount of the transaction price allocated to unsatisfied (or partially unsatisfied) performance obligations is US$4.2 million (FY19: US$3.5 million). | | |
| **Expected to be recognised:** | | |
| Within one year | **4 197** | 3 476 |
| | **4 197** | 3 476 |

Contract liabilities relate to payments received from customers where there is still a commitment to complete the performance obligation. Revenue is only recognised once the performance obligation has been satisfied either at a point in time or over time.

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **24. BANK OVERDRAFTS** | | |
| Total bank overdrafts at the end of the year | **263 800** | 304 019 |

| Region | Provider | Facility currency | Facility limit US$'000 | Interest rate | Overdraft US$'000 |
|---|---|---|---|---|---|
| **Westcon International** | | | | | **132 245** |
| **UK** | HSBC syndicate | US$ | 220 000 | 2.95% above the US$, Euro or Sterling base rates (1.625%, 0.0% and 0.75% as at 29 February 2020) | **103 400** |

- The facility matures in June 2020*.
- Advances under this arrangement are available up to 75% of the subsidiary's eligible accounts receivable.
- The facility contains certain affirmative and negative covenants, including, but not limited to, covenants that restrict Westcon International's ability to grant guarantees or incur debt with its third parties other than to immediate affiliates (as defined) subject to specific thresholds dependent on the nature of the debt, restrict the creation of liens, debentures and mortgages and restrict acquisitions higher than US$7.5 million value without the bank's prior consent.
- This balance fluctuates daily.

| Region | Provider | Facility currency | Facility limit US$'000 | Interest rate | Overdraft US$'000 |
|---|---|---|---|---|---|
| **24. BANK OVERDRAFTS** (continued) | | | | | |
| **Westcon International** (continued) | | | | | |
| **Germany** | HSBC syndicate | US$ | 60 000 | 2.95% above the US$ and Euro base rates (1.625% and 0.0% as at 29 February 2020) | **9 882** |
| | • The facility matures in June 2020*.<br>• Advances under this arrangement are available up to 75% of the subsidiary's eligible accounts receivable.<br>• The facility contains certain affirmative and negative covenants, including, but not limited to, covenants that restrict Westcon International's ability to grant guarantees or incur debt with its third parties other than to immediate affiliates (as defined) subject to specific thresholds dependent on the nature of the debt, restrict the creation of liens, debentures and mortgages and restrict acquisitions higher than US$7.5 million value without the bank's prior consent.<br>• This balance fluctuates daily. | | | | |
| **UAE** | HSBC | US$ | 15 000 | London or Emirates Interbank Offered ("LIBOR" or "EIBOR") + 2.25% (1.61% and 1.85% as at 29 February 2020) | **5 820** |
| **Singapore** | HSBC | US$ | 11 000 | For US$ drawings, LIBOR + 1.60% (3.25% as at 29 February 2020) | **5 100** |
| | • Borrowings under this facility are collateralised by current and future assets. | | | | |
| **Singapore** | HSBC | US$ | 6 000 | For US$ drawings, LIBOR + 1.60%<br>For SGD drawings, Singapore Interbank Rate + 1.60% (3.48% for US$ and 3.30 for SGD as at 29 February 2020) | **3 720** |
| | • Borrowings under this facility are collateralised by current and future assets. | | | | |
| **Indonesia** | HSBC | IDR | 3 000 | For US$ drawings, bank best lending rate less 4.15%<br>For IDR drawings, bank best lending rate less 7.75% (9.15% as at 29 February 2020) | **2 370** |
| **Singapore** | HSBC | US$ | 6 000 | For US$ drawings, LIBOR + 1.60% (3.31% as at 29 February 2020) | **1 953** |
| | • Borrowings under this facility are collateralised by current and future assets. | | | | |

Only facilities that have been drawn at 29 February 2020 have been included in the table above. There are further facilities available, which together with the drawn facilities above, amount to total facilities of US$355.8 million (US$132.2 million was drawn at year-end). Restrictions of US$81.8 million apply to the facilities. The net availability of the facilities, taking into account restrictions, is US$141.7 million. The net availability does not include any cash balances in Westcon International.

US$236.9 million (FY19: US$234.9 million) of trade receivables are pledged as collateral against bank overdrafts.

Datatec PLC has US$15 million (FY19: US$30 million) of cash as collateral for Westcon Asia facilities.

** On 14 May 2020, Westcon extended its expiring European Invoice Financing facility of US$280 million for a further 12 months until 4 June 2021. The facility has been reduced with effect from 4 June 2020 to US$224 million with an accordion facility to go up to US$280 million during the period November 2020 to February 2021 when working capital utilisation is typically at its highest.*

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

| Region | Provider | Facility currency | Facility limit US$'000 | Interest rate | Overdraft US$'000 |
|---|---|---|---|---|---|
| **24. BANK OVERDRAFTS** (continued) | | | | | |
| **Logicalis** | | | | | **131 555** |
| **UK** | Barclays syndicate | Multiple currencies | 40 137 | LIBOR (dependent on the length of the interest period) plus a margin rate which is determined from a margin ratchet on quarterly leverage. The margin ranges between 2.00% and 3.00% (4.26% as at 29 February 2020) | **40 137** |
| | • This facility matures in January 2023 after a three-year term.<br>• Thereafter there is the option to extend this facility for a year.<br>• The facility includes EBITDA and interest cover covenants which are tested quarterly. | | | | |
| **UK** | Barclays syndicate | Multiple currencies | 50 000 | LIBOR (dependent on the length of the interest period) plus a margin rate which is determined from a margin ratchet on quarterly leverage. The margin ranges between 1.75% and 2.75% (3.65% as at 29 February 2020) | **33 263** |
| | • This facility matures in January 2023 after a three-year term.<br>• Thereafter there is the option to extend this facility for a year.<br>• The facility includes EBITDA and interest cover covenants which are tested quarterly. | | | | |
| **UK** | HSBC | Multiple currencies | 0* | Interest rates vary based on the amounts drawn down | **14 684** |
| | • This is not an additional facility. This overdraft is offset by cash in a pooling agreement. | | | | |
| **Chile** | Banco Itaú Unibanco | US$ | 11 000 | This facility has a fixed interest rate (7.70% as at 29 February 2020) | **10 123** |
| **Brazil** | Banco Votorantim | US$ | 7 931 | This facility has a per annum pre-fixed interest rate in US$ (4.80% as at 29 February 2020) | **7 931** |
| | • There are four different overdrafts under this facility, maturing between March and July 2020.<br>• This facility contains covenants that require the bank's claims to rank *pari passu* with other unsecured payables and that restrict Logicalis' ability to create, incur, assume or permit any encumbrances on the cross guarantees in place. | | | | |
| **Brazil** | Banco ABC do Brasil | US$ | 6 183 | This facility has a per annum pre-fixed interest rate in US$ (4.50% as at 29 February 2020) | **6 183** |
| | • There are two different overdrafts under this facility, maturing in June 2020.<br>• This facility contains covenants that restrict Logicalis' ability to create or incur liens, dispose of or transfer any substantial part of its assets, merge, consolidate or transfer all or substantially all of its assets and make material changes to accounting policies or reporting practices without the bank's prior consent. | | | | |

| Region | Provider | Facility currency | Facility limit US$'000 | Interest rate | Overdraft US$'000 |
|---|---|---|---|---|---|
| **24. BANK OVERDRAFTS** (continued) | | | | | |
| **Logicalis** (continued) | | | | | |
| Brazil | Banco Itaú Unibanco | BRL | 5 690 | CDI + 1.50% (CDI: 4.15% at 29 February 2020) | **5 690** |
| | • This facility matures in August 2020. | | | | |
| Brazil | Banco Votorantim | BRL | 3 580 | CDI + 1.79% (CDI: 4.15% at 29 February 2020) | **3 580** |
| | • This facility matures in August 2020. | | | | |
| Brazil | De Lage Landen | BRL | 2 733 | This facility has a per annum pre-fixed interest rate in BRL (13.35% as at 29 February 2020) | **2 733** |
| | • There are three different overdrafts under this facility, maturing between June and October 2020. | | | | |
| Chile | Banco Santander | CLP | 3 660 | This facility has a fixed interest rate (43.00% at 29 February 2020) | **2 067** |
| Mexico | HSBC | US$ | 2 000 | For MXN drawings, 3.5% + TIIE (interbank equilibrium rate)<br>For US$ drawings, 4.5% + LIBOR<br>(MXN: 9.84% and US$: 5.20% at 29 February 2020) | **1 445** |
| Colombia | Banco Itaú Corbanca | COP | 2 025 | IBR M.V. + 5.119% (8.42% at 29 February 2020) | **1 201** |
| Brazil | Banco Bradesco | US$ | 1 010 | This facility has a per annum pre-fixed interest rate in US$ (5.50% as at 29 February 2020) | **1 010** |
| | • This facility matures in June 2020. | | | | |
| Other | HSBC | Various | Various | Between 1.83% and 8.75% | **1 508** |

** The total facility limit applies to an account with cash pooling.*

Only facilities that have been drawn at 29 February 2020 have been included in the table above. There are further facilities available, which together with the drawn facilities above, amount to total facilities of US$203.8 million (US$131.6 million in overdrafts at year-end). No restrictions apply to the facilities. The net availability of all facilities, excluding unlinked overdrafts is US$87.0 million. The net availability does not include any cash balances in Logicalis.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 25. CONTINGENT LIABILITIES, GUARANTEES AND LITIGATION

Datatec and its subsidiaries have issued, in the ordinary course of business, guarantees and letters of comfort to third parties in respect of finance and trading facilities, performance commitments to customers and lease commitments. In addition, the vendor inventory purchase financing referred to in Note 14 was generally guaranteed by Westcon International and Datatec PLC.

Logicalis has a contingent liability in respect of a possible tax liability at its PromonLogicalis Latin America Limited ("PromonLogicalis") subsidiary in Brazil. In April 2011, a Brazilian state tax authority claimed that PromonLogicalis should have paid a higher rate of state tax on its equipment sales up to October 2010 than actually paid. PromonLogicalis management, supported by a legal opinion, strongly disagrees with the state tax authority's assessment and have formally appealed against it. Datatec management supports PromonLogicalis management's view and believes it unlikely that PromonLogicalis will have to pay any additional tax.

The Group has certain contingent liabilities resulting from litigation and claims, including breach of warranties, where operations have been acquired or disposed of, generally involving commercial and employment matters, which are incidental to the ordinary conduct of its business. Management believes, after taking legal advice where appropriate on the probable outcome of these contingencies, that none of these contingencies will materially affect the financial position or the results of operations of the Group.

## 26. RELATED-PARTY TRANSACTIONS

Sales and purchases between Group companies are concluded on normal commercial terms in the ordinary course of business. For the year ended 29 February 2020, the inter-group sales of goods and provision of services amounted to US$40.0 million (FY19: US$40.4 million), which are eliminated on consolidation. Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

The Group also transacts with its associate Esource Resources, LLC (refer to Note 11.1). During the year, the Group made sales totalling US$51.1 million (FY19: US$48.4 million) and received management fees of US$0.3 million (FY19: US$0.5 million). As at 29 February 2020, US$2.2 million (FY19: US$4.2 million) was due from Esource Resources, LLC.

This includes a short-term loan of US$0.1 million which is repayable in monthly instalments to March FY22. The remainder of the balance is repayable under normal commercial terms.

US$0.1 million (FY19: US$0.2 million) was due to Esource Resources, LLC and is repayable under normal commercial terms. The amounts due to and from Esource Resources, LLC are unsecured and interest-free.

During the year, the Group entered into the following material trading transactions with SYNNEX, a related party that is not a member of the Group:

| | Sale of goods US$'000 | Purchases of goods US$'000 |
|---|---|---|
| **Trading transactions** | | |
| SYNNEX Corporation Limited – FY19 | 73 | 113 146 |
| **SYNNEX Corporation Limited – FY20** | **5** | **107 506** |

## 26. RELATED-PARTY TRANSACTIONS (continued)

| | Amounts owed by related party US$'000 | Amounts owed to related party US$'000 |
|---|---|---|
| **The following balances were outstanding at the end of the reporting period:** | | |
| SYNNEX Corporation Limited – FY19 | 290 | 2 621 |
| **SYNNEX Corporation Limited – FY20** | **242** | **2 435** |

SYNNEX became a related party to the Datatec Group on 1 September 2017 when it purchased 10% of Westcon International. Sales of goods to SYNNEX were made on normal commercial terms. Logicalis has an inventory purchase agreement with SYNNEX where Logicalis has agreed to purchase inventory from SYNNEX in return for a rebate. During the year, US$107.5 million (FY19: US$113.1 million) of inventory was purchased from SYNNEX in return for rebate of US$0.4 million (included in the statement of comprehensive income). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expenses have been recognised in the current year for doubtful debts in respect of amounts owed by the related party.

| | **2020 US$'000** | 2019 US$'000 |
|---|---|---|
| **Key management personnel compensation** | | |
| Short-term employee benefits | **7 374** | 7 551 |
| Post-employment benefits | **241** | 300 |
| Share-based payments | **369** | 222 |
| | **7 984** | 8 073 |

Key management personnel compensation comprises the compensation of 12 (FY19: 12) senior executives of the Group's divisions. The remuneration of Datatec's executive directors is included in Note 3 and in the tables on the following page. There were no other prescribed officers in the Company.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 26. RELATED-PARTY TRANSACTIONS (continued)

### Directors' emoluments

The following tables set out the remuneration of individual directors who held office during FY20 and FY19:

| **2020** | **Guaranteed package** | | | | | | |
|---|---|---|---|---|---|---|---|
| **US$'000** | **Basic salary** | **Pension** | **Other benefits*** | **Fees** | **STI** | **LTI** | **Total** |
| **Executive directors** | | | | | | | |
| JP Montanana | **1 140** | **214** | **48** | **–** | **862** | **3 106** | **5 370** |
| IP Dittrich | **503** | **84** | **47** | **–** | **207** | **665** | **1 506** |
| **Total executive directors** | **1 643** | **298** | **95** | **–** | **1 069** | **3 771** | **6 876** |
| **Non-executive directors** | | | | | | | |
| SJ Davidson | **–** | **–** | **–** | **202** | **–** | **–** | **202** |
| M Makanjee | **–** | **–** | **–** | **93** | **–** | **–** | **93** |
| JF McCartney | **–** | **–** | **–** | **101** | **–** | **15** | **116** |
| CRK Medlock (from 1 January 2020) | **–** | **–** | **–** | **13** | **–** | **–** | **13** |
| MJN Njeke | **–** | **–** | **–** | **109** | **–** | **–** | **109** |
| E Singh-Bushell | **–** | **–** | **–** | **99** | **–** | **–** | **99** |
| **Total non-executive directors** | **–** | **–** | **–** | **617** | **–** | **15** | **632** |
| **Total directors' emoluments** | **1 643** | **298** | **95** | **617** | **1 069** | **3 786** | **7 508** |

| 2019 | Guaranteed package | | | | | | |
|---|---|---|---|---|---|---|---|
| **US$'000** | Basic salary | Pension | Other benefits* | Fees | STI | LTI | Total |
| **Executive directors** | | | | | | | |
| JP Montanana | 1 428 | 214 | 28 | – | 1 624 | 2 170 | 5 464 |
| IP Dittrich | 560 | 84 | 43 | – | 382 | 421 | 1 490 |
| **Total executive directors** | 1 988 | 298 | 71 | – | 2 006 | 2 591 | 6 954 |
| **Non-executive directors** | | | | | | | |
| SJ Davidson | – | – | – | 202 | – | – | 202 |
| O Ighodaro (to 31 October 2018) | – | – | – | 62 | – | – | 62 |
| JF McCartney | – | – | – | 90 | – | – | 90 |
| M Makanjee (from 1 November 2018) | – | – | – | 28 | – | – | 28 |
| MJN Njeke | – | – | – | 110 | – | – | 110 |
| CS Seabrooke (to 20 September 2018) | – | – | – | 50 | – | – | 50 |
| E Singh-Bushell (from 1 June 2018) | – | – | – | 71 | – | – | 71 |
| NJ Temple (to 20 September 2018) | – | – | – | 45 | – | – | 45 |
| **Total non-executive directors** | – | – | – | 658 | – | – | 658 |
| **Total directors' emoluments** | 1 988 | 298 | 71 | 658 | 2 006 | 2 591 | 7 612 |

** Other benefits include private medical insurance, permanent health insurance, life assurance and fuel for private vehicle.*

During FY20, Rick Medlock joined the Board on 1 January 2020.

