

The logo for EOH, consisting of the letters 'EOH' in a bold, white, sans-serif font. The letter 'O' has a small white triangle above it, resembling a water drop or a stylized '0'. The logo is set against a dark blue background.

**EOH**

Our purpose is to SOLVE

# ANNUAL SUMMARISED FINANCIAL RESULTS

for the year ended 31 July 2020





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Note: Any forward-looking financial information disclosed in the results announcement has not been reviewed or audited or otherwise reported on by the external auditor.

# ABOUT EOH

EOH is one of South Africa's largest technology services companies and has a wide range of solutions in Industry Consulting, IT Services, Systems Integration, Software, Industrial Technologies and Business Process Outsourcing. The Group continues to be an undisputed market leader in its core ICT businesses which operate principally under the iOCO brand name. Our solutions are systemic to both the public and private sector in South Africa and we are an integral technology partner for a number of leading JSE-listed, blue-chip companies as well as key metros and government departments. As a proudly South African business, EOH is committed to sustainable transformation, making a positive, meaningful contribution to society, and is a Level 1 Broad-based Black Economic Empowerment (B-BBEE) contributor.

The Group's 7 333\* employees deliver services to over 5 000 enterprise customers across all major industries throughout South Africa. The Group also has a footprint across Africa, Europe and Middle East.

\* Total employees including contractors

The EOH business comprises three major pillars  
with clear alignment of focus and groupings of value:

## iOCO

<b>Sales &amp; Advisory</b> Go-To-Market Solutioning	<b>iOCO Services</b> Network Solutions Manage & Operate Digital Industries Knowledge Process Outsourcing	<b>iOCO Technology</b> Computer Software Reseller Enterprise Applications Computer Hardware Reseller	<b>iOCO Digital</b> Application Development (App Dev) Data Analysis Cloud & Security International Automation
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ICT business focused on traditional and cutting-edge technology system integration  
with a range of solutions, products and services across the ICT value chain

## NEXTEC

The Power of People and Technology  
Redefined

<b>Business Process Outsourcing</b>	<b>Intelligent Infrastructure Solutions</b>
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A variety of businesses focused on business process outsourcing and intelligent infrastructure  
at various stages of incubation for growth and scaling

## IP

<b>Information Services</b>	<b>Sybrin</b>	<b>Syntell</b>
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A group of high potential IP companies with scalable technology

“We are immensely pleased with the significant progress made by the EOH Group during the current financial year. We have managed to position ourselves for growth and largely deal with our legacy issues, all while successfully steering the Group safely through unprecedented global market conditions. While the economic recovery is uncertain, the path is now clearly set for EOH to capitalise on future growth prospects accelerated by the new normal premised on our enhanced global digital reality.”

*Stephen van Coller, CEO*

## SALIENT FEATURES

<p>Total group revenue of R11.3 billion</p>	<p>Total gross profit margin up 2.3% points to 21.9%</p>	<p>Total core Normalised EBITDA margin up 4.1% to 7.3% at R827 million*</p>	<p>Total headline loss per share decreased by 72% from 1 751 cents per share to 495 cents per share (H1: 2020 395 cents and H2: 2020 100 cents)</p>
<p>Operating cash flow generated R706 million (H1: 2020 R31 million and H2: 2020 R675 million)</p>	<p>Cash balances remain strong at R946 million at year end</p>	<p>Gross debt down 20% to R2 638 million year on year</p>	<p>Further significant progress on deleveraging post-year end – additional R410 million repaid</p>

\* Core Normalised EBITDA per the summary consolidated annual financial statements is R932 million. The difference of R105 million relates to non-sustainable savings as a result of cost cutting measures taken during COVID-19.

## BUSINESS MODEL

EOH operates across three pillars, namely, iOCO, NEXTEC and IP.

iOCO remains the core business for the Group contributing 59% (FY2019: 52%) of total Group revenue and 67% of total core Normalised EBITDA. iOCO’s end-to-end ICT capability provides a robust backbone on which to grow its market share. The business is currently being managed around three of its core offerings, namely, services, technology and digital. iOCO is strategically positioned to grow organically as well as capitalise on geographic opportunities. iOCO is also set to benefit from the rapid digitisation of business brought on as a result of COVID-19.

NEXTEC contributed 30% (FY2019: 35%) of total Group revenue to the Group and 7% of total normalised EBITDA. The NEXTEC cluster continues to reduce in size as its non-core businesses are wound down or sold while the remaining business lines are being consolidated to maximise efficiencies. The remaining business has been run in two broad groupings, namely, business process outsourcing and intelligent infrastructure. Management has worked hard to ensure that NEXTEC is self-sufficient on a standalone basis, de-risked from engineering, procurement and construction work and that it is no longer a cash drain on the Group (excluding non-continuing businesses).

IP comprises three remaining assets, namely: Syntell, Sybrin and Information Systems. All three businesses are earmarked for disposal as part of the deleveraging strategy and together with a portion of CCS and Dataworld, are included in the reported numbers and contributed 11% (FY2019: 13%) of total Group revenue and 26% of total core Normalised EBITDA.

## **OPERATIONAL REVIEW**

EOH is beginning to realise the benefits of its turnaround strategy, notwithstanding the current unprecedented market conditions. The new management team's bold and decisive actions have largely restored confidence across all of the Group's stakeholders. This confidence is reinforced by the performance trajectory on almost all metrics, which have meaningfully improved on both an annual basis (FY2019 to FY2020) and on a six-monthly basis (H1 2020 to H2 2020) and have continued to improve into the first quarter of the 2021 financial year.

A significant focus has been placed on quality of earnings as opposed to revenue at any cost. This is evidenced by the improvement in margins as well as the closing out of legacy issues, which have historically caused a drag both on earnings and cash generation.

### **Revenue**

While total revenue decreased 24% to R11 277 million from R14 949 million in the prior year and continuing revenue was down 19% year on year, the core iOCO business remained relatively resilient with an overall reduction of 13% in gross revenue (before intersegment eliminations). The decrease was largely due to businesses disposed of or closed during the current or prior year. Furthermore, the national lockdown, together with deals not repeated in FY2020 had a negative impact on the hardware business, which saw a decrease in revenue of 33%. The other businesses remained resilient due to a broad client and product base that had little reliance on a single sector or product group.

NEXTEC revenue reduced by 36% (before intersegment eliminations) as non-core and EPC type businesses were exited. The decrease was largely due to businesses disposed of or closed during the current or prior year.

The IP businesses, two of which were the most impacted by COVID-19 through their B2B2C exposure, saw revenue reduce by 36% (before intersegment eliminations) on the previously reported numbers, but by 22% when the impact of the sold IP businesses, being CCS and Dataworld, are eliminated. The B2B2C businesses have seen a faster than expected rebound in business after going into lockdown level 1.

### **Gross margin**

Overall year-on-year gross profit margin increased by 2.3% points from 19.6% to 21.9%. iOCO saw an improvement on gross profit margin of 3.7% points to 24.3%. The improvement in margin was as a result of exiting international businesses in the prior year which were underperforming and significant efficiency measures that bore fruit during the year. A lower contribution from hardware sales also supported margin improvement.

NEXTEC also experienced a strong improvement in gross profit margin increasing year on year from 12.0% to 14.9% as a result of having exited underperforming businesses in the prior year and significant efficiency gains being realised.

IP margins remained stable year on year in the region of 39.7%.

## Costs

Total operating costs (including continuing and discontinued) decreased 45% from R6 214 million to R3 403 million. During the six months to 31 July 2020, a decline in costs of 51% from R2 284 million to R1 119 million was achieved. The significant decline in operating expenditure is a result of a reduction in once-off costs, asset sales or closures and implemented efficiency measures.

Once-off cost reductions were as a result of:

- the reduction in impairment losses from R2 259 million in the prior year to R522 million for FY2020; and
- other once-off costs declining from R922 million in the prior year to R353 million in FY2020.

After the elimination of once-off costs, sold businesses operating expenditure decreased 5% from R2 476 million to R2 358 million.

Core to the Group strategy has been the right sizing of costs, structures and systems. COVID-19 placed further focus on ensuring costs remain as flexible as possible with the reduction in systemic fixed costs (some of which may take longer to right size) being a key focus area.

Continued progress has been made on the property optimisation programme with lease exits to date realising R74 million per annum of rental savings. Full optimisation of the property portfolio is expected in FY2023 when all lease renewals align and/or come to an end. A further R10 million of savings is expected in FY2021 as further leases are exited.

The focus on simplifying structures and legal entities has continued with legal entities reducing by 99. The Group aims to further reduce legal entities over the next two years in order to reach its target number of 34 companies by calendar year 2023.

Improved systems, significant changes to financial discipline and controls are also set to yield future cost benefits.

Headcount has further reduced from 10 279 to 7 333 largely due to contractors not renewed and businesses being sold.

## Legacy contracts (non-core business lines)

At the date of publishing this report, five of the eight problematic public sector contracts have been settled, with one currently in arbitration, one in final negotiations and the final contract concluding at the end of April 2021.

In the current financial year, a total loss of R323 million was recorded as a result of these legacy contracts (H1 2020: R188 million and FY2019: R279 million). These contracts do not qualify as discontinued for reporting purposes as they relate to specific contracts and not a division or definable area of business.

Settlement has also been reached with the Special Investigations Unit post-year end in respect of disclosures reported in May 2019 for two of the three identified contracts where overbilling of licences

occurred. EOH will repay R42 million over a period of 36 months as reimbursement for overcharging the Department of Defence and is in the process of finalising a similar arrangement with regards to the third and final contract. These costs have been fully provided for in the FY2019 and FY2020 accounts.

A number of EPC contract businesses within the NEXTEC stable are in the process of being wound down and contributed losses of a total value of R172 million (H1 2020: R83 million and FY2019: R247 million).

## **EBITDA**

Total core Normalised EBITDA for the year is R827 million (FY2019: R482 million). EBITDA before normalisation adjustments was R72 million for the full year with R285 million EBITDA generated in H2 versus an EBITDA loss of R214 million in H1 2020. R422 million of NORMALISED EBITDA was generated in H2 2020 versus R405 million in H1 2020.

## **Headline loss**

Total headline loss per share from continuing and discontinuing was 495 cents (FY2019: 1 751 cents). This is a 72% improvement year on year. H1 2020 total headline loss per share was 395 cents per share versus 100 cents per share for H2 2020, being a 75% improvement.

## **Working capital management**

Working capital management continued to receive a high degree of prioritisation, as part of overall liquidity management, particularly as the COVID-19 impact was felt. Investment in net working capital improved from R512 million in the prior year to R176 million in the current year.

## **Cash and cash generation**

FY2020 generated positive operating cash flows of R706 million with 96% of this generated in H2 2020. H1 2020 contained significant once-off items of R229 million, largely related to legacy OEM settlement issues while H2 2020 only contained R44 million of once-off items.

Improved tax planning also helped reduce the tax paid from R313 million in the prior year to R211 million in the current year.

The Group has implemented a cash pooling arrangement which has significantly improved the Group's ability to manage its cash and liquidity. Closing cash balances as at year end were R946 million while undrawn facilities were R245 million.

## **DELEVERAGING IMPERATIVE**

Management has successfully led the Group through the uncertainty of COVID-19, as detailed later in this report, and appropriately positioned the business for future growth while simultaneously paying down large tranches of the inherited debt.

Deleveraging has primarily been achieved through disposals. The Group remains committed to its deleveraging strategy having paid R291 million in capital in the current year and a further R409 million post-year end. This will result in an expected outstanding balance of c.R2 billion – significantly reduced from the R4 billion that the new management team inherited at the start of its tenure in FY2018.

## **ZONDO COMMISSION**

EOH gave testimony to the Zondo Commission in November 2020 and provided evidence on irregular money flows at EOH, which were uncovered in the ENSafrica forensic investigation which was commissioned by the EOH Board in 2019. EOH provided the Commission with detailed information related to the suspicious and unethical business practices ENSafrica uncovered dating back to 2014, as well as

the parties involved. The Group is happy to finally be able to close this chapter as it has now handed over all information to the relevant law enforcement agencies and can now focus on providing best-in-class technology services and solutions to its clients in both the public and private sectors.

## COVID-19

The period under review coincided with the global outbreak of COVID-19 and the President of the Republic of South Africa announced a national state of disaster on 23 March 2020 and implemented the first of a series of lockdowns. iOCO continued to operate during the period as an essential service with the team doubling up on efforts to ensure our clients benefited from an uninterrupted supply of ICT services. The declaration of a state of disaster further galvanised management to immediately embark on a programme to preserve the Group's liquidity through a number of solutions including:

- a three-month salary reduction for all staff and directors except those earning less than R250 000 per annum;
- the reduction and rental holidays from landlords;
- a freeze on salary increases; and
- a heightened focus on the already established priority of reducing and managing debtors exposures.

In addition, the Group deployed a COVID-19 management team to monitor and manage the pandemic within the EOH ecosystem by:

- supporting a work from home approach with a focus on preserving staff moral and engagement through innovative solutions;
- preservation of jobs as far as possible; and
- supporting government initiatives like the Solidarity Fund and the BLSA website on a pro bono basis and the provision of over 70 innovative client solutions.

## OUTLOOK

EOH is now focused on growing the iOCO business within South Africa and select African countries. The business in Egypt will be expanded to be used as a springboard into the Middle East and to complement the expansion of certain solutions into Europe.

Furthermore, NEXTEC has been reorganised into two main pillars and will continue its turnaround trajectory and remain self-sustaining.

The IP businesses remain for sale as the path to a permanent capital structure. They have their own boards and own bank accounts but are assisted by the Group for sales and marketing as required. It is crucial that fair value is achieved on the disposal of these businesses and that they are not sold at sub-optimal prices in an environment where corporate action is being delayed and impacted by COVID-19.

Approved on behalf of the Board of Directors of EOH.

**Stephen van Coller**

*Chief Executive Officer*



# INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY CONSOLIDATED FINANCIAL STATEMENTS

## TO THE SHAREHOLDERS OF EOH HOLDINGS LIMITED

### Opinion

The summary consolidated financial statements of EOH Holdings Limited, set out on pages 8 to 63 of the EOH Annual summarised financial results for the year ended 31 July 2020, which comprise the summarised consolidated statement of financial position as at 31 July 2020, the summarised consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of EOH Holdings Limited for the year ended 31 July 2020.

In our opinion, the accompanying summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements, in accordance with the JSE Limited's (JSE) requirements for summary financial statements, as set out in note 2 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

### Summary consolidated financial statements

The summary consolidated financial statements do not contain all the disclosures required by International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summary consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements and the auditor's report thereon.

### The audited consolidated financial statements and our report thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 2 December 2020. That report also includes:

- A "Material uncertainty relating to going concern" section, drawing attention to note 1.2 to the audited consolidated financial statements, which indicates that the Group incurred a consolidated net loss of R1.6 billion during the year ended 31 July 2020 and, as of that date, the Group's consolidated current liabilities exceeded its consolidated current assets by R2.4 billion. The section indicates that, as disclosed in note 42 to the audited consolidated financial statements, the Group breached its banking covenants from 1 August 2020, and the breach was waived by the Group's financiers subsequent to year-end. The section continues to state that, as indicated in note 1.2 to the audited consolidated financial statements, these events or conditions, along with other matters as set forth in notes 1.2 and 42 to the audited consolidated financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. The summary consolidated financial statements are similarly impacted by these matters, which are addressed in note 3 to the summary consolidated financial statements.
- The communication of other key audit matters. 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.

### Director's responsibility for the summary consolidated financial statements

The directors are responsible for the preparation of the summary consolidated financial statements in accordance with the JSE's requirements for summary financial statements, set out in note 2 to the summary consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

### Auditor's responsibility

Our responsibility is to express an opinion on whether the summary consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), *Engagements to Report on Summary Financial Statements*.



PricewaterhouseCoopers Inc.

Director: DH Höll  
Registered Auditor  
Johannesburg  
2 December 2020

# SUMMARISED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 JULY 2020

Figures in Rand thousand	Notes	2020	Restated*# 2019
<b>Continuing operations</b>			
Revenue	7	8 690 350	10 746 037
Cost of sales		(6 893 957)	(8 978 937)
<b>Gross profit</b>		<b>1 796 393</b>	1 767 100
Net financial asset impairment losses	9	(320 712)	(606 384)
Operating expenses		(2 417 575)	(4 860 760)
<b>Operating loss before interest and equity-accounted losses</b>		<b>(941 894)</b>	(3 700 044)
Investment income		26 984	24 556
Share of equity-accounted losses	13	(565)	(7 954)
Finance costs		(410 875)	(333 718)
<b>Loss before taxation</b>		<b>(1 326 350)</b>	(4 017 160)
Taxation		64 030	(208 187)
<b>Loss for the year from continuing operations</b>		<b>(1 262 320)</b>	(4 225 347)
<b>Loss for the year from discontinued operations</b>	10	<b>(364 494)</b>	(721 265)
<b>Loss for the year</b>		<b>(1 626 814)</b>	(4 946 612)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Exchange differences on translation of foreign operations**		107 697	(97 998)
Reclassification of foreign currency translation differences on loss of control and joint control**		47 313	94 547
<b>Total comprehensive loss for the year</b>		<b>(1 471 804)</b>	(4 950 063)
<b>(Loss)/profit attributable to:</b>			
Owners of EOH Holdings Limited		(1 620 721)	(4 949 147)
Non-controlling interests		(6 093)	2 535
		<b>(1 626 814)</b>	(4 946 612)
<b>Total comprehensive (loss)/income attributable to:</b>			
Owners of EOH Holdings Limited		(1 462 568)	(4 952 598)
Non-controlling interests		(9 236)	2 535
		<b>(1 471 804)</b>	(4 950 063)
<b>From continuing and discontinued operations (cents)</b>			
Loss per share		(961)	(3 041)
Diluted loss per share		(961)	(3 041)
<b>From continuing operations (cents)</b>			
Loss per share		(747)	(2 597)
Diluted loss per share		(747)	(2 597)

\* Refer to note 6 – Restatement of consolidated annual financial statements for the impact on profit or loss.

# Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2020.

\*\* In the current year, exchange differences has been split between exchange differences arising during the year and amounts reclassified to profit or loss. The prior year has been updated to align to the current year split.

# SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 JULY 2020

Figures in Rand thousand	Notes	2020	Restated* 2019	Restated* 1 August 2018
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant, equipment and right-of-use assets	11	544 846	481 674	742 983
Intangible assets	11	112 967	488 974	880 392
Goodwill	12	916 743	1 850 854	4 255 281
Equity-accounted investments	13	6 689	228 067	530 861
Other financial assets		60 881	11 610	499 040
Deferred taxation		200 972	245 278	327 270
Finance lease receivables		55 120	106 775	130 602
		<b>1 898 218</b>	<b>3 413 232</b>	<b>7 366 429</b>
<b>Current assets</b>				
Inventories		113 754	251 456	377 501
Other financial assets		137 109	76 718	205 692
Current taxation receivable		53 940	52 916	88 442
Finance lease receivables		67 720	72 638	63 307
Trade and other receivables		2 116 576	3 353 971	4 733 305
Cash and cash equivalents		645 837	1 048 583	1 418 319
		<b>3 134 936</b>	<b>4 856 282</b>	<b>6 886 566</b>
Assets held for sale	14	2 152 366	1 765 016	–
<b>Total assets</b>		<b>7 185 520</b>	<b>10 034 530</b>	<b>14 252 995</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Stated capital	16	4 250 219	4 239 621	3 443 223
Shares to be issued to vendors		15 300	20 257	66 196
Other reserves		924 862	742 597	663 122
Accumulated loss		(4 680 506)	(3 077 996)	1 746 493
<b>Equity attributable to the owners of EOH Holdings Limited</b>		<b>509 875</b>	<b>1 924 479</b>	<b>5 919 034</b>
<b>Non-controlling interests</b>		<b>29 624</b>	<b>40 621</b>	<b>17 788</b>
<b>Total equity</b>		<b>539 499</b>	<b>1 965 100</b>	<b>5 936 822</b>
<b>Liabilities</b>				
<b>Non-current liabilities</b>				
Other financial liabilities	17	5 674	2 255 825	3 208 415
Lease liabilities		171 699	28 030	56 388
Deferred taxation		111 291	305 917	388 042
		<b>288 664</b>	<b>2 589 772</b>	<b>3 652 845</b>
<b>Current liabilities</b>				
Other financial liabilities	17	2 748 028	1 068 132	895 581
Current taxation payable		49 329	97 988	170 230
Lease liabilities		104 723	29 331	35 360
Trade and other payables		1 951 060	3 303 241	3 562 157
Provisions		670 125	410 427	–
		<b>5 523 265</b>	<b>4 909 119</b>	<b>4 663 328</b>
Liabilities directly associated with assets held for sale	14	834 092	570 539	–
<b>Total liabilities</b>		<b>6 646 021</b>	<b>8 069 430</b>	<b>8 316 173</b>
<b>Total equity and liabilities</b>		<b>7 185 520</b>	<b>10 034 530</b>	<b>14 252 995</b>

\* Refer to note 6 – Restatement of consolidated annual financial statements for the impact on the affected assets, liabilities and equity.

# SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 JULY 2020

Figures in Rand thousand	Stated capital	Shares to be issued to vendors	Other reserves	Retained earnings/(accumulated loss)	Equity attributable to the owners of EOH Holdings Limited	Non-controlling interests	Total equity
<b>Balance at 1 August 2018</b>	3 443 223	809 975	663 122	1 002 714	5 919 034	17 788	5 936 822
Correction of error***	-	(743 779)	-	743 779	-	-	-
<b>Restated balance at 1 August 2018</b>	3 443 223	66 196	663 122	1 746 493	5 919 034	17 788	5 936 822
Restated (loss)/profit for the year***	-	-	-	(4 949 147)	(4 949 147)	2 535	(4 946 612)
Other comprehensive income	-	-	(3 451)	-	(3 451)	-	(3 451)
Issue of shares	762 712	(44 067)	-	-	718 645	-	718 645
Non-controlling interest acquired	-	-	-	-	-	(300 448)	(300 448)
Non-controlling interest disposed	-	-	-	-	-	320 746	320 746
Movement in treasury shares	33 686	(12 703)	(53 714)	-	(32 731)	-	(32 731)
Consideration – EOH shares forfeited	-	(21 957)	-	-	(21 957)	-	(21 957)
Transfer within equity**	-	32 788	-	(32 788)	-	-	-
Share-based payments	-	-	53 141	157 446	210 587	-	210 587
Correction of error***	-	-	83 499	-	83 499	-	83 499
<b>Restated balance at 31 July 2019</b>	4 239 621	20 257	742 597	(3 077 996)	1 924 479	40 621	1 965 100
Effect of adoption of new standard**	-	-	-	30 327	30 327	-	30 327
<b>Restated balance at 1 August 2019</b>	4 239 621	20 257	742 597	(3 047 669)	1 954 806	40 621	1 995 427
Loss for the year	-	-	-	(1 620 721)	(1 620 721)	(6 093)	(1 626 814)
Other comprehensive income	-	-	158 153	-	158 153	(3 143)	155 010
Non-controlling interest disposed	-	-	-	-	-	1 982	1 982
Movement in treasury shares	10 598	(4 957)	(10 781)	-	(5 140)	-	(5 140)
Consideration – EOH shares forfeited	-	(12 116)	-	-	(12 116)	-	(12 116)
Transfer within equity*	-	12 116	-	(12 116)	-	-	-
Share-based payments: disposed entities	-	-	(13 392)	-	(13 392)	-	(13 392)
Share-based payments	-	-	48 285	-	48 285	-	48 285
Dividends declared	-	-	-	-	-	(3 743)	(3 743)
<b>Balance at 31 July 2020</b>	4 250 219	15 300	924 862	(4 680 506)	509 875	29 624	539 499

Notes

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\* Transfers within equity are transfers from shares to be issued to vendors for expired shares.

\*\* Refer to note 5 – Changes in accounting policies for the impact of the adoption of IFRS 16.

\*\*\* Refer to note 6 – Restatement of consolidated annual financial statements for the impact on profit or loss and equity.

# Transfers between other reserves and retained earnings/(accumulated loss) of R111 million which had been done in the prior year have now been reversed to be consistent with current year IFRS 2 treatment of not releasing reserves to retained earnings for expired, unexercised options.

# SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 JULY 2020

Figures in Rand thousand	Notes	2020	2019
Cash generated from operations	19	706 735	502 107
Investment income received		40 283	39 657
Interest paid		(380 165)	(341 088)
Taxation paid		(211 419)	(313 155)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>155 434</b>	(112 479)
<b>Cash flows from investing activities</b>			
Additions to property, plant and equipment		(175 643)	(221 818)
Proceeds on the sale of property, plant, equipment and intangible assets		127 659	15 972
Intangible assets acquired		(187 172)	(181 587)
Cash receipt from disposal of businesses, net of cash given up	15	164 625	369 164
Cash inflow relating to other financial assets		2 088	200 181
Cash outflow relating to other financial assets		(9 978)	-
Increase in restricted cash		(485 824)	-
Decrease in restricted cash		398 804	-
<b>Net cash (outflow)/inflow from investing activities</b>		<b>(165 441)</b>	181 912
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		-	720 282
Dividends paid to non-controlling interests		(3 743)	-
Proceeds from other financial liabilities	17	-	967 307
Repayment of other financial liabilities	17	(396 414)	(1 745 982)
Principal elements of lease payments		(94 894)	(32 563)
<b>Net cash outflow from financing activities</b>		<b>(495 051)</b>	(90 956)
<b>Net decrease in cash and cash equivalents</b>		<b>(505 058)</b>	(21 523)
Cash and cash equivalents at the beginning of the year		1 048 583	1 418 319
Assets held for sale at the beginning of the year	14	310 373	-
Assets held for sale at the end of the year	14	(328 743)	(310 373)
Exchange gains/(losses) on cash and cash equivalents		5 429	(37 840)
<b>Cash and cash equivalents at the end of the year</b>		<b>530 584</b>	1 048 583

# SEGMENT RESULTS

FOR THE YEAR ENDED 31 JULY 2020

The reportable segments of the Group have been identified based on the nature of the business activities. The business is managed in three major segments and this remains consistent with the prior year with some movements of businesses between the segments. Changes to the reportable segments in the current year included the moving of HQaaS and Digital Industries businesses out of NEXTEC to iOCO to streamline and consolidate similar business offerings in line with the revised strategy of EOH. This basis is representative of the internal structure of the Group for management purposes and the segment results for the comparative period has been restated accordingly. The Chief Operating Decision Maker (CODM) is the Group Executive Committee.

iOCO is the ICT business focused on traditional and cutting-edge technology system integration with a range of solutions, products and services across the ICT value chain.

NEXTEC consists of a variety of businesses focused on business process outsourcing and technology infrastructure at various stages of incubation for growth and scaling.

IP comprises a group of high potential intellectual property companies with scaled technology ready to take to market with partners.

The CODM is not presented with secondary information in the form of geographic information and as a result, geographic information is not disclosed in the segment results. Liabilities and assets are also not regularly provided to the CODM and are not disclosed in the segment results.

Adjusted EBITDA is defined as profit/(loss) before depreciation, amortisation, share-based payment expense, gain/loss on disposal of subsidiaries and equity-accounted investments, impairments of non-financial assets, share of profit/loss of equity-accounted investments, remeasurement gain/losses on vendors for acquisition liability, interest income, interest expense and current and deferred tax.

## Revenue, gross profit and core normalised EBITDA:

Figures in rand thousand	2020					Restated* 2019				
	iOCO	NEXTEC	IP	Recon- ciliation^	Total	iOCO	NEXTEC	IP	Recon- ciliation^	Total
<b>Revenue</b>										
External	6 699 614	3 375 968	1 201 121	-	11 276 703	7 841 419	5 232 875	1 875 006	-	14 949 300
Intersegment	222 948	154 442	11 180	(388 570)	-	121 195	289 412	30 835	(441 442)	-
<b>Gross revenue</b>	<b>6 922 562</b>	<b>3 530 410</b>	<b>1 212 301</b>	<b>(388 570)</b>	<b>11 276 703</b>	<b>7 962 614</b>	<b>5 522 287</b>	<b>1 905 841</b>	<b>(441 442)</b>	<b>14 949 300</b>
<b>Gross profit</b>	<b>1 684 352</b>	<b>527 266</b>	<b>480 722</b>	<b>(223 441)</b>	<b>2 468 899</b>	<b>1 641 933</b>	<b>661 197</b>	<b>754 125</b>	<b>(125 857)</b>	<b>2 931 398</b>
<i>Gross profit (%)</i>	<i>24.3%</i>	<i>14.9%</i>	<i>39.7%</i>	<i>-</i>	<i>21.9%</i>	<i>20.6%</i>	<i>12.0%</i>	<i>39.6%</i>	<i>-</i>	<i>19.6%</i>
<b>Adjusted EBITDA</b>	<b>391 651</b>	<b>(111 128)</b>	<b>319 537</b>	<b>(528 480)</b>	<b>71 580</b>	<b>(711 069)</b>	<b>(189 193)</b>	<b>439 051</b>	<b>(945 026)</b>	<b>(1 406 237)</b>
Normalisation adjustments	104 608	27 116	67	233 131	364 922	790 618	52 106	-	518 995	1 361 719
<b>Normalised EBITDA**</b>	<b>496 259</b>	<b>(84 012)</b>	<b>319 604</b>	<b>(295 349)</b>	<b>436 502</b>	<b>79 549</b>	<b>(137 087)</b>	<b>439 051</b>	<b>(426 031)</b>	<b>(44 518)</b>
Non-core business lines to be closed-	323 016	172 980	-	-	495 996	279 254	246 800	-	-	526 054
<b>Core normalised EBITDA***</b>	<b>819 275</b>	<b>88 968</b>	<b>319 604</b>	<b>(295 349)</b>	<b>932 498</b>	<b>358 803</b>	<b>109 713</b>	<b>439 051</b>	<b>(426 031)</b>	<b>481 536</b>
<i>Core normalised EBITDA (%)</i>	<i>11.8%</i>	<i>2.5%</i>	<i>26.4%</i>	<i>-</i>	<i>8.3%</i>	<i>4.5%</i>	<i>2.0%</i>	<i>23.0%</i>	<i>-</i>	<i>3.2%</i>

\* Comparative figures previously reported have been amended to reflect segment structure used for the 12 months to 31 July 2020, as well as correction of prior period errors as described in note 6.