The LTI remuneration received by John McCartney during FY20 arose from a final payment from the legacy Westcon Group, Inc. SAR scheme based on the SYNNEX earn-out determination in May 2019.

There has been no change in the directors holding office up to the date of approval of these financial statements.

## 26. RELATED-PARTY TRANSACTIONS (continued)

### Directors' emoluments (continued)

**Conditional share plan ("CSP")**

Grants were made under the CSP in FY20 and FY19 including the following awards to directors:

| CSP | Grant date | Number of awards 2019 | Number of awards 2020 | Fair value of awards on grant US$'000 | Grant fair value as a % of base pay % | Fair value of awards at 29 February 2020 US$'000 | Fair value of awards at 28 February 2019 US$'000 |
|---|---|---|---|---|---|---|---|
| JP Montanana | 1 Jun 18 | 1 291 148 | | 2 142 | 150% | 277 | 2 704 |
| | 1 Jun 19 | | 538 870 | 1 246 | 109% | 115 | – |
| | | | | | | 392 | 2 704 |
| IP Dittrich | 1 Jun 18 | 405 066 | | 672 | 120% | 87 | 848 |
| | 1 Jun 19 | | 190 212 | 344 | 87% | 41 | – |
| | | | | | | 128 | 848 |

### Deferred bonus plan ("DBP")

Jens Montanana has elected to defer 37.3% of his FY20 bonus, being US$300 000 (FY19: US$812 000) into the DBP to purchase forfeitable shares in June 2020. The Company will contribute the same amount of forfeitable shares and the Company's contribution is included in the LTI element shown in the directors' remuneration table.

Ivan Dittrich has elected to defer 25% of his FY20 bonus, being US$48 100 (FY19: US$96 000) into the new DBP to purchase forfeitable shares in May/June 2020. The Company will contribute the same amount of forfeitable shares and the Company's contribution is included in the LTI element shown in the directors' remuneration table.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 26. RELATED-PARTY TRANSACTIONS (continued)

### Directors' emoluments (continued)

**Westcon International equity appreciation plan ("WI – EAP")**

During FY19, Datatec executive directors received once-off awards of units in the WI – EAP as follows:

| WI – EAP | Grant date | Number of awards | Fair value of awards on grant US$'000 | Grant fair value as a % of base pay % | Fair value of awards at 29 February 2020 US$'000 | Fair value of awards at 28 February 2019 US$'000 |
|---|---|---|---|---|---|---|
| JP Montanana | 14 Mar 18 | 30 000 | – | – | **102** | 88 |
| IP Dittrich | 14 Mar 18 | 15 000 | – | – | **51** | 44 |

In addition to the above, in FY19 Jens Montanana received an award of 10 000 units in the WI – EAP conditional on a sale of Westcon International for in excess of US$300 million being achieved. The fair value of this award on grant was US$nil and at 29 February 2020 was US$37 000 (FY19: US$14 000).

**Discontinued long-term incentives ("old LTI")**

Directors holding office during FY20 held the following share appreciation rights under the rules of the SARs scheme:

| | Grant date | Grant price ZAR | SARs held at the beginning of the year | Exercised during the year | Lapsed during the year | SARs held at the end of the year |
|---|---|---|---|---|---|---|
| JP Montanana | 14 May 15 | 35.79 | **629 000** | **–** | **–** | **629 000** |
| | 12 May 16 | 27.20 | **1 122 269** | **–** | **(1 122 269)** | **–** |
| | 28 Jul 17 | 34.94 | **748 955** | **–** | **–** | **748 955** |
| **Sub-total** | | | **2 500 224** | **–** | **(1 122 269)** | **1 377 955** |
| IP Dittrich | 12 May 16 | 27.20 | **308 665** | **–** | **(308 665)** | **–** |
| | 28 Jul 17 | 34.94 | **230 039** | **–** | **–** | **230 039** |
| **Sub-total** | | | **538 704** | **–** | **(308 665)** | **230 039** |
| **Total** | | | **3 038 928** | **–** | **(1 430 934)** | **1 607 994** |

The SARs granted in May 2016 did not meet their performance condition in May 2019 and hence they lapsed.

The SARs granted in May 2017 are not expected to meet their performance condition in May 2020 and hence they will lapse. Accordingly, the directors received no remuneration from the SARs scheme in FY20 and FY19.

## 26. RELATED-PARTY TRANSACTIONS (continued)

### Directors' emoluments (continued)

**Discontinued long-term incentives ("old LTI")** (continued)

Directors holding office during FY20 held the following conditional awards under the LTIP:

| | Grant date | Awards held at the beginning of the year | Vested and settled during the year | Lapsed/ forfeited during the year | Awards held at the end of the year |
|---|---|---|---|---|---|
| JP Montanana | 12 May 16 | **1 122 269** | **(561 134)** | **–** | **561 135** |
| | 28 Jul 17 | **748 955** | **–** | **–** | **748 955** |
| **Sub-total** | | **1 871 224** | **(561 134)** | **–** | **1 310 090** |
| IP Dittrich | 12 May 16 | **231 499** | **(115 750)** | **–** | **115 749** |
| | 28 Jul 17 | **172 529** | **–** | **–** | **172 529** |
| **Sub-total** | | **404 028** | **(115 750)** | **–** | **288 278** |
| **Total** | | **2 275 252** | **(676 884)** | **–** | **1 598 368** |

The 2016 LTIP awards vested 50% in May 2019 and the other 50% is expected to vest 50% in May 2020. Accordingly, the value of the vesting is included in the directors' FY19 and FY20 LTI remuneration figure disclosed above.

The 2017 LTIP awards are expected to vest 100% in May 2020. Accordingly the value of the vesting is included in the directors' FY20 LTI remuneration figure disclosed above.

The final settlement under the deferred bonus plan 2005 ("old DBP") was made in June 2019 when matching shares were delivered to directors. The value of the performance condition based part of these matching shares (valued at the 30-day VWAP on 28 February 2019) was included in the directors' FY19 LTI figures in the table above: Jens Montanana: US$183 000; Ivan Dittrich US$84 000.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 27. FINANCIAL INSTRUMENTS

### 27.1 Financial risk management objectives

The management of financial risks relating to the operations of the Group is in line with the Group's decentralised business model with oversight through divisional audit, risk and compliance committee meetings. This is achieved through the use of internal risk analyses which analyse exposures by likelihood and magnitude of risks. These risks include market risk (including currency and interest rate risk), credit risk and liquidity risk.

The Group seeks to minimise the effects of these risks by matching assets and liabilities as far as possible or using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's internal policies applicable at subsidiary level. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

When appropriate, management reports regularly to the Group's Audit, Risk and Compliance Committee.

The Group's financial assets and liabilities consist mainly of cash and cash equivalents, accounts receivable, accounts payable and borrowings and leases.

### 27.2 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through optimisation of the debt and equity balance. The Group's overall strategy with respect to the debt and equity balance remains unchanged from FY19. The capital structure of the Group consists of debt, which includes the borrowings disclosed in Notes 18 and 24, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital (see Note 17), reserves and retained earnings.

**Gearing ratio**

The Group's capital structure is reviewed on at least a semi-annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year-end was as follows:

| | **2020 US$'000** | 2019 US$'000 |
|---|---|---|
| Long-term interest-bearing liabilities | **(18 638)** | (9 450) |
| Short-term interest-bearing liabilities | **(75 145)** | (100 702) |
| Lease liabilities | **(129 473)** | (30 982) |
| Net cash and cash equivalents | **83 389** | 40 381 |
| Net debt | **(139 867)** | (100 753) |
| Total equity attributable to the parent | **572 315** | 648 927 |
| Gearing ratio: debt-to-equity ratio | **(24%)** | (16%) |

### 27.3 Categories of financial instruments

| | **2020 US$'000** | 2019 US$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss* | **–** | 14 012 |
| Financial assets at amortised cost | **1 572 657** | 1 709 059 |
| **Financial liabilities** | | |
| Financial liabilities at fair value through profit or loss | **(724)** | (2 407) |
| Financial liabilities at amortised cost | **(1 613 493)** | (1 675 838) |
| Other financial liabilities at fair value through profit or loss (designated) | **(5 490)** | (2 329) |

** Included in financial assets at fair value through profit or loss in FY19 is the net earn-out receivable (refer to Note 36).*

There were no transfers between level 1 and level 2 during the year.

## 27. FINANCIAL INSTRUMENTS (continued)

### 27.4 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of accounts receivable and, where possible and appropriate, credit guarantee insurance cover is purchased. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The Group defines counterparties as having similar characteristics if they are related entities.

There is one customer in Latin America, with a gross value of US$72.6 million (FY19: US$141.7 million), which represents more than 5% of the total balance of trade receivables. There has not been any change in the credit quality of this receivable and the amount is considered recoverable. The majority of the balance receivable is current and this receivable therefore presents a low risk. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with appropriate credit ratings assigned by international or recognised credit rating agencies. Concentration risk is monitored and addressed by management on an ongoing basis.

The carrying amount of financial assets recorded in the financial statements (see Note 27.3), which is net of impairment losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained. Further information on the concentration of credit risk is detailed in the following table:

| | Level | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **2020** | | | | | | | |
| **Financial assets at amortised cost** | | | | | | | |
| Bonds | | – | – | – | – | 13 118 | 13 118 |
| Finance lease receivables | | – | 1 681 | 33 601 | 410 | – | 35 692 |
| Loans granted to third parties and other long-term assets due | | 326 | – | 4 059 | 4 018 | 1 057 | 9 460 |
| Gross trade accounts receivable | | 80 274 | 182 228 | 565 878 | 173 670 | 137 962 | 1 140 012 |
| *Less:* Expected credit loss allowances | | (59) | (833) | (10 017) | (4 658) | (13 935) | (29 502) |
| Sundry receivables | | 10 055 | 28 885 | 13 577 | 2 744 | 1 427 | 56 688 |
| Cash and cash equivalents at financial institutions | | 42 960 | 43 820 | 124 468 | 97 320 | 38 621 | 347 189 |
| Derivative financial assets | 2 | – | – | – | – | – | – |
| Maximum on-balance sheet exposure | | 133 556 | 255 781 | 731 566 | 273 504 | 178 250 | 1 572 657 |
| Financial guarantees | | – | – | – | – | – | – |

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 27. FINANCIAL INSTRUMENTS (continued)

### 27.4 Credit risk management (continued)

| | Level | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| **2019** | | | | | | | |
| **Financial assets at amortised cost** | | | | | | | |
| Bonds | | – | – | – | – | 18 960 | 18 960 |
| Finance lease receivables | | 174 | 3 469 | 15 527 | – | – | 19 170 |
| Loans granted to third parties and other long-term assets due | | 53 | – | 2 562 | 157 | 1 866 | 4 638 |
| Gross trade accounts receivable | | 84 244 | 253 362 | 603 691 | 207 256 | 141 961 | 1 290 514 |
| *Less:* Expected credit loss allowances | | (533) | (927) | (8 822) | (4 556) | (16 823) | (31 661) |
| Sundry receivables | | 15 537 | 17 374 | 20 814 | 6 401 | 2 912 | 63 038 |
| Cash and cash equivalents at financial institutions | | 26 061 | 62 683 | 112 809 | 83 220 | 59 627 | 344 400 |
| **Financial assets at fair value through profit or loss** | | | | | | | |
| Earn-out receivable | 3 | – | – | 11 694 | – | – | 11 694 |
| Derivative financial assets | 2 | – | 2 318 | – | – | – | 2 318 |
| Maximum on-balance sheet exposure | | 125 536 | 338 279 | 758 275 | 292 478 | 208 503 | 1 723 071 |
| Financial guarantees | | – | – | 3 963 | – | – | 3 963 |

The carrying values of loans granted to third parties, other long-term assets due and sundry receivables balances approximates their fair value, therefore no fair value disclosures are provided.

The internal risk rating of loans granted to third parties and other long-term assets due and other receivables is "low risk" and these financial assets are considered to be performing.

The external credit ratings of the Group's main banks range from lower medium grade to high grade. The external credit risk rating of bonds is Ba3 – non-investment grade. There have been no defaults by the Angolan government on bond maturity in the past and the National Bank of Angola has been settling bonds as they fall due.

When measuring expected credit losses, the Group uses publicly available, reasonable forward-looking information. Expected credit losses are based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

For trade receivables, finance lease receivables and contract assets, the Group has applied the simplified approach in IFRS 9 to measure the loss allowance at lifetime expected credit losses. The Group determines the expected credit losses on these items by using a provision matrix, which takes into consideration the payment profiles of these receivables over a period of 12 months in preceding financial years, the Group's historical credit loss experience, adjusted for factors that are specific to the receivables, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. The Group considers forward-looking information such as known changes in the macroeconomic environment of customers located in a certain geography, the deterioration in the Group's relationships or discussions with a particular customer. Consideration of these factors enables an estimation of future expected credit losses to be made. Accordingly, the credit risk profile of these assets is presented based on their past due status in terms of the provision matrix. A default on a receivable occurs when the receivable fails to make contractual payments when they fall due.

The Group's trade receivables share similar risk characteristics by nature. The default percentages on outstanding trade receivables are determined based on the geographical regions of the trade receivables.

## 27. FINANCIAL INSTRUMENTS (continued)

### 27.4 Credit risk management (continued)

In determining the possible extent of future credit losses as a consequence of COVID-19, the Group has performed sensitivity analyses and stress testing on a range of possible scenarios, varying in severity, related to COVID-19. While some of the scenarios suggest that further credit losses could be incurred if COVID-19 affects the ability of the Group's customer base to delay payment, there has been little evidence post-year-end to date to suggest any slow down in payment behaviour. Collections from customers subsequent to the year-end were in line with historic norms. Based on these subsequent receipts management has concluded that the likelihood of material expected credit losses is low.

Expected credit losses for finance lease receivables and contract assets are negligible and all balances are included in the "current" ageing per the Group's past due matrix. Note 15 includes further details on the loss allowance for trade receivables.

There has been no change in the estimation techniques or significant assumptions made during the year in assessing the credit losses for these financial assets.

US$244.3 million (FY19: US$283.4 million of which US$22.5 million in MEA was pledged against long-term interest-bearing liabilities and short-term interest-bearing funding) of trade receivables are pledged as collateral against long-term interest-bearing liabilities and bank overdrafts (refer to Notes 18.1 and 24).

There has not been any deterioration or changes in the collateral policies during the year, nor are there any financial instruments for which a loss allowance has not been recognised because of the collateral.

All significant customers are vetted by an external credit agency. In certain instances, customers with low credit ratings are investigated further and requests for collateral are made. Credit guarantees are sought for receivables over a certain credit limit. The Group makes use of credit insurance in many of its geographies. US$430.0 million (FY19: US$504.8 million credit insurance and US$191.9 million of credit guarantees) of credit insurance is held over trade receivables.

No material expected credit losses have been recognised for any financial assets, other than trade receivables.

The Group does not consider there to be any significant credit risk, which has not been adequately provided for at the reporting date.

Furthermore, there has been no material change to the Group's exposure to credit risks or the manner in which it manages and measures the risk.

### 27.5 Liquidity risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and borrowing facilities and by continuously monitoring forecast and actual cash flows.

The Group is dependent on its bank overdrafts and trade finance facilities to operate. These facilities generally consist of either a fixed term or fixed period but are repayable on demand, are secured against the assets of the company to which the facility is made available and contain certain covenants including financial covenants such as minimum liquidity, maximum leverage and pre-tax earnings coverage. In certain circumstances, if these covenants are violated and a waiver is not obtained for such violation, this may, among other things, mean that the facility may be repayable on demand. Included in Note 24 is a listing of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk.

In determining the extent of the possible effect of COVID-19, the Group has assessed liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing on various possible scenarios, varying in severity, related to COVID-19. The Group's liquidity is to a large degree impacted by customers continuing to pay their invoices. In the first two trading months of the FY21 year, customers have continued to pay largely in line with historic norms, and some suppliers have also been willing to provide extended payment terms where required. Depending on how severe the COVID-19 pandemic becomes, this may have an impact on customers' ability to pay, which could have a significant impact on future cash flows. The Group's forecasts and projections of its current and expected financial performance show that the Group is expected to operate within the levels of its banking facilities for at least 12 months from the authorisation date of these annual financial statements.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 27. FINANCIAL INSTRUMENTS (continued)

### 27.5 Liquidity risk management (continued)

There was a technical breach of covenant in Westcon International's HSBC Invoice Finance facility in March 2019 relating to credit note dilution, as a result of higher than usual levels of credit notes issued, which self-corrected. The facility was not withdrawn as a result. As at 29 February 2020, no further breaches of covenants have been identified.

The following tables detail the Group's remaining contractual maturity for its non-derivative and derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

| | Level | 0 – 1 year US$'000 | 1 – 2 years US$'000 | 2 – 5 years US$'000 | After 5 years US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| **2020** | | | | | | |
| **Financial liabilities at amortised cost** | | | | | | |
| Long-term interest-bearing liabilities | | **(24 394)** | **(15 379)** | **(3 169)** | **(90)** | **(43 032)** |
| Lease liabilities | | **(34 325)** | **(30 067)** | **(50 375)** | **(14 706)** | **(129 473)** |
| Trade payables | | **(928 201)** | **–** | **–** | **–** | **(928 201)** |
| Other payables and other financial liabilities* | | **(198 236)** | **–** | **–** | **–** | **(198 236)** |
| Short-term interest-bearing liabilities | | **(50 751)** | **–** | **–** | **–** | **(50 751)** |
| Bank overdrafts | | **(263 800)** | **–** | **–** | **–** | **(263 800)** |
| **Financial liabilities at fair value through profit or loss** | | | | | | |
| Amounts owing to vendors | **3** | **(3 438)** | **(2 052)** | **–** | **–** | **(5 490)** |
| Derivative financial liabilities | **2** | **(724)** | **–** | **–** | **–** | **(724)** |
| | | **(1 503 869)** | **(47 498)** | **(53 544)** | **(14 796)** | **(1 619 707)** |
| Financial guarantees/commitments | | **–** | **–** | **–** | **–** | **–** |
| **2019** | | | | | | |
| **Financial liabilities at amortised cost** | | | | | | |
| Long-term interest-bearing liabilities | | (35 956) | (8 518) | (841) | (91) | (45 406) |
| Lease liabilities | | (9 049) | (8 278) | (13 239) | (416) | (30 982) |
| Trade payables | | (1 056 451) | – | – | – | (1 056 451) |
| Other payables and other financial liabilities* | | (174 234) | – | – | – | (174 234) |
| Short-term interest-bearing liabilities | | (64 746) | – | – | – | (64 746) |
| Bank overdrafts | | (304 019) | – | – | – | (304 019) |
| **Financial liabilities at fair value through profit or loss** | | | | | | |
| Amounts owing to vendors | 3 | (936) | (1 393) | – | – | (2 329) |
| Derivative financial liabilities | 2 | (2 349) | (58) | – | – | (2 407) |
| | | (1 647 740) | (18 247) | (14 080) | (507) | (1 680 574) |
| Financial guarantees/commitments | | (802) | – | – | (14) | (816) |

* *Other payables per Note 20 of US$330.8 million (FY19: US$302.5 million) less VAT/sales tax of US$37.9 million (FY19: US$29.9 million), short-term portion of share-based payments of US$2.7 million (FY19: US$6.7 million), accruals which are not financial instruments of US$56.2 million (FY19: US$55.9 million), other payables which are not financial liabilities of US$35.1 million (FY19: US$33.4 million) and derivative financial liabilities which are disclosed separately of US$0.7 million (FY19: US$2.4 million).*

The Group continues to actively monitor its exposure to liquidity risks and the manner in which it manages and measures the risk, particularly the inherent counterparty risk which may arise through the Group's dealings with financial institutions.

## 27. FINANCIAL INSTRUMENTS (continued)

### 27.6 Market risk management

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (see Note 27.7) and interest rates (see Note 27.8). The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and interest rate risk, including:

- forward foreign exchange contracts ("FECs") to hedge the exchange rate risk arising on transactions denominated in foreign currency;
- a zero cost collar which offers protection against adverse currency moves beyond a certain level; and
- interest rate swaps to mitigate the risk of rising interest rates.

There has been no material change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

### 27.7 Foreign exchange risk management

The Group operates in the global business environment and undertakes many transactions denominated in foreign currencies which exposes it to the risk of fluctuating exchange rates. The day-to-day management of foreign currency exchange risk is performed on a decentralised basis, within approved policy parameters and through the use of derivative instruments. These instruments primarily comprise FECs and zero cost collars. FECs require a future purchase or sale of foreign currency at a specified price. The Group does not trade in FECs for speculative purposes.

Fluctuations in exchange rates also affect the translation of the profits of subsidiaries whose functional currency is not the US Dollar. The most significant other currencies in which the Group trades are the Pound Sterling, the Euro, the Brazilian Real, the Australian Dollar and the South African Rand.

#### 27.7.1 Foreign currency exposure analysis

The Group's operating companies have financial assets and liabilities that are denominated in multiple currencies, in many instances currencies other than their functional currencies. Differences arising from the translation of these foreign currency denominated financial assets and liabilities are recognised in the statement of comprehensive income as foreign exchange gains and/or losses.

***Westcon International***

Westcon International operates in the global business environment and undertakes many transactions denominated in foreign currencies. Westcon International is exposed to the risk of fluctuating exchange rates and seeks to actively manage this exposure, within approved policy parameters and through the use of derivative instruments. These instruments primarily comprise forward exchange contracts. Forward exchange contracts require a future purchase or sale of foreign currency at a specified price.

Datatec management has performed a review of foreign currency exposures of the financial assets and liabilities of Westcon International. In addition, the foreign exchange gains and/or losses in the statement of comprehensive income were reviewed to identify the regions with potential exposures. Where no natural hedges occur, Westcon International is adequately hedged in most regions. There were foreign exchange exposures found in Africa and the total exposure is US$6.2 million. A 10% movement will result in a US$0.6 million movement in the statement of comprehensive income.

***Logicalis***

Logicalis operates in the global business environment and undertakes many transactions denominated in foreign currencies. Logicalis is exposed to the risk of fluctuating exchange rates and seeks to actively manage this exposure, within approved policy parameters and through the use of derivative instruments. These instruments primarily comprise forward exchange contracts. Forward exchange contracts require a future purchase or sale of foreign currency at a specified price.

Datatec management has performed a review of foreign currency exposures of the financial assets and liabilities of Logicalis. In addition the foreign exchange gains and/or losses in the statement of comprehensive income were reviewed to identify the regions with potential exposures. Where no natural hedges occur, Logicalis is adequately hedged in most regions. The total exposure is US$20.5 million. A 10% movement will result in a US$2.1 million movement in the statement of comprehensive income.

10% represents a reasonable average year-on-year movement in the exchange rates of the Group's material currencies against the US Dollar.

***Corporate, Management Consulting and Financial Services***

Datatec management has performed a review of foreign currency exposures of the financial assets and liabilities of the Corporate, Management Consulting and Financial Services segment. There were no material foreign exchange exposures identified.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 27. FINANCIAL INSTRUMENTS (continued)

### 27.7 Foreign exchange risk management (continued)

#### 27.7.2 Forward foreign exchange contracts

It is the policy of the Group to enter into FECs to cover certain specific foreign currency payments and receipts based on the known exposure generated. The Group also enters into FECs to manage the risk associated with anticipated sales and purchase transactions, with FECs ranging up to approximately six months and with cover up to 100% of the anticipated exposure generated. Obligations under open FEC contracts are detailed in Notes 27.4 and 27.5, as derivative financial assets and derivative financial liabilities respectively.

### 27.8 Interest rate risk management

The Group is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings. The interest rate characteristics of new borrowings and the refinancing of existing borrowings are positioned according to expected movements in interest rates and defined risk appetite (see Note 27.5).

**Interest rate sensitivity analyses**

The analyses below sets out the sensitivity of the Group's variable rate financial assets and liabilities to movements in the applicable interest rates based on an average outstanding asset or liability calculated for the year. The applicable increase or decrease that represents management's assessment of the reasonably possible change in interest rates, is a 10% increase in the applicable variable interest rates across the Group. Interest rates in the Group vary due to the large number of geographic locations. Interest rates fluctuate more in certain regions due to economic uncertainty, particularly in emerging markets. Therefore, 10% has been chosen for the sensitivity analyses as it represents a reasonable average expected change in interest rates across the various regions in the Group.

***Datatec Group***

- Profit for the year ended 29 February 2020 would decrease by a net amount of US$1.00 million (FY19: US$0.94 million decrease)

***Westcon International***

- Profit for the year ended 29 February 2020 would decrease by a net amount of US$0.93 million (FY19: US$0.76 million decrease)

***Logicalis***

- Profit for the year ended 29 February 2020 would decrease by a net amount of US$0.07 million (FY19: US$0.12 million decrease)

***Corporate, Management Consulting and Financial Services***

- Immaterial (FY19: US$0.30 million decrease)

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **28. CASH GENERATED FROM OPERATIONS** | | |
| Profit before taxation+ | **59 820** | 35 909 |
| Adjustment for: | | |
| Unrealised foreign exchange losses/(gains) | **1 247** | (7 467) |
| Share-based payments | **7 623** | 9 764 |
| Share of equity-accounted investment losses | **204** | 1 403 |
| Depreciation and amortisation | **76 120** | 38 338 |
| (Profit)/loss on disposal of office furniture and equipment, computer equipment, leasehold improvements, motor vehicles and software | **(65)** | 93 |
| Profit on disposal of discontinued operations | **(1 332)** | (11 694) |
| Net movement in provisions | **(11 082)** | 581 |
| (Gain)/loss on disposal of investment | **(415)** | 255 |
| Net movements on expected credit loss allowances | **3 700** | 3 817 |
| Acquisition-related fair value adjustments | **(696)** | 35 |
| Cash payments to settle share-based payment obligations | **(1 574)** | (1 513) |
| Interest income | **(14 911)** | (9 568) |
| Finance costs* | **40 785** | 32 145 |
| Other non-cash items (individually immaterial) | **(1 086)** | (3 167) |
| Operating profit before working capital changes | **158 338** | 88 931 |
| Working capital changes: | **56 984** | (21 228) |
| Decrease/(increase) in inventories | **70 992** | (95 518) |
| Decrease/(increase) in receivables | **78 496** | (90 937) |
| (Decrease)/increase in payables | **(69 698)** | 171 592 |
| Increase in revenue-related assets | **(23 252)** | (17 234) |
| Increase in revenue-related liabilities | **446** | 10 869 |
| Decrease/(increase) in finance lease receivables | **247** | (1 408) |
| Other non-current assets and liabilities | **–** | 2 695 |
| | **215 569** | 68 990 |

** Includes non-cash accruals.*
*+ Includes both continuing and discontinued operations.*

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

| | | 2020 US$'000 | 2019 US$'000 |
|---|---|---|---|
| **29.** | **TAXATION PAID** | | |
| | Net taxation liability – at the beginning of the year | **(4 384)** | (6 069) |
| | Subsidiaries acquired | **(17)** | (199) |
| | Charge to profit or loss (excluding deferred taxation) | **(32 055)** | (38 523) |
| | Other movements and translation differences | **(1 071)** | 1 876 |
| | Net taxation liability – at the end of the year | **586** | 4 384 |
| | | **(36 941)** | (38 531) |
| | **Net taxation** | | |
| | Current tax assets | **16 091** | 11 442 |
| | Current tax liability | **(16 677)** | (15 826) |
| | | **(586)** | (4 384) |
| **30.** | **ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT** | | |
| | Maintenance of operations: | | |
| | Office furniture, equipment and motor vehicles | **930** | 1 554 |
| | Computer equipment | **5 575** | 8 932 |
| | Leasehold improvements | **1 343** | 3 712 |
| | Land and buildings | **–** | 8 |
| | Expansion of operations: | | |
| | Office furniture, equipment and motor vehicles | **437** | 279 |
| | Computer equipment | **4 174** | 8 078 |
| | Leasehold improvements | **3 077** | 872 |
| | Land and buildings | **–** | 334 |
| | | **15 536** | 23 769 |
| **31.** | **CASH FLOW ADDITIONAL NOTES** | | |
| | **31.1 Translation difference on cash and cash equivalents** | | |
| | The translation difference on the net cash/(overdraft) position is calculated on the combined cash resources and bank overdrafts of companies that hold cash in currencies other than the US Dollar | **3 099** | (15 116) |

## 31. CASH FLOW ADDITIONAL NOTES (continued)

### 31.2 Reconciliation of liabilities arising from financing activities

| | Opening balance as at 1 March 2019 US$'000 | Financing cash (inflows)* US$'000 | Financing cash outflows* US$'000 | Non-cash changes: Acquisition of subsidiary US$'000 | Non-cash changes: Foreign currency and other changes US$'000 | Closing balance as at 29 February 2020 US$'000 |
|---|---|---|---|---|---|---|
| Amounts owing to vendors | (2 329) | – | 196 | (4 186) | 829 | (5 490) |
| Long-term interest-bearing liabilities** | (45 406) | (16 002) | 14 963 | (145) | 3 558 | (43 032) |
| Unsecured loans | (30 948) | (16 002) | 14 195 | – | 2 775 | (29 980) |
| Secured loans | (14 458) | – | 768 | (145) | 782 | (13 052) |
| Lease liabilities***/****# | (30 982) | – | 22 248 | (1 216) | (119 523) | (129 473) |
| Short-term interest-bearing liabilities | (64 746) | (53 110) | 61 620 | – | 5 485 | (50 751) |

* *The cash flows from bank loans and other borrowings make up the net amount of proceeds and repayments in terms of short-term and long-term liabilities in the Group statement of cash flows under financing liabilities.*

** *Includes current portion (US$24.4 million – refer to Note 18).*

*** *The non-cash movement in leases include the IFRS 16 take on leases of US$94.6 million (refer to Note 37), finance cost related to finance leases of US$6.0 million (refer to Note 4), new leases, foreign currency and other movements.*

**** *Includes current portion (US$34.3 million – refer to Note 19).*

# *Cash outflows include US$6.0 million that is included in cash flows from operating activities.*

| | 2020 US$'000 | 2019 US$'000 |
|---|---|---|
| **32. CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | |
| Cash resources | 347 189 | 344 400 |
| Bank overdrafts | (263 800) | (304 019) |
| | 83 389 | 40 381 |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 33. SEGMENTAL REPORT

For management's internal purposes, the Group is currently organised into three operating divisions which are the basis on which the Group reports its primary segmental information.