\*\* Normalised EBITDA is defined as Adjusted EBITDA adjusted for certain once-off for cash and non-cash items.

\*\*\* Core normalised EBITDA is defined as normalised EBITDA adjusted for non-core business lines to be closed.

^ Reconciliation comprises elimination of intersegment transactions and includes head office expenses.

- Non-core business lines to be closed reflect businesses identified to be shut down.

# SEGMENT RESULTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## Adjusted EBITDA reconciliation

Figures in Rand thousand	Notes	2020	Restated* 2019
Operating loss before interest and equity-accounted losses		<b>(1 266 720)</b>	(4 260 838)
Operating loss from continuing operations		<b>(941 894)</b>	(3 700 044)
Operating loss from discontinued operations		<b>(324 826)</b>	(560 794)
Depreciation		<b>335 924</b>	204 848
Amortisation		<b>162 079</b>	230 968
Impairment losses on non-financial assets		<b>522 475</b>	2 258 840
Loss/(gain) on disposal of assets		<b>263 675</b>	(120 868)
Share-based payments		<b>48 285</b>	247 614
Changes in fair value of vendors for acquisition	17	<b>3 685</b>	33 199
Loss from joint venture	13	<b>2 177</b>	–
<b>Adjusted EBITDA</b>		<b>71 580</b>	(1 406 237)
Normalisation adjustments		<b>364 922</b>	1 361 719
Write-off of inventories <sup>#</sup>		<b>20 396</b>	59 753
Other financial assets write-off and specific provisions		<b>149 245</b>	759 501
Advisory and other <sup>##</sup>		<b>106 605</b>	154 548
Retrenchment and settlement costs		<b>49 744</b>	115 138
Onerous contracts and other provisions		<b>38 932</b>	272 779
<b>Normalised EBITDA**</b>		<b>436 502</b>	(44 518)
Non-core business lines to be closed~		<b>495 996</b>	526 054
<b>Core normalised EBITDA***</b>		<b>932 498</b>	481 536

\* Comparative figures previously reported have been amended to reflect segment structure used for the 12 months to 31 July 2020, as well as correction of prior period errors as described in note 6.

\*\* Normalised EBITDA is defined as Adjusted EBITDA adjusted for certain once-off cash and non-cash items.

\*\*\* Core normalised EBITDA is defined as normalised EBITDA adjusted for non-core business lines to be closed.

~ Non-core business lines to be closed reflect normalised EBITDA relating to businesses which management intends closing which have not yet met the IFRS 5 requirements to be classified as discontinued and non-profitable business lines or arrangements that are not expected to continue going forward.

# Write-off of inventories relates to inventory licences that were previously purchased and capitalised as inventory and subsequently written off as there were no customers for such inventory licences.

## Advisory and other consists mainly of costs related to the ENS investigation, costs related to internal restructuring of the businesses, advisor costs related to disposals of businesses and also includes the JSE fine.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 JULY 2020

## 1. REPORTING ENTITY

EOH Holdings Limited (EOH or the Company) is a holding company domiciled in South Africa that is listed on the JSE Limited under the category Technology: Software and Computer Services. EOH is one of the largest Information and Communications Technology (ICT) services providers in South Africa and is committed to providing the technology, knowledge, skills and organisational ability critical to the development and growth of the markets it serves. The summarised consolidated financial statements of EOH, as at 31 July 2020 and for the year ended 31 July 2020, comprise the Company and its subsidiaries (together referred to as the Group) and the Group's investments in associates and joint ventures.

## 2. STATEMENT OF COMPLIANCE

The summarised consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for abridged reports, and the requirements of the Companies Act of South Africa applicable to summarised financial statements. The Listings Requirements require abridged reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

## 3. BASIS OF PREPARATION

The consolidated annual financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value through profit or loss at the end of each reporting period as explained in the accounting policies below.

The consolidated annual financial statements are presented in South African Rand, which is the Group's presentation currency, rounded to the nearest thousand except for when otherwise indicated. The going concern basis has been used in preparing the consolidated annual financial statements as the directors have a reasonable expectation that the Group will continue as a going concern for the foreseeable future.

### Going concern

The IFRS Conceptual Framework states that going concern is an underlying assumption in the preparation of IFRS financial statements. Therefore, the financial statements presume that an entity will continue in operation in the foreseeable future or, if that presumption is not valid, disclosure and a different basis of reporting are required. The Board of directors ('Board') believes that, as of the date of this report, the going concern presumption is still appropriate and accordingly the consolidated annual financial statements of the Group have been prepared on the going concern basis.

IAS 1 – Preparation of Financial Statements ('IAS 1') requires management to perform an assessment of the Group's ability to continue as a going concern. If management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, IAS 1 requires these uncertainties to be disclosed.

In conducting this assessment, the Board has taken into consideration the following factors:

The financial performance, condition and cash flows for the Group reflect a loss for the year of R1.6 billion, net asset value attributable to the owners of EOH Holdings Limited at the end of the year of R510 million and cash inflows from operating activities of R155 million (including continuing and discontinued operations). Details of the financial performance, condition and cash flows for the Group are explained in the consolidated annual financial statements. A detailed action plan for deleveraging the Group to a sustainable level and resolving the 'fit-for-purpose' cost structure was developed by the Group and its lenders and committed to in October 2019, revised in April 2020 and again in November 2020. Since its announcement in October 2019, the plan has been largely executed against and the directors reasonably believe it can continue to be implemented going forward in order to ensure the Group's ability to continue as a going concern.



The key deleveraging requirements of the agreement signed with the Group's lenders in April 2020 required the following milestones to be met:

1. Delever of R500 million by 30 August 2020.
2. Delever of an additional R700 million by 30 November 2020.
3. Delever of an additional R400 million by 28 February 2021.
4. 1 April 2021 full refinancing of the remaining debt.

The key deliverables implemented by the Group in relation to the deleveraging plan include:

1. deleveraging R292 million of debt in the current financial year and meeting the R500 million August target at 31 July 2020 in the amount of R542 million (deleveraging of R250 million at 31 July 2020 was taken into account for the R500 million target). Subsequent to year end, R450 million of the R700 million 30 November 2020 target was met as detailed in note 22 – Events after the reporting date.
2. liquidation of four legal entities during the year and one legal entity post-year end, due to these entities being financially distressed; and
3. the implementation of a cash pooling policy, allowing more than R600 million of cash, previously held in individual legal entities to be centrally managed. This allowed the Group's cash to be in the right place at the right time, without increasing risk to the Group due to improved visibility and cash management systems being implemented.

During the year, the Group implemented initiatives to improve liquidity. The Group also showed its ability to be agile and respond to new challenges as is evident from the liquidity initiatives implemented with the onset of COVID-19 restrictions in March 2020, in terms of which the Group reduced cash outflows in the second half of 2020, which included salary sacrifices, right-sizing of the cost base which had already started before the onset of lockdown, rental relief and tax deferrals.

The directors assessment of whether the Group is a going concern was considered and the directors concluded that:

1. the Group is solvent, and is expected to remain solvent after considering the approved budget and expected performance;
2. while the Group's current liabilities exceeded its current assets by R2.4 billion, more than R433 million of short-term loan liabilities and R36 million in vendor finance liabilities were extinguished after year end and a refinancing plan in respect of approximately R2 billion of the Group's facilities (as detailed in note 42 – Events after the reporting date), is being negotiated, thus bringing the ratio of current assets to current liabilities to above one times;
3. there is an approved budget for the following 24 months;
4. there are cash flow forecasts for the following 12 months, which were interrogated and adjusted for anomalies and stress tested for a reduction of in excess of 20% of adjusted EBITDA for each of the periods under review together with a detailed review of one-off cash payments; and
5. the Group has sufficient access to facilities and liquidity events to fund operations for the following 12 months based on the following assumptions:
  - improved operational performance;
  - the sale of non-core assets, which are at a relatively advanced stage;
  - the refinancing for its term and working capital facilities with its primary lending institutions, the salient commercial terms of which have been agreed by the Group with its lenders;
  - The Group's assets are appropriately insured; and
  - There is currently no outstanding litigation, that the directors believe has not been adequately provided for, that could pressurise the Group's ability to meet its obligations.