Principal activities are as follows:

- Westcon International – distribution of security, collaboration, networking and data centre products and solutions;
- Logicalis – ICT infrastructure solutions and services; and
- Corporate, Management Consulting and Financial Services – includes strategic, trusted advisory, modelling and market intelligence services, financing/leasing business, Group head office companies and Group consolidation adjustments.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that make strategic decisions.

| | Westcon International | |
|---|---|---|
| **Condensed statement of comprehensive income** | **2020 US$'000** | 2019 US$'000 |
| **Revenue** | **2 544 623** | 2 544 774 |
| **EBITDA** | **40 038** | 5 565 |
| North America | **–** | – |
| Latin America | **–** | – |
| Europe | **41 763** | 18 248 |
| Asia-Pacific | **18 622** | 10 836 |
| MEA | **8 767** | 4 905 |
| Datatec Group and divisional central costs | **(29 114)** | (28 424) |
| Depreciation and amortisation | **(21 066)** | (9 791) |
| **Operating profit/(loss)** | **18 972** | (4 226) |
| Interest income | **1 084** | 1 491 |
| Finance costs | **(14 733)** | (13 683) |
| Share of equity-accounted investment (losses)/earnings | **(398)** | (2 143) |
| Acquisition-related fair value adjustments | **–** | – |
| Other income/(expenses) | **918** | (97) |
| Gain/(loss) on disposal of investment | **415** | (255) |
| **Profit/(loss) before taxation** | **6 258** | (18 913) |
| Taxation | **(5 962)** | (3 271) |
| **Profit/(loss) for the year from continuing operations** | **296** | (22 184) |
| Profit for the year from discontinued operations | **–** | – |
| **Profit/(loss) for the year** | **296** | (22 184) |

During FY20 and FY19, there were no customers that individually accounted for over 10% of the Group's revenue.

| | Logicalis | | Corporate, Management Consulting and Financial Services | | Datatec Group total | |
|---|---|---|---|---|---|---|
| | **2020 US$'000** | 2019 US$'000 | **2020 US$'000** | 2019 US$'000 | **2020 US$'000** | 2019 US$'000 |
| | **1 700 445** | 1 741 064 | **59 777** | 46 543 | **4 304 845** | 4 332 381 |
| | **123 854** | 93 366 | **(5 235)** | (12 170) | **158 657** | 86 761 |
| | **24 649** | 21 898 | **129** | (259) | **24 778** | 21 639 |
| | **66 641** | 55 801 | **249** | 109 | **66 890** | 55 910 |
| | **22 308** | 8 265 | **4 504** | 619 | **68 575** | 27 132 |
| | **21 819** | 20 156 | **1 375** | 196 | **41 816** | 31 188 |
| | **(573)** | (290) | **1 924** | 440 | **10 118** | 5 055 |
| | **(10 990)** | (12 464) | **(13 416)** | (13 275) | **(53 520)** | (54 163) |
| | **(51 567)** | (27 417) | **(3 487)** | (1 130) | **(76 120)** | (38 338) |
| | **72 287** | 65 949 | **(8 722)** | (13 300) | **82 537** | 48 423 |
| | **11 538** | 1 693 | **2 289** | 6 384 | **14 911** | 9 568 |
| | **(25 608)** | (18 455) | **(444)** | (7) | **(40 785)** | (32 145) |
| | **(181)** | 468 | **375** | 272 | **(204)** | (1 403) |
| | **696** | (35) | **–** | – | **696** | (35) |
| | **–** | – | **–** | 159 | **918** | 62 |
| | **–** | – | **–** | – | **415** | (255) |
| | **58 732** | 49 620 | **(6 502)** | (6 492) | **58 488** | 24 215 |
| | **(21 949)** | (12 317) | **(3 898)** | (5 371) | **(31 809)** | (20 959) |
| | **36 783** | 37 303 | **(10 400)** | (11 863) | **26 679** | 3 256 |
| | **–** | – | **1 332** | 11 694 | **1 332** | 11 694 |
| | **36 783** | 37 303 | **(9 068)** | (169) | **28 011** | 14 950 |

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 33. SEGMENTAL REPORT (continued)

| Revenue | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| | Westcon International 2020 | | | | | | |
| **Revenue** | – | – | 1 536 170 | 599 985 | 408 468 | – | 2 544 623 |
| **Revenue from product sales** | – | – | 1 465 287 | 566 243 | 370 842 | – | 2 402 372 |
| Revenue from sales of hardware/direct product sales | – | – | 1 014 622 | 376 940 | 263 650 | – | 1 655 212 |
| Revenue from sales of software/ fulfilment product sales | – | – | 422 620 | 203 356 | 99 445 | – | 725 421 |
| Revenue from vendor resold services and product maintenance service | – | – | 40 804 | 10 961 | 9 015 | – | 60 780 |
| Inter-segmental | – | – | (12 759) | (25 014) | (1 268) | – | (39 041) |
| ***Nature of revenue from product sales*** | – | – | 1 465 287 | 566 243 | 370 842 | – | 2 402 372 |
| Principal | – | – | 1 478 046 | 591 257 | 372 110 | – | 2 441 413 |
| Agent | – | – | – | – | – | – | – |
| Inter-segmental | – | – | (12 759) | (25 014) | (1 268) | – | (39 041) |
| ***Timing of revenue from product sales*** | – | – | 1 465 287 | 566 243 | 370 842 | – | 2 402 372 |
| At a point in time | – | – | 1 478 046 | 591 257 | 372 110 | – | 2 441 413 |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | – | – | (12 759) | (25 014) | (1 268) | – | (39 041) |
| **Revenue from services** | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| Revenue from professional services | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| Revenue from other services | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| ***Nature of revenue from services*** | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| Principal | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| Agent | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| ***Timing of revenue from services*** | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| At a point in time | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| **Annuity revenue** | – | – | 22 348 | 21 914 | 30 091 | – | 74 353 |
| Revenue from cloud services | – | – | 22 348 | 21 914 | 30 091 | – | 74 353 |
| Revenue from other services | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| ***Nature of annuity revenue*** | – | – | 22 348 | 21 914 | 30 091 | – | 74 353 |
| Principal | – | – | 22 348 | 21 914 | 30 091 | – | 74 353 |
| Agent | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| ***Timing of annuity revenue*** | – | – | 22 348 | 21 914 | 30 091 | – | 74 353 |
| At a point in time | – | – | 22 348 | 21 914 | 30 091 | – | 74 353 |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |

| Westcon International 2019 | | | | | | |
|---|---|---|---|---|---|---|
| North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
| – | – | 1 613 905 | 593 450 | 337 419 | – | 2 544 774 |
| – | – | 1 565 345 | 581 958 | 332 104 | – | 2 479 407 |
| – | – | 1 136 097 | 412 585 | 223 897 | – | 1 772 579 |
| – | – | 410 258 | 175 661 | 102 117 | – | 688 036 |
| – | – | 40 065 | 11 089 | 6 665 | – | 57 819 |
| – | – | (21 075) | (17 377) | (575) | – | (39 027) |
| – | – | 1 565 345 | 581 958 | 332 104 | – | 2 479 407 |
| – | – | 1 586 420 | 599 335 | 332 679 | – | 2 518 434 |
| – | – | – | – | – | – | – |
| – | – | (21 075) | (17 377) | (575) | – | (39 027) |
| – | – | 1 565 345 | 581 958 | 332 104 | – | 2 479 407 |
| – | – | 1 586 420 | 599 335 | 332 679 | – | 2 518 434 |
| – | – | – | – | – | – | – |
| – | – | (21 075) | (17 377) | (575) | – | (39 027) |
| – | – | 48 560 | 11 492 | 5 315 | – | 65 367 |
| – | – | 48 560 | 11 492 | 4 376 | – | 64 428 |
| – | – | – | – | 939 | – | 939 |
| – | – | – | – | – | – | – |
| – | – | 48 560 | 11 492 | 5 315 | – | 65 367 |
| – | – | 48 560 | 11 492 | 5 315 | – | 65 367 |
| – | – | – | – | – | – | – |
| – | – | – | – | – | – | – |
| – | – | 48 560 | 11 492 | 5 315 | – | 65 367 |
| – | – | 48 560 | 11 492 | 5 315 | – | 65 367 |
| – | – | – | – | – | – | – |
| – | – | – | – | – | – | – |
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| – | – | – | – | – | – | – |
| – | – | – | – | – | – | – |

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 33. SEGMENTAL REPORT (continued)

| Revenue (continued) | North America US$'000 | Latin America US$'000 | Europe US$'000 | Logicalis 2020 Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|---|
| Revenue | 419 637 | 613 827 | 407 903 | 252 551 | 6 593 | (66) | 1 700 445 |
| **Revenue from product sales** | 305 263 | 334 354 | 212 969 | 150 494 | 1 795 | (66) | 1 004 809 |
| Revenue from sales of hardware/direct product sales | 258 209 | 334 018 | 164 061 | 139 568 | 1 087 | (66) | 896 877 |
| Revenue from sales of software/ fulfilment product sales | 46 783 | 336 | 49 242 | 10 944 | 708 | – | 108 013 |
| Revenue from vendor resold services and product maintenance service | 601 | – | 206 | – | – | – | 807 |
| Inter-segmental | (330) | – | (540) | (18) | – | – | (888) |
| *Nature of revenue from product sales* | 305 263 | 334 354 | 212 969 | 150 494 | 1 795 | (66) | 1 004 809 |
| Principal | 304 992 | 334 276 | 208 707 | 150 383 | 1 795 | (66) | 1 000 087 |
| Agent | 601 | 78 | 4 802 | 129 | – | – | 5 610 |
| Inter-segmental | (330) | – | (540) | (18) | – | – | (888) |
| *Timing of revenue from product sales* | 305 263 | 334 354 | 212 969 | 150 494 | 1 795 | (66) | 1 004 809 |
| At a point in time | 305 593 | 334 354 | 213 509 | 150 512 | 1 795 | (66) | 1 005 697 |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | (330) | – | (540) | (18) | – | – | (888) |
| **Revenue from services** | 39 647 | 141 180 | 69 296 | 32 209 | 1 068 | – | 283 400 |
| Revenue from professional services | 39 647 | 141 180 | 69 296 | 32 209 | 1 068 | – | 283 400 |
| Revenue from other services | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of revenue from services* | 39 647 | 141 180 | 69 296 | 32 209 | 1 068 | – | 283 400 |
| Principal | 39 647 | 136 727 | 69 296 | 32 209 | 1 068 | – | 278 947 |
| Agent | – | 4 453 | – | – | – | – | 4 453 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of revenue from services* | 39 647 | 141 180 | 69 296 | 32 209 | 1 068 | – | 283 400 |
| At a point in time | – | – | – | – | – | – | – |
| Over time | 39 647 | 141 180 | 69 296 | 32 209 | 1 068 | – | 283 400 |
| Inter-segmental | – | – | – | – | – | – | – |
| **Annuity revenue** | 74 727 | 138 293 | 125 638 | 69 848 | 3 730 | – | 412 236 |
| Revenue from cloud services | 24 425 | 702 | 9 941 | 12 858 | 1 458 | – | 49 384 |
| Revenue from other services | 50 302 | 137 591 | 115 697 | 56 990 | 2 272 | – | 362 852 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of annuity revenue* | 74 727 | 138 293 | 125 638 | 69 848 | 3 730 | – | 412 236 |
| Principal | 58 074 | 137 212 | 107 336 | 64 801 | 3 730 | – | 371 153 |
| Agent | 16 653 | 1 081 | 18 302 | 5 047 | – | – | 41 083 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of annuity revenue* | 74 727 | 138 293 | 125 638 | 69 848 | 3 730 | – | 412 236 |
| At a point in time | – | – | – | – | – | – | – |
| Over time | 74 727 | 138 293 | 125 638 | 69 848 | 3 730 | – | 412 236 |
| Inter-segmental | – | – | – | – | – | – | – |

| North America US$'000 | Latin America US$'000 | Europe US$'000 | Logicalis 2019 Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| 406 172 | 639 826 | 450 276 | 242 458 | 2 332 | – | 1 741 064 |
| 298 507 | 399 193 | 243 176 | 145 495 | 418 | – | 1 086 789 |
| 255 743 | 398 696 | 199 723 | 137 187 | 308 | – | 991 657 |
| 43 223 | 497 | 43 243 | 8 410 | 110 | – | 95 483 |
| 736 | – | 264 | – | – | – | 1 000 |
| (1 195) | – | (54) | (102) | – | – | (1 351) |
| 298 507 | 399 193 | 243 176 | 145 495 | 418 | – | 1 086 789 |
| 298 966 | 398 543 | 241 039 | 145 979 | 418 | – | 1 084 945 |
| 736 | 650 | 2 191 | (382) | – | – | 3 195 |
| (1 195) | – | (54) | (102) | – | – | (1 351) |
| 298 507 | 399 193 | 243 176 | 145 495 | 418 | – | 1 086 789 |
| 299 702 | 399 193 | 243 230 | 145 597 | 418 | – | 1 088 140 |
| – | – | – | – | – | – | – |
| (1 195) | – | (54) | (102) | – | – | (1 351) |
| 39 939 | 115 689 | 82 675 | 30 456 | 315 | – | 269 074 |
| 39 939 | 115 689 | 82 675 | 30 456 | 315 | – | 269 074 |
| – | – | – | – | – | – | – |
| – | – | – | – | – | – | – |
| 39 939 | 115 689 | 82 675 | 30 456 | 315 | – | 269 074 |
| 39 939 | 115 677 | 82 675 | 30 456 | 315 | – | 269 062 |
| – | 12 | – | – | – | – | 12 |
| – | – | – | – | – | – | – |
| 39 939 | 115 689 | 82 675 | 30 456 | 315 | – | 269 074 |
| – | – | – | – | – | – | – |
| 39 939 | 115 689 | 82 675 | 30 456 | 315 | – | 269 074 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| 18 932 | 1 031 | 11 486 | 11 941 | 659 | – | 44 049 |
| 48 794 | 123 913 | 112 939 | 54 566 | 940 | – | 341 152 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| 51 223 | 124 238 | 110 136 | 63 119 | 1 418 | – | 350 134 |
| 16 503 | 706 | 14 289 | 3 388 | 181 | – | 35 067 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| – | – | – | – | – | – | – |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 33. SEGMENTAL REPORT (continued)