#### Material uncertainty relating to going concern

The ability of the Group to repay its debt as it becomes due is dependent on the timing and quantum of cash inflows from operations and its ability to realise cash through a combination of disposals of non-core assets, or part thereof. The ability of the Group to repay debt as it becomes due on 28 February and 1 April is also dependent on a refinancing proposal being implemented.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 3. BASIS OF PREPARATION *continued*

The liquidity dependencies indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. The Board is of the view that the actions that have been implemented and are currently underway are sufficient to mitigate the material uncertainties related to liquidity and going concern. These include the following steps that have been taken and agreements with the lenders secured in respect of obtaining long-term funding:

- Entered into discussions with the lenders to put a long-term Group funding structure in place in the form of refinancing the debt facilities from October 2020.
- The Board passed a resolution on 27 November 2020 to approve the refinancing proposal presented by the Group's lenders, although detailed terms, rates and fees are still to be agreed.
- The refinancing proposal presented by the Group's lenders includes a 12-month bridge facility to be used in the event of delays being experienced in the sale of the IP assets.
- Long-form term sheets are required to be agreed between the Group and its lenders by 31 January 2021 and final refinancing is to be implemented by 1 April 2021.
- The Group obtained a deferral letter from its lenders on 1 December 2020 for the R250 million shortfall at 30 November 2020 until 28 February 2021 and a waiver of the events of default related to financial covenants. The waiver expires on 28 February 2021.

The Board remains focused on and committed to the turnaround strategy, the debt reduction plan and implementing the refinancing proposal agreed with lenders. However, the requirement to reduce borrowings by a set quantum in a set timeframe and the ability of the Group to achieve its debt reduction plan in the current economic conditions, creates a material uncertainty. A material uncertainty is an event or condition that may cast significant doubt on the Group's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Board, after considering the negotiated terms and mitigating actions described above, has concluded that the Group should be able to discharge its liabilities as they fall due in the normal course of business and is therefore of the opinion that the going concern assumption is appropriate in the preparation of the consolidated annual financial statements.

### Accounting policies

The accounting policies applied in the consolidated annual financial statements are consistent with those applied in the previous years, except as set out below.

### *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time to its annual reporting period commencing 1 August 2019:

- IFRS 16 – Leases (IFRS 16); and
- IFRIC 23 – Uncertainty over Income Tax Treatments ('IFRIC 23').

A number of other new standards and/or interpretations are effective for the annual reporting period commencing 1 August 2019, with no material effect on the Group's annual financial statements.

Refer to note 5.1 for more information regarding the new standards, amendment to standards and interpretations adopted by the Group.

## 4. AUDIT OPINION

These summarised consolidated financial statements for the year ended 31 July 2020 have been audited by PricewaterhouseCoopers Inc., who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the annual consolidated financial statements from which these summarised consolidated financial statements were derived.

A copy of the auditor's report on the summarised consolidated financial statements and of the auditor's report on the annual consolidated financial statements are available for inspection at the Company's registered office or can be downloaded from the Company's website: [www.eoh.co.za](http://www.eoh.co.za), together with the consolidated financial statements identified in the respective auditor's reports.

## 5. NEW STANDARDS AND INTERPRETATIONS

### 5.1 Adoption of new standards, amendments to standards and interpretations

The Group has adopted IFRS 16, COVID 19-related rent concessions – Amendments to IFRS 16 and IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23), as issued by the IASB, with effect from 1 August 2019.

#### *IFRS 16*

The Group has adopted IFRS 16 retrospectively from 1 August 2019 but has not restated comparatives for the 2019 reporting period, as permitted under the standard's transitional provisions. The impact arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 August 2019.

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 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 August 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 August 2019 was 9.3%.

Right-of-use assets were measured at the amount of the lease liability on adoption.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability as the carrying amount of the right-of-use asset and the lease liability at the date of initial application.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 August 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 August 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Operating lease commitments disclosed as at 31 July 2019 amounted to R414 million. On adoption of IFRS 16, these existing operating lease commitments, excluding short-term and low-value commitments, have now been recognised as right-of-use assets and obligations to make lease payments in the statement of financial position. This has resulted in an increase in current and non-current liabilities, and a corresponding increase in non-current assets of R367 million as at 1 August 2019. The total adjustment to retained earnings as at 1 August 2019, due to previously recognised operating lease straight-lining reserves at 31 July 2019, was R30 million.

# NOTES TO THE SUMMARISED **CONSOLIDATED** **FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 5. **NEW STANDARDS AND INTERPRETATIONS** continued

### *COVID-19-related rent concessions – Amendments to IFRS 16*

As a result of the COVID-19 pandemic rent concessions were granted to the Group in the form of payment holidays and deferral of lease of payments for a period of time, followed by increased rent payments in future periods. The Group has not made use of the optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification and accordingly, the modification guidance within IFRS 16 was applied to such rent concessions.

### *IFRIC 23*

IFRIC 23 and the IFRIC agenda decision in relation to the presentation of liabilities or assets related to uncertain tax treatments in September 2019 respectively clarifies the application of the recognition and measurement requirements in IAS 12 *Income Taxes* and the presentation requirements in IAS 1 Presentation of Financial Statements when there is uncertainty over income tax treatments.

No additional current or deferred tax liabilities were recognised as a result of IFRIC 23, nor were there any reclassification of previously recognised amounts.

## 5.2 **Standards issued but not yet effective**

Certain new accounting standards and interpretations have been published that are not effective for 31 July 2020 reporting periods. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## 5.3 **Standards and interpretations early adopted**

The Group has chosen not to early adopt any new standards or interpretations.

## 6. **RESTATEMENT OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS**

During the current year, management identified the following matters which were incorrectly accounted for or presented in prior periods:

- Vendors for acquisition being classified as equity as opposed to debt (6.1);
- Net vs gross and timing of revenue recognition (6.2);
- Timing of the recognition of provisions (6.3);
- Incorrect offsetting of prepaid expenses and contract liabilities (6.4);
- Deferred tax liability not eliminated on consolidation (6.5);
- Finance lease receivables not classified appropriately between its current and non-current portions (6.6); and
- Inappropriate classifications on the consolidated statement of financial position (6.7).

The 2019 financial statements and the consolidated statement of financial position as at 1 August 2018 have been restated to correct the prior period errors.

A brief explanation of each category of error is provided below, following which an analysis is included of the financial impact on the affected financial statement line items:

### 6.1 **VFA classification**

In prior years the Group had made acquisitions of businesses through which a portion of the consideration was contingent with the Group having to deliver a number of EOH Holdings' shares to the previous owners based on profit warranties. The Group had split the classification between an equity and a liability portion. The equity portion was not subsequently remeasured and the liability was remeasured at each reporting date to fair value. The previous classification as equity was incorrect and the entire amount should have been classified as a liability. Had the classification been correct as a liability, the fair value movements in prior years would have been processed through the statement of profit or loss and accumulated in retained earnings. The shares to be issued to vendors, within equity was overstated by R744 million as at 1 August 2018 and by R338 million as at 31 July 2019. Retained earnings was understated by the same amount respectively.

## 6.2 Revenue

### *Principal versus agent*

The Group had adopted IFRS 15 *Revenue from Contracts with Customers* (IFRS 15) in the prior year. IFRS 15 requires that the Group shall determine whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by another party (i.e. the Group is an agent). There were a number of revenue transactions, for which the Group would have been considered to be an agent, using information available in the prior year, where such revenue had been incorrectly recognised on a gross basis in the prior year. This incorrect application of the accounting principles in the prior year has been adjusted as a prior period error through the reversal of revenue and cost of sales and only recognising the margin as revenue. There is no impact on gross profit, loss before tax, loss after tax and retained earnings for the prior year.

### *Revenue and costs recognised in advance*

Previously one of the business units within the Group had revenue contracts with customers where revenue had been recognised erroneously in advance, with the associated costs to complete the projects also erroneously recognised. This resulted in an overstatement of revenue and cost of sales in the prior year of R64 million. The adjustment has been accounted for as a prior period error, resulting in a decrease in revenue and costs of sales. There is no impact on gross profit, loss before tax, loss after tax and retained earnings for the prior year.

## 6.3 Timing of recognition of provision

In the prior year, the Group had raised a provision for the payment of pay-as-you-earn (PAYE), which arose in one of the subsidiaries. The Group had further increased such provision in the first half of the current year. However, the Group has identified that a portion of the increase in the provision recognised during the first half of the current year should have been recognised at the end of the previous year. Recognition of the additional provision has been accounted for as a prior period error, resulting in an increase in liabilities as well as an increase in the expenses and a decrease in retained earnings for the previous year.

## 6.4 Incorrect accounting of prepaid expenses

In the prior year expenses paid upfront to suppliers on licensing and maintenance contracts were incorrectly offset against contract liabilities within trade and other payables. Such prepaid expenses should have been recognised as prepaid expenses within trade and other receivables. This resulted in an understatement of trade and other receivables, assets held for sale, trade and other payables, and liabilities directly associated with assets held for sale, with no impact on total equity.

## 6.5 Deferred tax on fair value adjustments

In the prior year, an entity within the Group incorrectly raised a deferred tax liability of R83 million on fair value adjustments on shares within the Group. This resulted in an overstatement of the deferred tax liability and an understatement of other reserves and total equity in the prior year by R83 million.

## 6.6 Finance lease receivables split between current and non-current assets

In the prior year, the current portion of finance lease receivables of R73 million was incorrectly shown under non-current assets in the statement of financial position and the non-current portion of R107 million was incorrectly shown under current assets. This resulted in current assets being overstated by R34 million and non-current assets being understated by the same amount. The adjustment has been accounted for as a prior period error. The restatement is contained within the finance lease receivables category only and accordingly is not shown in the tables below.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 6. RESTATEMENT OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

### 6.7 Reclassifications

The provision for PAYE raised in the prior year was classified as a payroll accrual and shown within trade and other payables in the statement of financial position. This prior year provision has now been reclassified from trade and other payables to provisions on the face of the statement of financial position.

Deferred income (contract liabilities) was previously shown as a separate line on the face of the statement of financial position and has now been reclassified to be shown within trade and other payables on the face of the statement of financial position.

In the prior year, there was a transfer between other reserves and retained earnings/(accumulated loss) of R111 million. Such transfer in the prior year has now been reversed to be consistent with the current year IFRS 2 treatment of not releasing reserves to retained earnings for expired, unexercised options. There is no impact on total equity.