| | Corporate, Management Consulting and Financial Services 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Revenue** (continued) | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
| Revenue | 3 991 | 1 611 | 32 560 | 9 268 | 12 347 | – | 59 777 |
| Revenue from product sales | 165 | – | 435 | 441 | – | – | 1 041 |
| Revenue from sales of hardware/direct product sales | (165) | – | (9 547) | (18 088) | (1 267) | – | (29 067) |
| Revenue from sales of software/ fulfilment product sales | – | – | (3 317) | (6 503) | (1) | – | (9 821) |
| Revenue from vendor resold services and product maintenance service | – | – | – | – | – | – | – |
| Inter-segmental | 330 | – | 13 299 | 25 032 | 1 268 | – | 39 929 |
| *Nature of revenue from product sales* | 165 | – | 435 | 441 | – | – | 1 041 |
| Principal | (165) | – | (12 864) | (24 591) | (1 268) | – | (38 888) |
| Agent | – | – | – | – | – | – | – |
| Inter-segmental | 330 | – | 13 299 | 25 032 | 1 268 | – | 39 929 |
| *Timing of revenue from product sales* | 165 | – | 435 | 441 | – | – | 1 041 |
| At a point in time | (165) | – | (12 864) | (24 591) | (1 268) | – | (38 888) |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | 330 | – | 13 299 | 25 032 | 1 268 | – | 39 929 |
| Revenue from services | 2 514 | 1 519 | 28 481 | 7 670 | 11 681 | – | 51 865 |
| Revenue from professional services | 2 514 | 1 519 | 28 481 | 7 670 | 11 681 | – | 51 865 |
| Revenue from other services | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of revenue from services* | 2 514 | 1 519 | 28 481 | 7 670 | 11 681 | – | 51 865 |
| Principal | 2 514 | 1 519 | 28 481 | 7 670 | 11 681 | – | 51 865 |
| Agent | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of revenue from services* | 2 514 | 1 519 | 28 481 | 7 670 | 11 681 | – | 51 865 |
| At a point in time | – | – | – | – | – | – | – |
| Over time | 2 514 | 1 519 | 28 481 | 7 670 | 11 681 | – | 51 865 |
| Inter-segmental | – | – | – | – | – | – | – |
| Annuity revenue | 1 312 | 92 | 3 644 | 1 157 | 666 | – | 6 871 |
| Revenue from cloud services | – | – | – | – | – | – | – |
| Revenue from other services | 1 312 | 92 | 3 644 | 1 157 | 666 | – | 6 871 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of annuity revenue* | 1 312 | 92 | 3 644 | 1 157 | 666 | – | 6 871 |
| Principal | 1 312 | 92 | 3 644 | 1 157 | 666 | – | 6 871 |
| Agent | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of annuity revenue* | 1 312 | 92 | 3 644 | 1 157 | 666 | – | 6 871 |
| At a point in time | 1 312 | 92 | 3 644 | 1 157 | 666 | – | 6 871 |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |

| | Corporate, Management Consulting and Financial Services 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 845 | – | 46 543 |
| | – | – | – | – | – | – | – |
| | (1 195) | – | (15 650) | (12 961) | (425) | – | (30 231) |
| | – | – | (5 479) | (4 518) | (150) | – | (10 147) |
| | – | – | – | – | – | – | – |
| | 1 195 | – | 21 129 | 17 479 | 575 | – | 40 378 |
| | – | – | – | – | – | – | – |
| | (1 195) | – | (21 129) | (17 479) | (575) | – | (40 378) |
| | – | – | – | – | – | – | – |
| | 1 195 | – | 21 129 | 17 479 | 575 | – | 40 378 |
| | – | – | – | – | – | – | – |
| | (1 195) | – | (21 129) | (17 479) | (575) | – | (40 378) |
| | – | – | – | – | – | – | – |
| | 1 195 | – | 21 129 | 17 479 | 575 | – | 40 378 |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 845 | – | 46 543 |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 845 | – | 46 543 |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 845 | – | 46 543 |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 845 | – | 46 543 |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 845 | – | 46 543 |
| | – | – | – | – | 169 | – | 169 |
| | 4 285 | 1 944 | 24 530 | 7 939 | 7 676 | – | 46 374 |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |
| | – | – | – | – | – | – | – |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 33. SEGMENTAL REPORT (continued)

| | Datatec Group total 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| **Revenue** (continued) | North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
| Revenue | 423 628 | 615 438 | 1 976 633 | 861 804 | 427 408 | (66) | 4 304 845 |
| Revenue from product sales | 305 428 | 334 354 | 1 678 691 | 717 178 | 372 637 | (66) | 3 408 222 |
| Revenue from sales of hardware/ direct product sales | 258 044 | 334 018 | 1 169 136 | 498 420 | 263 470 | (66) | 2 523 022 |
| Revenue from sales of software/ fulfilment product sales | 46 783 | 336 | 468 545 | 207 797 | 100 152 | – | 823 613 |
| Revenue from vendor resold services and product maintenance service | 601 | – | 41 010 | 10 961 | 9 015 | – | 61 587 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of revenue from product sales* | 305 428 | 334 354 | 1 678 691 | 717 178 | 372 637 | (66) | 3 408 222 |
| Principal | 304 827 | 334 276 | 1 673 889 | 717 049 | 372 637 | (66) | 3 402 612 |
| Agent | 601 | 78 | 4 802 | 129 | – | – | 5 610 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of revenue from product sales* | 305 428 | 334 354 | 1 678 691 | 717 178 | 372 637 | (66) | 3 408 222 |
| At a point in time | 305 428 | 334 354 | 1 678 691 | 717 178 | 372 637 | (66) | 3 408 222 |
| Over time | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| Revenue from services | 42 161 | 142 699 | 146 312 | 51 707 | 20 284 | – | 403 163 |
| Revenue from professional services | 42 161 | 142 699 | 146 312 | 51 707 | 20 284 | – | 403 163 |
| Revenue from other services | – | – | – | – | – | – | – |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of revenue from services* | 42 161 | 142 699 | 146 312 | 51 707 | 20 284 | – | 403 163 |
| Principal | 42 161 | 138 246 | 146 312 | 51 707 | 20 284 | – | 398 710 |
| Agent | – | 4 453 | – | – | – | – | 4 453 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of revenue from services* | 42 161 | 142 699 | 146 312 | 51 707 | 20 284 | – | 403 163 |
| At a point in time | – | – | 48 535 | 11 828 | 7 535 | – | 67 898 |
| Over time | 42 161 | 142 699 | 97 777 | 39 879 | 12 749 | – | 335 265 |
| Inter-segmental | – | – | – | – | – | – | – |
| Annuity revenue | 76 039 | 138 385 | 151 630 | 92 919 | 34 487 | – | 493 460 |
| Revenue from cloud services | 24 425 | 702 | 32 289 | 34 772 | 31 549 | – | 123 737 |
| Revenue from other services | 51 614 | 137 683 | 119 341 | 58 147 | 2 938 | – | 369 723 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Nature of annuity revenue* | 76 039 | 138 385 | 151 630 | 92 919 | 34 487 | – | 493 460 |
| Principal | 59 386 | 137 304 | 133 328 | 87 872 | 34 487 | – | 452 377 |
| Agent | 16 653 | 1 081 | 18 302 | 5 047 | – | – | 41 083 |
| Inter-segmental | – | – | – | – | – | – | – |
| *Timing of annuity revenue* | 76 039 | 138 385 | 151 630 | 92 919 | 34 487 | – | 493 460 |
| At a point in time | 1 312 | 92 | 25 992 | 23 071 | 30 757 | – | 81 224 |
| Over time | 74 727 | 138 293 | 125 638 | 69 848 | 3 730 | – | 412 236 |
| Inter-segmental | – | – | – | – | – | – | – |

Datatec Group total
2019

| North America US$'000 | Latin America US$'000 | Europe US$'000 | Asia-Pacific US$'000 | MEA US$'000 | Central US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| 410 457 | 641 770 | 2 088 711 | 843 847 | 347 596 | – | 4 332 381 |
| 298 507 | 399 193 | 1 808 521 | 727 453 | 332 522 | – | 3 566 196 |
| 254 548 | 398 696 | 1 320 170 | 536 811 | 223 780 | – | 2 734 005 |
| 43 223 | 497 | 448 022 | 179 553 | 102 077 | – | 773 372 |
| 736 | – | 40 329 | 11 089 | 6 665 | – | 58 819 |
| – | – | – | – | – | – | – |
| 298 507 | 399 193 | 1 808 521 | 727 453 | 332 522 | – | 3 566 196 |
| 297 771 | 398 543 | 1 806 330 | 727 835 | 332 522 | – | 3 563 001 |
| 736 | 650 | 2 191 | (382) | – | – | 3 195 |
| – | – | – | – | – | – | – |
| 298 507 | 399 193 | 1 808 521 | 727 453 | 332 522 | – | 3 566 196 |
| 298 507 | 399 193 | 1 808 521 | 727 453 | 332 522 | – | 3 566 196 |
| – | – | – | – | – | – | – |
| – | – | – | – | – | – | – |
| 44 224 | 117 633 | 155 765 | 49 887 | 13 475 | – | 380 984 |
| 44 224 | 117 633 | 155 765 | 49 887 | 12 536 | – | 380 045 |
| – | – | – | – | 939 | – | 939 |
| – | – | – | – | – | – | – |
| 44 224 | 117 633 | 155 765 | 49 887 | 13 475 | – | 380 984 |
| 44 224 | 117 621 | 155 765 | 49 887 | 13 475 | – | 380 972 |
| – | 12 | – | – | – | – | 12 |
| – | – | – | – | – | – | – |
| 44 224 | 117 633 | 155 765 | 49 887 | 13 475 | – | 380 984 |
| – | – | 48 560 | 11 492 | 5 484 | – | 65 536 |
| 44 224 | 117 633 | 107 205 | 38 395 | 7 991 | – | 315 448 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| 18 932 | 1 031 | 11 486 | 11 941 | 659 | – | 44 049 |
| 48 794 | 123 913 | 112 939 | 54 566 | 940 | – | 341 152 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| 51 223 | 124 238 | 110 136 | 63 119 | 1 418 | – | 350 134 |
| 16 503 | 706 | 14 289 | 3 388 | 181 | – | 35 067 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| – | – | – | – | – | – | – |
| 67 726 | 124 944 | 124 425 | 66 507 | 1 599 | – | 385 201 |
| – | – | – | – | – | – | – |

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 33. SEGMENTAL REPORT (continued)

| Condensed statement of financial position | Westcon International 2020 US$'000 | Westcon International 2019 US$'000 | Logicalis 2020 US$'000 | Logicalis 2019 US$'000 | Corporate, Management Consulting and Financial Services 2020 US$'000 | Corporate, Management Consulting and Financial Services 2019 US$'000 | Datatec Group total 2020 US$'000 | Datatec Group total 2019 US$'000 |
|---|---|---|---|---|---|---|---|---|
| **Total assets** | **1 155 583** | 1 226 057 | **1 303 083** | 1 318 226 | **137 860** | 178 024 | **2 596 526** | 2 722 307 |
| North America | **42 862** | 37 792 | **291 703** | 276 961 | **3 929** | 4 982 | **338 494** | 319 735 |
| Latin America | **–** | – | **490 609** | 602 503 | **614** | 328 | **491 223** | 602 831 |
| Europe | **716 668** | 758 520 | **343 288** | 245 504 | **106 657** | 123 634 | **1 166 613** | 1 127 658 |
| Asia-Pacific | **257 888** | 273 016 | **169 917** | 187 455 | **4 186** | 4 112 | **431 991** | 464 583 |
| MEA | **138 165** | 156 729 | **7 566** | 5 803 | **22 474** | 44 968 | **168 205** | 207 500 |
| **Non-current assets (excluding financial instruments and deferred tax assets)** | **63 228** | 29 995 | **324 856** | 296 969 | **34 123** | 21 727 | **422 207** | 348 691 |
| North America | **21 632** | 12 644 | **137 748** | 133 725 | **(114)** | 34 | **159 266** | 146 403 |
| Latin America | **–** | – | **43 701** | 49 831 | **–** | – | **43 701** | 49 831 |
| Europe | **31 706** | 11 444 | **111 656** | 86 920 | **32 654** | 21 636 | **176 016** | 120 000 |
| Asia-Pacific | **4 823** | 3 649 | **26 983** | 22 886 | **727** | 17 | **32 533** | 26 552 |
| MEA | **5 067** | 2 258 | **4 768** | 3 607 | **856** | 40 | **10 691** | 5 905 |
| **Net cash resources** | **(4 463)** | (94 360) | **12 600** | 16 443 | **75 252** | 118 298 | **83 389** | 40 381 |
| North America | **12 057** | 18 657 | **28 803** | (20 145) | **2 100** | 2 548 | **42 960** | 1 060 |
| Latin America | **–** | – | **811** | (2 328) | **–** | – | **811** | (2 328) |
| Europe | **(96 416)** | (171 792) | **(38 372)** | 32 015 | **57 600** | 76 564 | **(77 188)** | (63 213) |
| Asia-Pacific | **62 676** | 53 559 | **20 692** | 6 103 | **640** | 1 199 | **84 008** | 60 861 |
| MEA | **17 220** | 5 216 | **666** | 798 | **14 912** | 37 987 | **32 798** | 44 001 |
| **Inventories** | **174 618** | 239 955 | **78 653** | 92 301 | **–** | – | **253 271** | 332 256 |
| North America | **–** | – | **2 128** | 5 367 | **–** | – | **2 128** | 5 367 |
| Latin America | **–** | – | **45 377** | 55 285 | **–** | – | **45 377** | 55 285 |
| Europe | **117 305** | 175 919 | **7 765** | 9 944 | **–** | – | **125 070** | 185 863 |
| Asia-Pacific | **32 804** | 44 947 | **23 270** | 21 659 | **–** | – | **56 074** | 66 606 |
| MEA | **24 509** | 19 089 | **113** | 46 | **–** | – | **24 622** | 19 135 |
| **Trade accounts receivable** | **695 076** | 768 932 | **403 155** | 478 273 | **12 279** | 11 648 | **1 110 510** | 1 258 853 |
| North America | **(13)** | (41) | **79 766** | 83 038 | **462** | 714 | **80 215** | 83 711 |
| Latin America | **–** | – | **181 169** | 252 285 | **226** | 149 | **181 395** | 252 434 |
| Europe | **455 593** | 494 429 | **93 401** | 94 676 | **6 867** | 5 764 | **555 861** | 594 869 |
| Asia-Pacific | **119 471** | 153 408 | **47 912** | 47 616 | **1 629** | 1 677 | **169 012** | 202 701 |
| MEA | **120 025** | 121 136 | **907** | 658 | **3 095** | 3 344 | **124 027** | 125 138 |
| **Total liabilities** | **(985 859)** | (1 046 305) | **(926 877)** | (943 441) | **(40 697)** | (20 331) | **(1 953 433)** | (2 010 077) |
| North America | **(5 853)** | (6 808) | **(188 435)** | (191 291) | **(1 319)** | 5 479 | **(195 607)** | (192 620) |
| Latin America | **–** | – | **(312 071)** | (414 968) | **(104)** | (75) | **(312 175)** | (415 043) |
| Europe | **(681 184)** | (706 106) | **(322 863)** | (204 098) | **(34 613)** | (24 051) | **(1 038 660)** | (934 255) |
| Asia-Pacific | **(188 917)** | (198 327) | **(100 786)** | (131 533) | **(2 398)** | (1 207) | **(292 101)** | (331 067) |
| MEA | **(109 905)** | (135 064) | **(2 722)** | (1 551) | **(2 263)** | (477) | **(114 890)** | (137 092) |
| **Trade and other payables and short-term interest-bearing liabilities** | **(767 414)** | (792 174) | **(549 242)** | (648 633) | **(17 502)** | (18 823) | **(1 334 158)** | (1 459 630) |
| North America | **(2 914)** | (4 551) | **(147 515)** | (137 466) | **(599)** | (3 955) | **(151 028)** | (145 972) |
| Latin America | **–** | – | **(189 203)** | (285 909) | **(15)** | – | **(189 218)** | (285 909) |
| Europe | **(512 489)** | (497 772) | **(145 754)** | (161 780) | **(17 618)** | (17 525) | **(675 861)** | (677 077) |
| Asia-Pacific | **(168 042)** | (190 556) | **(65 642)** | (62 307) | **(1 149)** | (654) | **(234 833)** | (253 517) |
| MEA | **(83 969)** | (99 295) | **(1 128)** | (1 171) | **1 879** | 3 311 | **(83 218)** | (97 155) |
| **Number of employees at the end of the year*** | **3 281** | 3 171 | **7 339** | 6 690 | **304** | 269 | **10 924** | 10 130 |