The errors have been corrected by restating each of the affected financial statement line items for the prior periods as follows:

#### Statement of financial position (extract) as at 1 August 2018

Figures in Rand thousand	CORRECTION OF PRIOR PERIOD ERRORS						Restated 1 August 2018
	31 July 2018	VFA classification	Timing of recognition of provision	Prepaid expenses correction	Deferred tax	Reclassifications	
Retained earnings	(1 002 714)	(743 779)	-	-	-	-	(1 746 493)
Shares to be issued to vendors	(809 975)	743 779	-	-	-	-	(66 196)
<b>Total equity</b>	<b>(5 936 822)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5 936 822)</b>

#### Statement of financial position (extract) as at 31 July 2019

Figures in Rand thousand	CORRECTION OF PRIOR PERIOD ERRORS						Restated 31 July 2019
	31 July 2019	VFA classification	Timing of recognition of provision	Prepaid expenses correction	Deferred tax	Reclassifications	
Trade and other receivables	3 164 150	-	-	189 821	-	-	3 353 971
Deferred taxation (liability)	(389 416)	-	-	-	83 499	-	(305 917)
Trade and other payables	(3 006 403)	-	-	(189 821)	-	(107 017)	(3 303 241)
Provisions	(173 399)	-	(75 096)	-	-	(161 932)	(410 427)
Deferred income	(268 949)	-	-	-	-	268 949	-
<b>Net assets</b>	<b>1 956 697</b>	<b>-</b>	<b>(75 096)</b>	<b>-</b>	<b>83 499</b>	<b>-</b>	<b>1 965 100</b>
Accumulated loss	3 230 192	(338 476)	75 096	-	-	111 184	3 077 996
Other reserves	(547 914)	-	-	-	(83 499)	(111 184)	(742 597)
Shares to be issued to vendors	(358 733)	338 476	-	-	-	-	(20 257)
<b>Total equity</b>	<b>(1 956 697)</b>	<b>-</b>	<b>75 096</b>	<b>-</b>	<b>(83 499)</b>	<b>-</b>	<b>(1 965 100)</b>

**Statement of profit or loss and other comprehensive income (extract) for the year ended 31 July 2019**

Figures in Rand thousand	CORRECTION OF PRIOR PERIOD ERRORS					Restated 31 July 2019
	31 July 2019	Revenue (principal versus agent)	Revenue and costs recognised in advance	Timing of recognition of provision	Re-presented as discontinued operations* (note 10)	
<b>Continuing operations</b>						
Revenue	11 791 070	(359 742)	(64 357)	-	(620 934)	10 746 037
Cost of sales	(9 421 633)	359 742	64 357	-	18 597	(8 978 937)
<b>Gross profit</b>	<b>2 369 437</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(602 337)</b>	<b>1 767 100</b>
Net financial asset impairment losses	(606 384)	-	-	-	-	(606 384)
Operating expenses	(5 136 540)	-	-	(75 096)	350 876	(4 860 760)
<b>Operating loss before interest and equity-accounted loss</b>	<b>(3 373 487)</b>	<b>-</b>	<b>-</b>	<b>(75 096)</b>	<b>(251 461)</b>	<b>(3 700 044)</b>
Investment income	32 329	-	-	-	(7 773)	24 556
Share of equity-accounted loss	(9 814)	-	-	-	1 860	(7 954)
Finance costs	(334 949)	-	-	-	1 231	(333 718)
<b>Loss before taxation</b>	<b>(3 685 921)</b>	<b>-</b>	<b>-</b>	<b>(75 096)</b>	<b>(256 143)</b>	<b>(4 017 160)</b>
Taxation	(324 141)	-	-	-	115 954	(208 187)
<b>Loss for the year from continuing operations</b>	<b>(4 010 062)</b>	<b>-</b>	<b>-</b>	<b>(75 096)</b>	<b>(140 189)</b>	<b>(4 225 347)</b>
<b>Loss for the year from discontinued operations</b>	<b>(861 454)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>140 189</b>	<b>(721 265)</b>
<b>Loss for the year</b>	<b>(4 871 516)</b>	<b>-</b>	<b>-</b>	<b>(75 096)</b>	<b>-</b>	<b>(4 946 612)</b>
Other comprehensive income	(3 451)	-	-	-	-	(3 451)
<b>Total comprehensive loss for the year</b>	<b>(4 874 967)</b>	<b>-</b>	<b>-</b>	<b>(75 096)</b>	<b>-</b>	<b>(4 950 063)</b>

\* Integrators of Systems Technology Proprietary Limited was classified as a discontinued operation in 2019 and has been classified as a discontinued operation in the current year as well. In 2019, however, the results were not shown in discontinued operations and was rather shown incorrectly in continuing operations. This has been corrected by restating the prior year continuing and discontinued numbers.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 6. RESTATEMENT OF CONSOLIDATED ANNUAL FINANCIAL STATEMENTS continued

Figures in Rand thousand	31 July 2019	Restated 31 July 2019
<b>(Loss)/profit attributable to:</b>		
Owners of EOH Holdings Limited	(4 874 052)	(4 949 147)
Non-controlling interests	2 535	2 535
<b>Total</b>	<b>(4 871 517)</b>	<b>(4 946 612)</b>
<b>Total comprehensive (loss)/income attributable to:</b>		
Owners of EOH Holdings Limited	(4 877 503)	(4 952 598)
Non-controlling interests	2 535	2 535
<b>Total</b>	<b>(4 874 968)</b>	<b>(4 950 063)</b>
<b>From continuing and discontinued operations (cents)</b>		
Loss per share	(2 995)	(3 041)
Diluted loss per share	(2 995)	(3 041)
Headline loss per share	(1 681)	(1 751)
Diluted headline loss per share	(1 681)	(1 751)
<b>From continuing operations (cents)</b>		
Loss per share	(2 464)	(2 597)
Diluted loss per share	(2 464)	(2 597)
Headline loss per share	(1 352)	(1 504)
Diluted headline loss per share	(1 352)	(1 504)

The restatement adjustments are all non-cash adjustments and therefore do not impact cash generated before working capital changes or any other line items on the consolidated statement of cash flows.



## 7. REVENUE

### Disaggregated revenue

Figures in Rand thousand	2020	Restated*# 2019
<b>Revenue by sector</b>		
Public sector	21%	18%
Private sector	79%	82%
<b>Total</b>	<b>100%</b>	100%
<b>Major revenue types**</b>		
Hardware sales	1 075 631	1 608 551
Services	9 311 943	12 040 194
Software/licence contracts	816 376	1 026 719
Rentals***	72 753	273 836
<b>Total</b>	<b>11 276 703</b>	14 949 300
<b>Timing of revenue recognition</b>		
Goods or services transferred to customers:		
– at a point in time	1 468 942	2 251 074
– over time	9 807 761	12 698 226
<b>Total</b>	<b>11 276 703</b>	14 949 300
<i>Continuing operations</i>	<b>8 690 350</b>	10 746 037
<i>Discontinued operations</i>	<b>2 586 353</b>	4 203 263
<b>Total</b>	<b>11 276 703</b>	14 949 300

\* Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2020.

# Refer to note 6 – Restatement of consolidated annual financial statements.

\*\* In the current year revenue has been disaggregated into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The disaggregation for the prior year has been updated to align to the current year disaggregation.

\*\*\* Rentals recognised are excluded from revenue from contracts with customers and are accounted for under IFRS 16.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 7. REVENUE continued

Figures in Rand thousand	2020	Restated* 2019
<b>Contract balances</b>		
Contract assets	429 689	644 937
Contract liabilities	(348 014)	(391 937)
<b>Total</b>	<b>81 675</b>	253 000

\* Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2020.

Contract assets primarily relate to the Group's rights to consideration for work completed but not billed at the reporting date for mostly services contracts.

Contract assets are transferred to receivables when the rights become unconditional, which usually occurs when the Group issues an invoice to the customer.

Contract liabilities primarily relate to the advance consideration received from customers for services and maintenance contracts. Revenue is recognised from the contract liability amounts as and when services are delivered and related performance obligations satisfied.

Significant changes in the contract assets and the contract liabilities balances during the year are as follows:

Figures in Rand thousand	2020	2019
<b>Contract assets</b>		
Contract assets at the beginning of the year	644 937	799 768
Net decrease in contract assets for the period	(150 998)	(119 508)
Impairment allowance	(64 250)	(35 323)
<b>Contract assets at the end of the year</b>	<b>429 689</b>	644 937
<b>Contract liabilities</b>		
Contract liabilities at the beginning of the year	391 937	422 937
Net increase in contract liabilities for the period	112 676	39 028
Liabilities directly associated with assets held for sale	(156 599)	(70 028)
<b>Contract liabilities at the end of the year</b>	<b>348 014</b>	391 937
<b>Contract assets</b>		
Unbilled revenue	554 284	738 773
Allowance for impairment	(124 595)	(93 836)
<b>Net contract assets</b>	<b>429 689</b>	644 937

## 7. REVENUE continued

### Performance obligations

Nature of goods and services

The following table provides an explanation of the Group's performance obligations:

Revenue type	Recognition drive	Transfer of control	Measurement of transaction price	Duration of contract
Hardware sales	Upon delivery	At a point in time	Contracted amounts	<1 year
Services	Monthly/costs incurred	Over time	Contracted amounts	>1 year
Software/licence contracts	Agent – upon delivery Principal – monthly	Agent – at a point in time Principal – over time	Contracted amounts	>1 year
Rentals	Monthly rentals	Over time	Contracted amounts	>1 year

The Group has applied the practical expedient allowed for contracts expected to be less than one year. The Group is not separating the significant financing component out of the transaction price.

### Remaining performance obligations

The following table includes revenue to be recognised in future related to performance obligations that are unsatisfied (or partially satisfied):

Figures in Rand thousand	2020	2019
Within one year	89 632	2 049 564
More than one year	204	73 290
<b>Total</b>	<b>89 836</b>	<b>2 122 854</b>

The performance obligations expected to be recognised in more than one year relate to maintenance, software, managed and services contracts that is to be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year.