** Includes both permanent employees and contractors.*

## 34. ACQUISITIONS OF SUBSIDIARIES

**Subsidiaries acquired**

| | Principal activity | Date of acquisition | Proportion of shares acquired |
|---|---|---|---|
| Stelacon Holdings AB ("Stelacon") | Management Consulting | 1 March 2019 | 100% |
| Mars Investment Holdings (Pty) Ltd ("Mars Technologies") | ICT consulting | 30 June 2019 | 100% |
| Cilnet – Comunicações e Projectos Especiais S.A. ("Cilnet") | ICT consulting | 2 September 2019 | 70% |
| Orange Networks GmbH ("Orange Networks") | ICT consulting | 2 September 2019 | 100% |

| | 2020 Mars Technologies Fair value on acquisition US$'000 | 2020 Orange Networks Fair value on acquisition US$'000 | 2020 Cilnet Fair value on acquisition US$'000 | 2020 Stelacon Fair value on acquisition US$'000 | 2020 Total Fair value on acquisition US$'000 | 2019 Total fair value on acquisition US$'000 |
|---|---|---|---|---|---|---|
| **Non-current assets** | 220 | 799 | 7 947 | 1 167 | 10 133 | 15 598 |
| Plant and equipment | 174 | 337 | 2 033 | 5 | 2 549 | 4 499 |
| Capitalised development expenditure | – | – | 28 | – | 28 | 734 |
| Software | 3 | – | 44 | – | 47 | 61 |
| Intangible assets | 43 | 462 | 2 197 | 1 162 | 3 864 | 8 070 |
| Deferred tax assets | – | – | – | – | – | 2 234 |
| Other non-current assets | – | – | 3 645 | – | 3 645 | – |
| **Current assets** | 501 | 471 | 7 832 | 756 | 9 560 | 30 142 |
| Inventories | 44 | – | 958 | – | 1 002 | 3 538 |
| Trade and other receivables | 316 | 464 | 6 104 | 518 | 7 402 | 23 212 |
| Current tax assets | 86 | – | – | 2 | 88 | 33 |
| Cash and cash equivalents | 55 | 7 | 770 | 236 | 1 068 | 3 359 |
| **Non-current liabilities** | (476) | (353) | (1 585) | (393) | (2 807) | (6 676) |
| Long-term interest-bearing liabilities | (464) | (23) | (1 069) | (145) | (1 701) | (2 835) |
| Deferred tax liabilities | (12) | (139) | (460) | (248) | (859) | |
| Other non-current liabilities | – | (191) | (56) | – | (247) | (3 841) |
| **Current liabilities** | (330) | (1 914) | (11 773) | (506) | (14 523) | (24 473) |
| Trade and other payables | (286) | (1 301) | (6 833) | (410) | (8 830) | (19 998) |
| Provisions | – | – | – | – | – | (1 274) |
| Deferred revenue | – | – | (4 927) | (48) | (4 975) | – |
| Current tax liabilities | (44) | – | (13) | (48) | (105) | (232) |
| Bank overdrafts | – | (613) | – | – | (613) | (2 969) |
| | (85) | (997) | 2 421 | 1 024 | 2 363 | 14 591 |
| Goodwill on acquisition | 455 | 3 915 | 7 043 | 1 603 | 13 016 | 13 090 |
| Non-controlling interests recognised | – | – | (710) | – | (710) | 459 |
| Fair value of acquisition | 370 | 2 918 | 8 754 | 2 627 | 14 669 | 28 140 |
| Net (cash)/overdraft acquired | (55) | 606 | (770) | (236) | (455) | (390) |
| Deferred purchase consideration | (84) | (554) | (2 327) | (1 221) | (4 186) | (2 300) |
| Subsidiary shares issued | – | – | – | (728) | (728) | – |
| Net cash outflow for acquisitions | 231 | 2 970 | 5 657 | 442 | 9 300 | 25 450 |

The above acquisitions represent the subsidiaries acquired during the year.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 34. ACQUISITIONS OF SUBSIDIARIES (continued)

The revenue and EBITDA included from these acquisitions in FY20 were US$23.3 million and US$2.6 million respectively; profit after tax included from these acquisitions was US$1.7 million. Had the acquisition date been 1 March 2019, the revenue and EBITDA would have been approximately US$42.8 million and US$4.9 million respectively. It is not practical to establish EBITDA and profit after tax that would have been contributed to the Group if they had been included for the entire year.

The initial amount of acquisition accounting for all of the acquisitions have been finalised at the date of the finalisation of these consolidated financial statements.

None of the goodwill raised on the aforementioned acquisitions will be deductible for tax purposes.

All trade receivables acquired are measured at amortised cost. The carrying value of trade receivables balances approximates its fair value, therefore no fair value disclosures are provided.

All identifiable intangible assets have been recognised and accounted for at fair value.

Acquisition-related costs, included in operating costs, for the year amounted to US$0.3 million.

The following acquisitions were concluded during the financial year ended 29 February 2020 and included in the table on the previous page:

### Logicalis Group

Effective 30 June 2019, Logicalis SA (Pty) Ltd acquired 100% of the issued share capital of Mars Technologies, a South African IT services business, with offices in Cape Town, Johannesburg, Port Elizabeth, Durban and East London for US$0.4 million (including a deferred purchase consideration of US$0.1 million – refer to Note 21). With this acquisition, the Logicalis South African operation strengthens and expands its managed services offering to better serve its corporate customers and deliver new services to existing customers from both companies.

Logicalis Group purchased a 70% interest in Cilnet on 2 September 2019, a Cisco systems integrator and managed services business in Portugal, for US$8.8 million (including a deferred purchase consideration of US$2.3 million and US$0.7 million non-controlling interest that was raised at acquisition). The acquisition increases Logicalis' Cisco technical expertise in the Iberian region and complements the existing Spanish operation with data centre, collaboration, networking, infrastructure and managed services capabilities, expanding the offering to the region. The company designs and integrates networking, data centre and contact centre solutions, complemented with security, managed services and application development skills.

In addition, Logicalis also acquired 100% of Orange Networks on 2 September 2019, a Microsoft services business focused on Microsoft cloud and managed services, with Germany-wide presence including Hamburg, Munich, Offenbach and Düsseldorf. The purchase price was US$2.9 million (including US$0.6 million deferred purchase consideration – refer to Note 21). This acquisition advances Logicalis Germany to Microsoft Gold-Certified Partner status and enhances its hybrid cloud offering.

### Analysys Mason

On 1 March 2019, Analysys Mason Limited acquired 100% of the issued share capital Stelacon, a Swedish consulting company, for US$2.6 million (including a deferred purchase consideration of US$1.2 million). This was an important further step in building a pan-Scandinavian presence, after Analysys Mason's successful expansion into Norway. Stelacon brings experience in areas including smart cities, regional development, digital services, policy and regulation, and telecoms and digital communication.

## 35. NON-WHOLLY OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

| | Country of incor-poration and principal place of business | Ownership rights and voting rights held by non-controlling interests | | Profit allocated to non-controlling interests | | Accumulated non-controlling interests – Datatec Group | |
|---|---|---|---|---|---|---|---|
| | | **2020 %** | 2019 % | **2020 US$'000** | 2019 US$'000 | **2020 US$'000** | 2019 US$'000 |
| PromonLogicalis Latin America Limited | UK | **35** | 35 | **8 284** | 8 113 | **52 726** | 47 649 |
| Westcon International, Limited | UK | **10** | 10 | **(456)** | (4 043) | **4 473** | 5 861 |

During the year, Westcon SA Holdings (Pty) Ltd ("Westcon SA") changed its BBBEE partner which holds 40.005% of Westcon SA. Datatec Group has control over the new BBBEE fund. As a result of Datatec's control of Westcon SA's non-controlling interest, as at 29 February 2020, Westcon SA does not have a material non-controlling interest. The accumulated non-controlling interest attributable to Westcon SA in FY19 was a debit of US$3.4 million.

## 35. NON-WHOLLY OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

(continued)

Summarised information in respect of the above subsidiary is shown below as at 29 February 2020 and 28 February 2019. The summarised financial information below represents amounts before inter-group eliminations.

| | PromonLogicalis Latin America Limited | | Westcon International, Limited | |
|---|---|---|---|---|
| | **2020 US$'000** | 2019 US$'000 | **2020 US$'000** | 2019 US$'000 |
| Non-current assets | **50 170** | 37 410 | **89 854** | 63 420 |
| Current assets | **387 297** | 526 584 | **1 051 932** | 1 135 251 |
| Non-current liabilities | **(21 051)** | (14 783) | **(215 042)** | (184 234) |
| Current liabilities | **(283 992)** | (411 661) | **(904 811)** | (973 692) |
| Equity attributable to equity holders of the parent | **(85 411)** | (88 727) | **(26 645)** | (45 001) |
| Non-controlling interests | **(47 013)** | (48 823) | **4 712** | 4 256 |
| Revenue | **615 540** | 640 322 | **2 456 642** | 2 484 979 |
| Operating profit before finance costs, depreciation and amortisation ("EBITDA") | **66 641** | 55 764 | **31 048** | 3 086 |
| Profit/(loss) for the year | **23 685** | 23 387 | **(13 226)** | (27 334) |
| Attributable to the owners of the parent | **15 401** | 15 274 | **(12 770)** | (23 291) |
| Attributable to non-controlling interests | **8 284** | 8 113 | **(456)** | (4 043) |
| Total comprehensive income/(loss) | **4 610** | (4 257) | **(18 812)** | (33 162) |
| Attributable to the owners of the parent | **2 876** | (2 993) | **(18 356)** | (29 119) |
| Attributable to non-controlling interests | **1 734** | (1 264) | **(456)** | (4 043) |
| Dividends paid to non-controlling interests | **2 031** | – | **–** | – |
| Net cash inflow | **133** | 18 775 | **87 169** | 17 236 |
| Net cash inflow from operating activities | **26 736** | 28 507 | **119 615** | (28 975) |
| Net cash (outflow)/inflow from investing activities | **(3 596)** | (37 103) | **(11 060)** | 730 |
| Net cash (outflow)/inflow from financing activities | **(23 007)** | 27 371 | **(21 386)** | 45 481 |

There are no other material non-controlling interests within the Group.

## 36. DISCONTINUED OPERATIONS

| | **2020 US$'000** | 2019 US$'000 |
|---|---|---|
| **Profit for the period from discontinued operations** | | |
| Net earn-out receivable | **–** | 11 694 |
| Earn-out in respect of prior year disposal | **1 332** | – |
| | **1 332** | 11 694 |

The result of the arbitration to determine the amount of the earn-out receivable relating to the disposal of Westcon Americas to SYNNEX was concluded on 29 May 2019. The arbitrator appointed by the parties to determine the quantum of the earn-out ruled that the amount of US$14 million was payable by SYNNEX to the Group.

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 37. ADOPTION OF IFRS 16

The impact of the adoption of IFRS 16 in the FY20 year is disclosed below.

### Reconciliation between operating lease commitments and lease liabilities recognised at the date of initial application

| | Land and buildings US$'000 | Office furniture, equipment and motor vehicles US$'000 | Computer equipment US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Operating lease commitments disclosed as at 28 February 2019** | **116 720** | **5 191** | **1 814** | **123 725** |
| Discounted using the lessees' incremental borrowing rates at the date of initial application | **(12 246)** | **(353)** | **(50)** | **(12 649)** |
| *Less*: low-value leases recognised on a straight-line basis as expense | **72** | **(167)** | **(123)** | **(218)** |
| *Less*: short-term leases recognised on a straight-line basis as expense | **(286)** | **(76)** | **(325)** | **(687)** |
| *Less*: adjustments as a result of a different treatment of extension and termination options | **(1 407)** | **(3)** | **–** | **(1 410)** |
| *Less*: translation and other movements | **(8 149)** | **(450)** | **(535)** | **(9 134)** |
| **Lease liabilities recognised as at 1 March 2019** | **94 704** | **4 142** | **781** | **99 627** |

Lease liabilities as at 28 February 2019 amounted to US$30.982 million. Total lease liabilities as at 1 March 2019 amounted to US$130.609 million.

Right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 28 February 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at 1 March 2019.

Previous guidance issued by the Group estimated that lease liabilities of between US$110 million and US$125 million would be recognised. However, only US$95 million was recognised due to exchange rate fluctuations as well as an overestimation in Logicalis Europe.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rates as at 1 March 2019. Incremental borrowing rates have been determined based on country-specific factors and vary across the Group. The weighted average incremental borrowing rates applied to the lease liabilities on 1 March 2019 were:

- **Westcon International:** 4.79% and 10%
- **Logicalis:** 9%
- **Management Consulting:** 2.75%
- **Corporate:** 9.25%

The change in accounting policy affected the following items in the statement of financial position:

| | 1 March 2019 Increase/ (decrease) |
|---|---|
| **ASSETS** | |
| Right-of-use assets | **94 570** |
| Office furniture, equipment and motor vehicles | **7 362** |
| Computer equipment | **298** |
| Leasehold improvements | **–** |
| Land and buildings | **86 910** |
| Prepaid expenses | **46** |
| **EQUITY AND LIABILITIES** | |
| Lease liabilities | **99 627** |
| Operating lease smoothing liabilities | **(5 011)** |
| Distributable reserves | **–** |

## 37. ADOPTION OF IFRS 16 (continued)

### *Pro forma* information

The adoption of IFRS 16 from 1 March 2019 complicates performance comparison between the results of the current and prior financial year. To provide a more meaningful assessment of the Group's performance, *pro forma* information has been presented for the year ended 29 February 2020. The *pro forma* financial information as set out has been prepared for illustrative purposes and reflects the impact of IFRS 16 on the numbers disclosed on the statement of comprehensive income and statement of financial position as at 29 February 2020. The *pro forma* numbers represent the results and balance sheet position showing the impact on FY20 as if IFRS 16 had not been applied at 1 March 2019. IFRS 16 balances have been removed from the reported figures in order to determine the *pro forma* figures. These adjustments have been made to enable a like-for-like comparison to FY19 where IFRS 16 had not been applied.

The *pro forma* IFRS 16 information, which is the responsibility of the Datatec directors, has been compiled taking into account the applicable criteria as detailed in paragraphs 8.15 to 8.34 of the JSE Listings Requirements and the SAICA Guide on *Pro forma* Financial Information, revised and issued in September 2014 (applicable criteria). The *pro forma* information does not constitute financial statements fairly presented in accordance with IFRS. The *pro forma* information has been prepared for illustrative purposes only and because of its nature may not fairly present the Group's statement of comprehensive income, salient financial features and statement of financial position. The Group's external auditor, Deloitte & Touche, has issued an unmodified assurance report on the *pro forma* IFRS 16 information on 26 May 2020. A copy of their report is available for inspection at the registered office of the Company.