Where revenue is recognised over time on the costs incurred method, estimates are made to the total budgeted cost.

Significant judgement was applied in assessing whether the Group is an agent or principal in the software/licence contracts and hardware sales.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 8. HEADLINE LOSS PER SHARE

Figures in Rand thousand	2020	Restated** 2019
<b>Headline loss per share and diluted headline loss per share</b>		
Headline loss from continuing operations (R'000)	<b>(851 781)</b>	(2 447 129)
Weighted average number of shares in issue ('000)	<b>168 635</b>	162 742
Headline and diluted loss per share from continuing operations (cents)	<b>(505)</b>	(1 504)
Headline loss from continuing and discontinued operations (R'000)	<b>(834 199)</b>	(2 849 115)
Weighted average number of shares in issue ('000)	<b>168 635</b>	162 742
Headline and diluted loss per share from continuing and discontinued operations (cents)	<b>(495)</b>	(1 751)
<b>Reconciliation between earnings, headline earnings and diluted headline earnings from continuing and discontinued operations</b>		
Loss attributable to owners of EOH Holdings Limited	<b>(1 620 721)</b>	(4 949 147)
Adjusted for:		
(Profit)/loss on disposal of property, plant and equipment	<b>(37 032)</b>	34 761
Loss/(profit) on disposal of subsidiaries sold	<b>300 707</b>	(155 629)
Impairment of goodwill	<b>413 094</b>	1 855 341
Impairment of equity-accounted investments	<b>81 605</b>	267 905
Impairment of intangible assets and property, plant and equipment	<b>27 776</b>	135 594
Total tax effects on adjustments	<b>518</b>	(37 884)
Total non-controlling interest effects on adjustments	<b>(146)</b>	(56)
<b>Headline loss from continuing and discontinued operations</b>	<b>(834 199)</b>	(2 849 115)

\* Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2020.

\*\* The impact of shares to be issued to vendors, share options and EOH A shares has been excluded from the weighted average diluted number of shares as they would be anti-dilutive.

# Restated for the total tax and non-controlling interest effects on adjustments. This resulted in a 24 cents per share increase in the headline loss per share from continuing and discontinued operations.

## 9. NET FINANCIAL ASSET IMPAIRMENT LOSSES

Impairment losses on financial assets recognised in profit or loss from continuing operations were as follows:

Figures in Rand thousand	2020	2019
Impairment loss on trade and other receivables	<b>190 170</b>	88 206
Impairment loss on other financial assets	<b>68 973</b>	433 455
Impairment loss on contract assets	<b>64 250</b>	35 323
Impairment losses on cash and cash equivalents	<b>–</b>	50 309
Impairment reversal on finance lease receivables	<b>(2 681)</b>	(909)
	<b>320 712</b>	606 384

## 10. DISCONTINUED OPERATIONS

### Identification and classification of discontinued operations

There were a number of businesses that were approved for sale at 31 July 2020, and for which the sale is expected to be completed within 12 months from the reporting date, as well as businesses that were already sold during the current and previous reporting periods that have met the requirements to be presented as discontinued operations and have accordingly been presented as such.

Judgement was applied in determining whether a component is a discontinued operation by assessing whether it represents a separate major line of business or geographical area of operations or is part of a single plan to dispose of a separate major line of business or geographical area of operations.

The Group's intention to dispose of these non-core assets triggered an initial impairment assessment on the underlying assets at 31 July 2020, and the resulting impairment was allocated to the identified disposal groups (refer to note 12 – Goodwill).

Figures in Rand thousand	2020	Restated* 2019
Revenue	2 586 353	4 203 263
Cost of sales	(1 913 847)	(3 038 965)
<b>Gross profit</b>	<b>672 506</b>	1 164 298
Net financial asset impairment losses	(11 607)	(372 133)
Remeasurement to fair value less costs to sell	(188 844)	(628 167)
(Loss)/gain on disposal	(210 231)	329 603
Other operating expenses	(586 650)	(1 054 395)
<b>Operating loss before interest and equity-accounted losses</b>	<b>(324 826)</b>	(560 794)
Investment income	13 299	15 101
Share of equity-accounted profits/(losses)	10 034	(12 946)
Finance costs	(7 325)	(5 850)
<b>Loss before taxation</b>	<b>(308 818)</b>	(564 489)
Taxation	(55 676)	(156 776)
<b>Loss for the year from discontinued operations</b>	<b>(364 494)</b>	(721 265)
<b>Attributable to:</b>		
Owners of EOH Holdings Limited	(360 577)	(723 325)
Non-controlling interests	(3 917)	2 060
<b>Loss per share (cents)</b>		
Loss per share from discontinued operations	(214)	(444)
Diluted loss per share from discontinued operations	(214)	(444)
<b>Net cash flows in relation to discontinued operations:</b>		
Net decrease in cash and cash equivalents	(58 529)	(38 850)

\* Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2020.

Profit before taxation before including the loss/gain on disposal and remeasurement to fair value less costs to sell was R90 257 (2019: loss of R265 925).

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 11. PROPERTY, PLANT, EQUIPMENT, RIGHT-OF-USE ASSETS AND INTANGIBLE ASSETS

The Group acquired property, plant and equipment at a value of R176 million (2019: R226 million) and intangible assets at a value of R187 million (2019: R186 million). The Group disposed of PPE with a carrying value of R144 million (2019: R73 million) and intangible assets with a carrying value of R74 million (2019: R157 million). Included in property, plant and equipment is R367 million capitalised as right-of-use assets under IFRS 16, at 1 August 2019 and a further R34 million capitalised subsequently.

An impairment charge of R26 million (2019: R136 million) against intangible assets has been recognised at year-end.

## 12. GOODWILL

Figures in Rand thousand	2020	2019
Cost	3 657 801	4 358 312
Accumulated impairments	(1 484 715)	(103 031)
<b>Opening balance</b>	<b>2 173 086</b>	4 255 281
Acquired in business combinations	–	70 877
Foreign currency translation	8 975	27 874
Disposals	(248 149)	(325 605)
Impairments: discontinued operations	(147 870)	(506 762)
Impairments: continuing operations	(265 224)	(1 348 579)
Closing balance before assets held for sale	1 520 818	2 173 086
Cost	3 225 516	3 657 801
Accumulated impairments	(1 704 698)	(1 484 715)
Assets held for sale (note 14)	(604 075)	(322 232)
<b>Closing balance</b>	<b>916 743</b>	1 850 854

A number of economic and operational events during the year ended 31 July 2020 had a negative impact on EOH's market capitalisation and certain underlying businesses. This has resulted in a material impact on the carrying value of goodwill. The Group's annual review of goodwill highlighted impairments of R413 million (R110 million in the iOCO segment, R243 million in the NEXTEC segment and R60 million in the IP segment).

### iOCO

Impairments in iOCO were largely driven by lost or unrenewed contracts, delayed projects with customers as a result of ongoing challenging market conditions, or businesses that have been rendered non-operational during the year.

### NEXTEC

The largest contributor to the impairment of goodwill in NEXTEC is the TCD cash generating unit (CGU), which incurred an impairment of R93 million due to the effects of changes in clinical trials legislation which led to a loss of customers and consequent restructuring of the business. The PIA Solar CGU incurred a R49 million impairment to goodwill relating to renewable energy loss-making contracts. The PCI CGU incurred a R39 million impairment, primarily due to continued material delays in the commencement or award of projects in the water sector. Other impairments in the segment related primarily to assets held for sale, the values for which were negatively impacted by challenging market conditions, particularly in the water and rail sector, which impacted infrastructure-focused businesses that have been disposed of or are in the process of being sold.

## **IP**

The impairment of goodwill amounting to R60 million in the IP segment relates to key long-term contract renewal challenges. Some of the CGU's within IP were particularly hard hit by the effects of the COVID-19 lockdown due to their B2B2C business lines.

### **Prior year impairments**

Prior year goodwill impairments amounted to R1 855 million (R613 million in the iOCO segment and R1 242 million in the NEXTEC segment). Goodwill amounting to R565 million across a number of cash-generating units was impaired due to project complexities, supplier issues, slow debtor recoveries, and underperformance to budgets. Impairments of R375 million were driven by lost or delayed contracts and projects due to the reputational damage sustained by EOH in that year. Court rulings and legislation changes issued in the prior year negatively impacted cash-generating units providing employee services and clinical trials, contributing to impairments of R212 million. Cash-generating units in the Middle East and Europe sustained impairments of R114 million owing to weaker cash conversion and project delivery difficulties. Impairments of R122 million relate to non-core CGUs that were held for sale and were written down to fair value less costs of disposal. The balance of impairments sustained in the prior year related mainly to the prevailing challenging market conditions.

### **Impairment testing**

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units. The recoverable amount of these cash-generating units was determined based on value-in-use calculations, discounting the future cash flows expected to be generated from the continuing operations of each cash-generating unit. Impairment tests on assets held for sale were based on fair value less costs of disposal.

A pre-tax discount rate was used in discounting the projected cash flows depending on the nature of business and operating markets (including country specific risk factors). These calculations use cash flow projections based on financial budgets and forecasts for three years and in some instances up to five years, as approved by the Board of Directors, which are based on assumptions of the business, industry and economic growth. A perpetuity growth rate is calculated using long term growth rates, this is further applied based on conservative historical market trends and operating markets (including country specific risk factors).

With the Group undergoing significant re-organisation and corporate structure simplification, a number of businesses were integrated during the year, which resulted in movements in goodwill attributed to certain CGU's. The Glacier CGU was combined with the Compute CGU, the Synergy and Softworks CGU's were combined and the XDS, MIE and HTCSA CGUs were integrated to operate as one CGU under the Infosys name. Faculty Training Institute, Proserv, Siyanqoba, and Siyaya were previously recognised as individual CGUs. During the current year these have been merged to form a single unit, Learning and Development. The performance of these assets are now being collectively managed, measured and reported on by a single executive team, sharing the same markets and offering their services collectively to prospective customers.