### Impact on current year results

The following tables show the impact of IFRS 16 on the numbers disclosed on the statement of comprehensive income and statement of financial position as at 29 February 2020. The *pro forma* numbers represent the results and balance sheet position showing the impact on FY20 as if IFRS 16 had not been applied at 1 March 2019. IFRS 16 balances have been removed from the reported figures in order to determine the *pro forma* figures to enable a like-for-like comparison to FY19 where IFRS 16 had not been applied.

| US$'000 | **Year ended February 2020 *Pro forma*** | Year ended February 2020 Adjustments | Year ended February 2020 Reported | Year ended February 2019 Reported |
|---|---|---|---|---|
| **Statement of comprehensive income** | | | | |
| Gross profit | **736 365** | 5 213 | 741 578 | 687 744 |
| Operating costs | **(601 542)** | 29 944[1] | (571 598) | (569 896) |
| EBITDA | **123 500** | 35 157 | 158 657 | 86 761 |
| Depreciation | **(29 456)** | (30 546)[2] | (60 002) | (25 889) |
| Operating profit | **77 926** | 4 611 | 82 537 | 48 423 |
| Finance costs | **(36 197)** | (4 588)[3] | (40 785) | (32 145) |
| Profit before taxation | **58 465** | 23 | 58 488 | 24 215 |
| Profit for the year | **27 964** | 47 | 28 011 | 14 950 |
| Basic earnings per share from continuing operations (cents) | **6.1** | 0.1 | 6.2 | 0.6 |
| **Statement of financial position** | | | | |
| Total assets | **2 517 562** | 78 964 | 2 596 526 | 2 722 307 |
| Property, plant and equipment and right-of-use assets | **47 455** | 79 798[4] | 127 253 | 60 306 |
| Prepaid expenses and other receivables | **238 145** | (834) | 237 311 | 232 965 |
| Total equity | **(643 046)** | (47)[5] | (643 093) | (712 230) |
| Total liabilities | **(1 874 516)** | (78 917) | (1 953 433) | (2 010 077) |
| Long-term interest-bearing liabilities and leases | **(50 361)** | (63 425)[6] | (113 786) | (31 383) |
| Trade and other payables | **(1 264 836)** | 5 823 | (1 259 013) | (1 358 928) |
| Short-term interest-bearing liabilities and leases | **(88 156)** | (21 314)[6] | (109 470) | (109 751) |
| **Salient financial features** | | | | |
| Headline earnings per share (cents) | **5.9** | 0.0 | 5.9 | 0.7 |
| Underlying earnings per share (cents) | **9.9** | 0.0 | 9.9 | 6.6 |
| Net asset value per share (cents) | **288.3** | 0.0 | 288.3 | 297.5 |

[1] *Includes operating lease rentals that would have been incurred.*
[2] *Excludes depreciation of right-of-use assets of US$27.0 million. Depreciation of assets previously held under finance lease agreements has been included.*
[3] *Excludes IFRS 16-related finance costs.*
[4] *Excludes right-of-use assets and includes assets previously held under finance lease agreements.*
[5] *Total adjustments made to statement of comprehensive income.*
[6] *Excludes lease liabilities recognised as a result of IFRS 16.*

# Notes to the Group consolidated annual financial statements continued

for the year ended 29 February 2020

## 37. ADOPTION OF IFRS 16 (continued)

The number of shares in issue excluding treasury shares was 198 million and the weighted average number of shares in issue was 210 million.

These adjustments are of a continuing nature.

### Impact on segmental reporting

EBITDA, operating profit, profit before taxation, segmental assets and liabilities increased for the period ended 29 February 2020, as a result of the change in accounting policy. The following segments were affected by the change:

| | Westcon International<br>Year ended February 2020<br>US$'000 | Logicalis<br>Year ended February 2020<br>US$'000 | Corporate, Management Consulting and Financial Services<br>Year ended February 2020<br>US$'000 | Datatec Group total<br>Year ended February 2020<br>US$'000 |
|---|---|---|---|---|
| EBITDA | 13 002 | 19 914 | 2 241 | 35 157 |
| Depreciation | (11 591) | (16 927) | (2 028) | (30 546) |
| Operating profit | 1 411 | 2 987 | 213 | 4 611 |
| Finance costs | (1 872) | (2 398) | (318) | (4 588) |
| (Loss)/profit before taxation | (461) | 589 | (105) | 23 |
| Total assets | 30 346 | 39 835 | 8 783 | 78 964 |
| Total liabilities | (30 807) | (39 246) | (8 864) | (78 917) |

## 38. SUBSEQUENT EVENTS

### COVID-19

On 11 March 2020 the World Health Organization ("WHO") declared the coronavirus outbreak causing the disease COVID-19 to be a global pandemic. This was followed by most countries in which the Group operates instituting "lockdown" restrictions to slow the spread of the disease. The Datatec Group responded by ensuring the safety and wellbeing of its employees and enabling working from home to maintain social distancing. Travel and face-to-face meetings were quickly reduced and eliminated completely in accordance with prevailing regulations. Most of the Group's business activities are able to continue under lockdown conditions and the provision of IT and communications equipment and services is often an essential component of the global response to the pandemic. The effect on the Group's business at the date of this report has been considered in detail by the Board in approving the annual financial statements for FY20. Please refer to Note 39 for detailed consideration of the ability of the Group to continue as a going concern.

The countries in which the Group operates are all in different stages of "lockdown", including travel, trade restrictions and social distancing measures. Outcomes range from successful virus containment with a short-term economic impact, to a prolonged global contagion resulting in a potential global recession or recessions in countries in which the Group operate. At the same time, there a number of policy and fiscal responses emerging across the globe intended to mitigate potential negative economic impacts. Datatec is monitoring the developments closely and continuously adjusting across all its operations. The Group follows guidelines from the WHO and abides by the requirements as activated by local governments. Contingency plans have been implemented as far as possible to mitigate the potential adverse impact on the Group's employees and operations.

As the WHO declared COVID-19 a global pandemic on 11 March 2020 after the reporting date of the Group, the Group considers this to be a non-adjusting event after the reporting date as the directors are of the view that the impact of the pandemic on the global markets and economy could not have sufficiently been anticipated at 29 February 2020. As a result the financial effects resulting from the impact of COVID-19 have not been reflected in the Group's financial statements as at 29 February 2020.

As the situation remains fluid and rapidly evolving (due to continuing changes in government policy and evolving business and customer reactions thereto) as at the date these financial statements are authorised for issue, the directors of the Company considered that the financial effects of COVID-19 on the Group's consolidated financial statements cannot be reasonably estimated. Nevertheless, the economic effects arising from the COVID-19 outbreak may materially affect the consolidated results of the Group for the first half and full year of its FY21 financial year.

### Westcon International facility

Westcon International extended its Europe Financing facility on 14 May 2020 (refer to Note 39).

### Acquisition

Effective 1 April 2020, Analysys Mason acquired 100% of the shares in Allolio&Konrad for €7 million, a consultancy based in Bonn, Germany with an extensive track record in the telecommunications industry and long-term client relationships with Europe's leading telecom operators. Allolio&Konrad's services include the design, management and assurance of major business support systems and operational support systems transformation programmes and large-scale, multi-year IT strategy initiatives, alongside other solutions focused on performance and operations management. Due to the timing of this acquisition, the at acquisition accounting has not been finalised and the fair value assessments of assets and liabilities acquired are still in progress, thus the goodwill and intangible assets related to this acquisition have not been determined. Acquisition-related costs of €0.2 million have been incurred on this acquisition.

There are no other material subsequent events to report.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 39. GOING CONCERN

The Board has undertaken a rigorous assessment of whether the Group is a going concern in light of the current economic conditions and available information about future risks and uncertainties.

The projections of the Group have been prepared on a sum-of-the-parts basis to determine the ability of each of its core segments to continue as a going concern. These projections covered future financial performance, solvency and liquidity for a period of 12 months from the date of approval of these financial statements, including performing sensitivity analyses and stress testing on various possible scenarios, varying in severity, related to COVID-19, which had been declared a global pandemic by the WHO on 11 March 2020. These scenarios included contingency planning for restructuring actions to be taken in response to the more severe scenarios. It is, however, difficult to predict the overall outcome and impact of COVID-19.

The Group currently has no need to undertake a capital restructuring and key executive management is in place. 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 Board has determined that the Group is solvent with net assets at 29 February 2020 of US$572.3 million (FY19: US$648.9 million) and tangible net assets of US$281 million (FY19: US$364.1 million). The Group is expected to remain solvent over the next 12 months.

This conclusion has been arrived at after applying the various sensitivity scenarios applied above.

### Liquidity

In February 2020, Logicalis completed a new three-year US$155 million banking facility for its subsidiaries. This new senior facility covers Logicalis' operations throughout the world, excluding Latin America, which has its own separate credit facilities. It is used to fund working capital requirements and also includes a new acquisition credit line. In addition, the Latin American credit facilities are considered adequate in the current environment.

On 14 May, Westcon International extended its expiring European Invoice Financing facility of US$280 million for a further 12 months until 4 June 2021. The facility has been reduced to US$224 million with effect from 4 June 2020, with an accordion facility to go up to US$280 million during the period November 2020 to February 2021 when working capital utilisation is typically at its highest. This extended facility is considered adequate for Westcon International's working capital requirements, based on prior year utilisation of the facility, as well as projected headroom as per the scenario modelling and stress testing.

The Group performed covenant projections to confirm that banking covenants are unlikely to be breached for the next 12 months.

## 39. GOING CONCERN continued

The Group's liquidity is dependent on customers continuing to pay their invoices. Between the reporting date and the authorisation date of these annual financial statements, customers have continued to pay largely in line with historic norms. Suppliers have also provided extended payment terms where required.

Trade receivables and inventory are of a sound quality and adequate provisions have been recorded.

The Group's forecasts and projections of its current and expected financial performance, show that the Group is expected to operate within the levels of its banking facilities for at least 12 months from the authorisation date of these annual financial statements.

### Trading from 1 March 2020 to the date of this report

Trading has remained steady since the beginning of the FY21 financial year, although some delays and supply disruptions were experienced especially in countries with highly restrictive lockdowns. Initial indications are that Westcon International revenues and order intake for the first quarter of FY21 ("Q1 FY21") are similar to the same period last year. For Logicalis, order intake for Q1 FY21 is similar to the corresponding period last year, with revenues for Q1 FY21 slightly lower than Q1 FY20.

Increased demand for the Group's technology solutions is being experienced to support remote working during the lockdowns enforced throughout the world. In particular, demand for cloud computing, remote access solutions, virtualisation, security and unified communications remains strong. The positioning of the Group's divisions remains strategically sound with good demand for their solutions and services expected to continue as the world emerges from the current crisis and investments towards digital transformation accelerate.

Furthermore, the multi-year investment in systems and processes in Westcon International was a key enabler to move all of its employees to working remotely, with the exception of warehouse staff, who continue to work in the warehouses subject to increased safety protocols. Most of the Logicalis global workforce also successfully works from home in the current environment.

### Conclusion

The Group's projections and sensitivity analyses show that the Group has sufficient capital and liquidity to continue to meet its short-term obligations. As a result, it is appropriate to prepare these annual financial statements on a going concern basis. This is further supported by trading after the financial year-end, as outlined above.

# Notes **to the Group consolidated annual financial statements** continued

for the year ended 29 February 2020

## 40. CONSTANT CURRENCY

*Pro forma* financial information is included for the Group's revenue for the current reporting period, it had been translated at the average foreign currency exchange rates of the prior reporting period ("constant currency financial information").

The *pro forma* financial information, which is the responsibility of the Datatec directors, has been compiled taking into account the applicable criteria as detailed in paragraphs 8.15 to 8.34 of the JSE Listings Requirements and the SAICA Guide on *Pro forma* Financial Information, revised and issued in September 2014 (applicable criteria). The *pro forma* information does not constitute financial statements fairly presented in accordance with IFRS. The *pro forma* information has been prepared for illustrative purposes only and because of its nature may not fairly present the Group's statement of comprehensive income, salient financial features and statement of financial position. The Group's external auditor, Deloitte & Touche, has issued an unmodified assurance report on the *pro forma* financial information on 26 May 2020. A copy of their report is available for inspection at the registered office of the Company.

To determine the revenues in constant currency terms, the current financial reporting period's monthly revenues in local currency have been converted to US Dollar at the average monthly exchange rates prevailing over the same period in the prior year. The average exchange rates of the Group's material currencies are listed below:

| Average US Dollar exchange rates (US$) | FY20 | FY19 |
|---|---|---|
| British Pound/US Dollar | **1.27** | 1.32 |
| Euro/US Dollar | **1.11** | 1.16 |
| US Dollar/Brazilian Real | **4.06** | 3.75 |
| US Dollar/Australian Dollar | **1.46** | 1.37 |
| US Dollar/Singapore Dollar | **1.37** | 1.36 |
| US Dollar/South African Rand | **14.67** | 13.56 |

### Constant currency financial information

- In constant currency terms, Group revenues increased by 3.6% reflecting the impact of foreign currency translation effects on the results.
- In constant currency terms, Logicalis' revenue increased by 4.28% in FY20.
- In constant currency terms, Westcon's revenues increased by 2.7% and revenues in all regions except Europe, were up year-on-year.

# Annexure 1 – Subsidiary companies

for the period ended 29 February 2020

| Subsidiary companies | Notes | Nature of business | Country of incorporation | Datatec Group effective holding (% held) As at 29 February 2020 | As at 28 February 2019 |
|---|---|---|---|---|---|
| **INCORPORATED IN AFRICA** | | | | | |
| Analysys Mason Limited (Mauritius) | | C | Mauritius | **82.90** | 88.40 |
| Westcon Africa (Kenya) Limited | | D | Kenya | **89.99** | 89.99 |
| Westcon Africa (Mauritius) Limited | | D | Mauritius | **89.99** | 89.99 |
| Westcon Africa (Morocco) SARL | | D | Morocco | **90.00** | 90.00 |
| Westcon Africa Angola Limited | | D | Angola | **89.99** | 89.99 |
| Westcon Africa Distribution (Nigeria) Limited | | D | Nigeria | **89.99** | 89.99 |
| Westcon Emerging Markets Group (Pty) Ltd | 5 | D | South Africa | **90.00** | 90.00 |
| Westcon Group Shared Services (Pty) Ltd | | D | South Africa | **90.00** | 90.00 |
| Westcon Namibia Distribution (Pty) Ltd | | D | Namibia | **54.00** | 54.00 |
| WestconGroup SA (Pty) Ltd | 1 | D | South Africa | **44.01** | 44.01 |
| Clarotech Consulting (Pty) Ltd | | I | South Africa | **100.00** | 100.00 |
| Clarotech Holdings (Pty) Ltd | | I | South Africa | **100.00** | 100.00 |
| Logicalis SA (Pty) Ltd | | I | South Africa | **100.00** | 100.00 |
| Mars Investment Holdings (Pty) Ltd | | I | South Africa | **100.00** | n/a |
| Mars Network and Risk Services (Pty) Ltd | | I | South Africa | **100.00** | n/a |
| Mars Technologies (Pty) Ltd | | I | South Africa | **100.00** | n/a |
| **INCORPORATED IN UK AND EUROPE** | | | | | |
| Analysys Limited | | C | United Kingdom | **82.90** | 88.40 |
| Analysys Mason AS | | C | Norway | **82.90** | 88.40 |
| Analysys Mason Consulting AB (formerly Analysys Mason AB) | | C | Sweden | **82.90** | 88.40 |
| Analysys Mason Holding AB | | C | Sweden | **82.90** | 88.40 |
| Analysys Mason Limited | | C | United Kingdom | **82.90** | 88.40 |
| Analysys Mason Limited | | C | Ireland | **82.90** | 88.40 |
| Analysys Mason SAS | | C | France | **82.90** | 88.40 |
| Analysys Mason Spain S.L. | | C | Spain | **82.90** | 88.40 |
| Analysys Mason S.R.L. | | C | Italy | **82.90** | 88.40 |
| Westcon Denmark ApS | | D | Denmark | **90.00** | 90.00 |
| Westcon Group Africa Operations Limited | | D | United Kingdom | **89.99** | 89.99 |
| Westcon Group Austria GmbH | | D | Austria | **90.00** | 90.00 |
| Westcon Group European Operations Limited | | D | United Kingdom | **90.00** | 90.00 |
| Westcon Group Germany GmbH | | D | Germany | **90.00** | 90.00 |
| Westcon Group Italia S.R.L. | | D | Italy | **90.00** | 90.00 |
| Westcon Group Middle East Holdings Limited | | D | United Kingdom | **90.00** | 90.00 |
| Westcon Group Poland Sp. Z.O.O. | | D | Poland | **90.00** | 90.00 |
| Westcon Group Portugal, Sociedade Unipessoal, Limitada | | D | Portugal | **90.00** | 90.00 |
| Westcon International, Limited | | D | United Kingdom | **90.00** | 90.00 |
| WGEO Switzerland GmbH | | D | Switzerland | **90.00** | 90.00 |
| Datatec Financial Services Holdings Limited | | F | United Kingdom | **100.00** | 100.00 |
| Datatec Financial Services Limited | | F | United Kingdom | **100.00** | 100.00 |
| Datatec Group Finance Limited | | F | United Kingdom | **100.00** | 100.00 |
| Cilnet – Comunicações e Projectos Especiais S.A. | | I | Portugal | **70.00** | n/a |
| DX Net Limitada | 4 | I | Portugal | **35.70** | n/a |
| ITUMA GmbH | | I | Germany | **51.00** | 51.00 |
| Logicalis Channel Islands Limited | | I | Channel Islands | **100.00** | 100.00 |

# Annexure 1 – **Subsidiary companies** continued

for the period ended 29 February 2020

| Subsidiary companies | Notes | Nature of business | Country of incorporation | Datatec Group effective holding (% held) As at 29 February 2020 | As at 28 February 2019 |
|---|---|---|---|---|---|
| **INCORPORATED IN UK AND EUROPE** (continued) | | | | | |
| Logicalis GmbH | | I | Germany | **100.00** | 100.00 |
| Logicalis Group Finance Limited | | I | United Kingdom | **100.00** | n/a |
| Logicalis Group Limited | | I | United Kingdom | **100.00** | 100.00 |
| Logicalis Group Services Limited | | I | United Kingdom | **100.00** | 100.00 |
| Logicalis Guernsey Limited | | I | Channel Islands | **100.00** | 100.00 |
| Logicalis Ireland Limited | | I | Ireland | **100.00** | 100.00 |
| Logicalis Jersey Limited | | I | Channel Islands | **100.00** | 100.00 |
| Logicalis Limited | | I | United Kingdom | **100.00** | 100.00 |
| Logicalis Networks GmbH | | I | Germany | **100.00** | 100.00 |
| Logicalis Solutions Limited | | I | Ireland | **100.00** | 100.00 |
| Logicalis Spain S.L. | | I | Spain | **100.00** | 100.00 |
| Logicalis Technical Services Limited | | I | Ireland | **100.00** | 100.00 |
| Logicalis Technology Limited | | I | Ireland | **100.00** | 100.00 |
| Logicalis UK Limited | | I | United Kingdom | **100.00** | 100.00 |
| Orange Networks 365 GmbH | | I | Germany | **100.00** | n/a |
| Orange Networks GmbH | | I | Germany | **100.00** | n/a |
| PromonLogicalis Latin America Limited | | I | United Kingdom | **65.00** | 65.00 |
| Virtualization Limitada | | I | Portugal | **52.50** | n/a |
| Datatec plc | | O | United Kingdom | **100.00** | 100.00 |
| **INCORPORATED IN US AND CANADA** | | | | | |
| Access Markets International (AMI) Partners, Inc. (US) | | C | USA | **82.90** | 88.40 |
| WG Services, Inc. | | D | USA | **90.00** | 90.00 |
| Canada WGIT Services, Inc. | | F | Canada | **90.00** | 90.00 |
| Datatec Financial Services, Inc. | | F | USA | **100.00** | 100.00 |
| Logicalis, Inc. | | I | USA | **100.00** | 100.00 |
| Logicalis South America, Inc. | | I | USA | **65.00** | 65.00 |
| Logicalis US Holdings, Inc. | | I | USA | **100.00** | 100.00 |
| NubeliU Limited | 2 | I | Cayman Islands | **33.15** | 33.15 |
| PLLAL International LLC. | | I | USA | **65.00** | 65.00 |
| **INCORPORATED IN LATIN AMERICA** | | | | | |
| C2 Mining Solutions S.A.C. | | I | Peru | **65.00** | 65.00 |
| Coasin Chile S.A. | | I | Chile | **65.00** | 65.00 |
| Logicalis Andina Bolivia LAB. Limitada | | I | Bolivia | **65.00** | 65.00 |
| Logicalis Andina S.A.C. | | I | Peru | **65.00** | 65.00 |
| Logicalis Argentina S.A. | | I | Argentina | **65.00** | 65.00 |
| Logicalis Chile S.A. | | I | Chile | **65.00** | 65.00 |
| Logicalis Colombia S.A.S. | | I | Colombia | **65.00** | 65.00 |
| Logicalis Ecuador S.A. | | I | Ecuador | **65.00** | 65.00 |
| Logicalis Inc. S.A. | | I | Uruguay | **65.00** | 65.00 |
| Logicalis Mexico, S. de R.L. de C.V. | | I | Mexico | **65.00** | 65.00 |
| Logicalis Paraguay S.A. | | I | Paraguay | **65.00** | 65.00 |
| Logicalis Puerto Rico Inc. | | I | Puerto Rico | **65.00** | 65.00 |
| Logicalis Uruguay S.A. | | I | Uruguay | **65.00** | 65.00 |
| NubeliU Argentina S.R.L. | 2 | I | Argentina | **33.15** | 33.15 |
| NubeliU Consultoria e Licenciamento de Software Limitada | 2 | I | Brazil | **33.15** | 33.15 |
| PromonLogicalis Tecnologia e Participações Limitada | | I | Brazil | **65.00** | 65.00 |
| PTLS Serviços de Tecnologia e Assessoria Técnica Limitada | | I | Brazil | **65.00** | 65.00 |
| WeService Serviços e Tecnologia Limitada | | I | Brazil | **65.00** | n/a |

| Subsidiary companies | Notes | Nature of business | Country of incorporation | Datatec Group effective holding (% held) As at 29 February 2020 | As at 28 February 2019 |
|---|---|---|---|---|---|
| **INCORPORATED IN AUSTRALIA AND NEW ZEALAND** | | | | | |
| Westcon Group NZ Limited | | D | New Zealand | **90.00** | 90.00 |
| Westcon Group Pty Ltd | | D | Australia | **90.00** | 90.00 |
| Datatec Financial Services (NZ) Ltd | | F | New Zealand | **100.00** | 100.00 |
| Datatec Financial Services Pty Ltd | | F | Australia | **100.00** | 100.00 |
| Corporate Network Integration Pty Ltd | | I | Australia | **100.00** | 100.00 |
| Thomas Duryea Logicalis Holdings Pty Ltd | | I | Australia | **100.00** | 100.00 |
| Thomas Duryea Logicalis Pty Ltd | | I | Australia | **100.00** | 100.00 |
| **INCORPORATED IN BRITISH VIRGIN ISLANDS** | | | | | |
| NetStar Group Holding Limited | | I | British Virgin Islands | **100.00** | 100.00 |
| Datatec International Holdings Limited | | O | British Virgin Islands | **100.00** | 100.00 |
| **INCORPORATED IN ASIA** | | | | | |
| Access Markets International (AMI) Pte. Limited | | C | Singapore | **82.90** | 88.40 |
| Analysys Mason FZ LLC | | C | United Arab Emirates | **82.90** | 88.40 |
| Analysys Mason India Pvt. Limited | | C | India | **82.90** | 88.40 |
| Analysys Mason Limited | | C | Hong Kong | **82.90** | 88.40 |
| Analysys Mason Pte. Limited | | C | Singapore | **82.90** | 88.40 |
| PT Westcon International Indonesia (formerly PT. Westcon Group) | | D | Indonesia | **90.00** | 90.00 |
| PT. Westcon Solutions | | D | Indonesia | **90.00** | 90.00 |
| Westcon Doha LLC | 3 | D | Qatar | **44.10** | 44.10 |
| Westcon Group (Thailand) Co. Limited | | D | Thailand | **88.20** | 88.20 |
| Westcon Group (Vietnam) Co. Limited | | D | Vietnam | **90.00** | 90.00 |
| Westcon Group Pte. Limited | | D | Singapore | **90.00** | 90.00 |
| Westcon Kuwait WLL | 3 | D | Kuwait | **44.10** | 44.10 |
| Westcon LLC | | D | Oman | **90.00** | 100.00 |
| Westcon Middle East Bahrain WLL | 3 | D | Bahrain | **44.10** | 44.10 |
| Westcon Middle East Equipments Trading LLC | 3 | D | United Arab Emirates | **44.10** | 44.10 |
| Westcon Middle East FZE | | D | United Arab Emirates | **90.00** | 90.00 |
| Westcon Middle East Limited | | D | Kingdom of Saudi Arabia | **67.50** | 67.50 |
| Westcon Solutions (HK) Limited | | D | Hong Kong | **90.00** | 90.00 |
| Westcon Solutions (M) Sdn. Bhd. | | D | Malaysia | **90.00** | 90.00 |
| Westcon Solutions (Shanghai) Limited | | D | China | **90.00** | 90.00 |
| Westcon Solutions IMH Pte. Limited | | D | Singapore | **90.00** | 90.00 |
| Westcon Solutions Philippines, Inc. | | D | Philippines | **90.00** | 90.00 |
| Westcon Solutions Pte. Limited | | D | Singapore | **90.00** | 90.00 |
| WestconComstor International (India) Private Limited | | D | India | **90.00** | n/a |
| Logicalis Hong Kong Limited | | I | Hong Kong | **100.00** | 100.00 |
| Logicalis Malaysia Sdn. Bhd. | | I | Malaysia | **100.00** | 100.00 |

# Annexure 1 – Subsidiary companies continued

for the period ended 29 February 2020

| Subsidiary companies | Notes | Nature of business | Country of incorporation | Datatec Group effective holding (% held) As at 29 February 2020 | As at 28 February 2019 |
|---|---|---|---|---|---|
| **INCORPORATED IN ASIA** (continued) | | | | | |
| Logicalis Pte. Limited (Xiamen) | | I | China | **100.00** | 100.00 |
| Logicalis Shanghai Limited | | I | China | **100.00** | 100.00 |
| Logicalis Singapore Pte. Limited | | I | Singapore | **100.00** | 100.00 |
| PT. Packet Systems Indonesia | | I | Indonesia | **53.50** | 53.50 |
| Thomas Duryea Logicalis Asia Pacific MSC Sdn. Bhd. | | I | Malaysia | **100.00** | 100.00 |
| Datatec International Services FZE | | O | United Arab Emirates | **100.00** | 100.00 |

| Equity-accounted associates and joint ventures | Notes | Nature of business | Country of incorporation | Datatec Group effective holding (% held) As at 29 February 2020 | As at 28 February 2019 |
|---|---|---|---|---|---|
| **INCORPORATED IN UK AND EUROPE** | | | | | |
| Directus AS | 6 | C | Norway | **41.00** | – |
| Mason Advisory Limited | 6 | C | United Kingdom | **44.74** | 44.74 |
| Neteks Bilgisayar ve Dis Ticaret Limited Sti | 6 | D | Turkey | **–** | 45.00 |
| Neteks Teknologi Urunleri | 6 | D | Turkey | **–** | 45.00 |
| Neteks Iletisim Ürünleri Dagitim Anonim Sirketi (50% JV) | 6 | D | Turkey | **–** | 45.00 |
| **INCORPORATED IN ASIA** | | | | | |
| Neteks International FZE | 6 | D | United Arab Emirates | **–** | 45.00 |
| **INCORPORATED IN US AND CANADA** | | | | | |
| Westcon GDS LLC. (not material) | 6 | D | USA | **45.00** | 45.00 |
| Esource Resources, LLC. | 6 | I | USA | **45.00** | 45.00 |

Only trading entities have been disclosed
C – Consulting Services
D – Distribution
F – Datatec Financial Services
I – ICT Solutions
O – Other holdings

## NOTES TO ANNEXURE 1

### Subsidiary companies

The annexure above illustrates the effective percentage shareholding of the Datatec Group in its subsidiaries. There are subsidiaries within the Group that have non-controlling interests and a number of these subsidiaries hold further investments that also have non-controlling interests. These entities are controlled by the Group and consolidated.

### Note 1

Datatec Limited (the ultimate holding company) owns 90% of Westcon Emerging Markets Group (Pty) Ltd ("WEMG") and WEMG holds 59.995% of the shares of Westcon Southern Africa Holdings (Pty) Ltd. WEMG controls Westcon Southern Africa Holdings (Pty) Ltd.

Westcon Southern Africa Holdings (Pty) Ltd holds 81.5% of the shares in WestconGroup SA (Pty) Ltd and also controls WestconGroup SA (Pty) Ltd.

WEMG, Westcon Southern Africa Holdings (Pty) Ltd and WestconGroup SA (Pty) Ltd are consolidated in the Group's annual financial statements based on control as defined in terms of IFRS 10.

### Note 2

Datatec Limited owns 100% of the issued share capital of Logicalis Group Limited which has a 65% interest in PromonLogicalis Latin America Limited ("PLLAL"). PLLAL owns a 51% interest in NubeliU Limited.

NubeliU Limited has a 100% interest in the share capital of each of the following:
- NubeliU I LLC. (inactive entity not included in subsidiary companies above); and
- NubeliU II LLC. (inactive entity not included in subsidiary companies above).

These two entities each own 50% of the share capital of NubeliU Argentina S.R.L. (50% each). These two entities each own 50% of the share capital of NubeliU Consultoria e Licenciamento de Software Limitada.

Logicalis Group Limited consolidates the above entities as it controls PLLAL as defined in IFRS 10.

Further, PLLAL controls NubeliU Limited and its underlying entities.

### Note 3

Westcon Doha and Westcon Kuwait are 100% consolidated as the minority shareholders have no rights to obtain a share of profits.

Westcon has full management control in terms of their shareholder agreements of these entities.

Westcon Middle East Equipments Trading LLC and Westcon Middle East Bahrain WLL are 100% consolidated as Westcon has full control over these entities in terms of the shareholder agreements.

### Note 4

During the year, Logicalis Group Limited acquired 70% of the issued share capital of Cilnet – Comunicações e Projectos Especiais S.A. ("Cilnet"). Cilnet owns 51% of the issued share capital of DX Net Limitada.

Logicalis Group Limited consolidates Cilnet as it has control over this subsidiary in terms of the requirements of IFRS 10.

Logicalis Group Limited also consolidates DX Net Limitada as Cilnet has control over DX Net Limitada in terms of the requirements of IFRS 10.

### Note 5

During the year, WEMG, a subsidiary of the Datatec Group, made a capital investment in Ascension Fund No 5 LLP ("the fund"), the BBBEE partner of Westcon Southern Africa Holdings (Pty) Ltd (South Africa). WEMG has control over the fund. This fund is consolidated in the Datatec Group financial statements.

### Note 6: Equity-accounted associates and joint ventures

Neteks was disposed of during FY20. Refer to Note 11 for further details.

During the year, the Management Consulting division acquired 41% of shares in Directus AS. Directus AS is equity-accounted in Datatec Group's annual financial statements.

Refer to Note 11 for material equity-accounted investments and joint ventures.