### **Impacts of COVID-19 on the goodwill financial impairment testing**

In determining the budgets and forecasts, the management team has taken into consideration the impact of COVID-19 on the underlying cash-generating units' performance and adjusted the revenue growth forecasts and adjusted EBITDA margins where applicable.

# NOTES TO THE SUMMARISED **CONSOLIDATED** **FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 12. **GOODWILL** continued

### **Key assumptions used in discounted cash flow projection calculations**

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on past experience and both external and internal data.

Changes in key assumptions, as well as the actual cash flows achieved against forecasts, may result in further impairments to the cash-generating units impaired during the year. The forecast cash flows of these cash-generating units are reliant on a certain level of anticipated improvement within the forecast period.

The assumptions below have been applied to calculate the recoverable amount of cash-generating units based on value-in-use calculations. The discount rates used in the discounted cash flow models are calculated using the principles of the Capital Asset Pricing Model, taking into account current market conditions.

The following key assumptions were used for the value in use calculations:

- Growth rates: the Group used growth rates to extrapolate revenues for the two years beyond the budget period. These growth rates were based on the different industries the cash generating units operate in, as well as management's views on the growth prospects of the businesses. The higher growth rates applied to certain CGU's relate to businesses that had shown growth despite the COVID-19 impacted economic conditions (the Impressions digital signatures business), or CGU's with low budgeted 2021 revenue bases due to the expected negative impacts of COVID-19, which are anticipated to grow over the forecast periods to historically achieved or improved levels (for example the Learning and Development CGU, which is also undergoing an active business optimization process). In the prior year, the higher growth rates were driven by proven historic trends in revenue growth (for example the Allos CGU).
- Discount rates: discount rates used reflect both time value of money and other specific risks relating to the relevant cash generating unit;
- Adjusted EBITDA margins in the following ranges: iOCO (3.4%-45.3%), NEXTEC (6.4%-19.8%) (prior year: iOCO (1.6%-52.8%), NEXTEC (5.5%-25.2%), (IP: 3.2%-39.4%)); and
- Perpetuity growth rates: a perpetuity growth rate of 4% (prior year: 3.9%) has been used for the Group.



Figures in Rand thousand	2020		
	Goodwill closing balance	Pre-tax discount rates	Growth rates
<b>iOCO</b>			
Compute	211 899	23.4%	7.8%
Managed Services	80 793	23.9%	5.8%
Symplexity	50 123	23.6%	0.8%
Softworks	39 345	22.1%	7.4%
Employee Benefits	38 162	23.4%	3.2%
Microsoft	35 707	22.5%	11.4%
ESA	31 773	25.6%	(2.3%)
Network Solutions	31 163	22.1%	4.6%
Legal Services	29 177	23.5%	2.9%
Coastal	22 342	22.9%	13.5%
IOT	14 814	25.6%	6.0%
Freethinking	14 081	22.5%	14.4%
XTND	13 333	23.9%	6.9%
Impressions	12 240	24.6%	37.2%
Connection 42	12 016	23.7%	9.4%
Other	55 305	n/a	n/a
<b>NEXTEC</b>			
Learning and Development	93 488	25.1%	17.7%
JOAT	59 463	27.3%	10.6%
SCAN RF	28 155	25.6%	(2.2%)
Energy Insight	12 261	24.9%	17.6%
Other	31 103	n/a	n/a

# NOTES TO THE SUMMARISED **CONSOLIDATED** **FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 12. **GOODWILL** continued

**Key assumptions used in discounted cash flow projection calculations** continued

Figures in Rand thousand	2019		
	Goodwill closing balance	Pre-tax discount rates	Growth rates
<b>iOCO</b>			
Compute	176 569	20.1%	3.9%
LSD	103 684	24.1%	2.4%
Managed Services	80 798	21.6%	3.9%
Symplexity	60 123	19.0%	8.5%
Employee Benefits	58 162	19.7%	3.9%
Microsoft	35 707	21.6%	3.9%
Glacier	35 330	20.2%	3.9%
Synergy	33 778	19.6%	5.0%
Allos	33 604	21.4%	19.7%
ESA	31 773	21.6%	3.9%
Network Solutions	31 163	20.0%	6.1%
Legal Services	29 177	19.9%	3.9%
Coastal	22 342	20.8%	3.9%
CA	20 771	19.9%	3.9%
IOT	14 814	19.9%	3.9%
Freethinking	14 081	20.0%	4.9%
XTND	13 333	22.0%	3.9%
MPC Recruitment	13 126	21.2%	3.9%
Impressions	12 240	20.3%	3.9%
Connection 42	12 016	20.2%	3.2%
Oracle	11 671	20.2%	3.9%
Other	60 733	n/a	n/a
<b>NEXTEC</b>			
TCD	92 953	19.6%	3.9%
JOAT	59 463	23.1%	3.9%
PIA Solar	48 530	26.4%	3.9%
PCI Africa	38 699	22.7%	5.0%
SCAN RF	28 155	21.7%	10.0%
Change Logic	24 967	20.3%	3.9%
Impact HR	15 808	20.3%	3.9%
Gibela	14 124	16.3%	3.9%
Energy Insight	12 261	21.6%	3.9%
Other	26 388	n/a	n/a
<b>IP</b>			
Sybrin	237 467	19.8%	11.2%
MIE	139 926	20.5%	12.1%
Syntell	98 601	22.3%	23.0%
XDS	97 317	20.8%	10.0%
HTCSA	11 200	20.4%	3.9%

### Sensitivity analysis on value in use

In performing the impairment test for goodwill, EOH considered the sensitivity of the cash-generating units to changes in assumptions around key value drivers. The key value drivers for the cash-generating units are adjusted EBITDA margins, discount rates and revenue growth assumptions. The cash-generating units not included in the table below have sufficient headroom and are not sensitive to the changes applied to the assumptions. However, a decrease in the adjusted EBITDA margin of 2.5 percentage points (prior year: 1 percentage point) resulted in the following cash-generating units being impaired by the values listed:

Figures in Rand thousand	2020	2019
<b>iOCO</b>		
Impressions	8 405	n/a
Compute	3 110	n/a
<b>NEXTEC</b>		
Impact Human Resources	16 258	n/a
Legal Services	6 412	n/a
GLS Consulting	3 280	n/a
Hospitality Professionals SA	n/a	681

*n/a – These cash-generating units have sufficient headroom and were not materially impacted by the sensitivity analysis performed.*

### Assets held for sale

The Group tested its held for sale assets, for impairment in line with IFRS 5. The recoverable amount was determined as the fair value less costs of disposal which was then compared to the carrying value of the CGU (including its allocated goodwill balance). The fair value was determined primarily with reference to advanced offers from potential acquirers less estimated disposal costs. In assessing sensitivity, the advanced offers were adjusted down by 5% and in all cases sufficient headroom remained.

In 2019, the fair values of the Proserv and Siyaya CGUs were determined using a discounted cashflow approach applying the following pre-tax discount rates and average growth rates respectively: Proserv (21.0% and 3.9%) and Siyaya (20.7% and 3.9%). Sufficient headroom existed after applying the same sensitivities applied to the prior year value-in-use calculations and it was found that these CGUs were not sensitive to changes in key assumptions.

# NOTES TO THE SUMMARISED **CONSOLIDATED** **FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 12. **GOODWILL** continued

	2020
Assets held for sale	<b>Goodwill closing balance</b>
Figures in Rand thousand	
<b>IP</b>	
Infosys	248 443
Sybrin	242 630
Syntell	38 601
<b>NEXTEC</b>	
DENIS	74 401
	2019
Assets held for sale	Goodwill closing balance
Figures in Rand thousand	
<b>iOCO</b>	
Vilt	59 251
Dataworld	28 027
<b>NEXTEC</b>	
DENIS	94 402
Siyaya	47 377
Enabledmed	23 617
Proserv	23 138
MSO	22 871
Siyanqoba	15 345
Other	8 204

### 13. EQUITY-ACCOUNTED INVESTMENTS

Figures in Rand thousand	2020	Restated* 2019
Opening balance	300 535	530 861
Deemed acquisition of associate	7 254	190 454
Foreign currency translation	–	(83 304)
Foreign currency translation recognised in profit or loss	30 173	94 547
Disposals	(245 950)	(146 460)
Capital contribution	–	3 243
Impairments: continuing operations	(57 175)	(146 500)
Impairments: discontinued operations	(24 430)	(121 405)
Share of equity-accounted losses: continuing operations	(565)	(7 954)
Share of equity-accounted profit/(losses): discontinued operations	7 847	(12 947)
Closing balance before assets held for sale	17 689	300 535
Assets held for sale (note 14)	(11 000)	(72 468)
<b>Closing balance</b>	<b>6 689</b>	<b>228 067</b>

\* Comparative figures previously reported have been amended to reflect continuing operations for the year ended 31 July 2020.

Impaired equity-accounted investments form part of the iOCO segment. The recoverable amount of equity-accounted investments classified as held for sale were determined based on their fair value less costs of disposal. Fair value is based on offers received.

Acron Group, Bessertec Group, Construction Computer Software Proprietary Limited, aSAY Group and Conso'System Consulting SARL were sold during the current financial year.

The equity-accounted investments are as follows:

Figures in Rand thousand	2020	2019
Construction Computer Software Proprietary Limited	–	190 453
aSAY Group	–	24 538
Cözümevi	–	13 071
Change Logic Proprietary Limited	6 689	–
Other – continuing operations	–	5
<b>Total</b>	<b>6 689</b>	<b>228 067</b>
<b>Equity-accounted investments held for sale</b>		
Virtuoso Consulting	7 000	64 175
Bessertec Group	–	896
Cözümevi	4 000	–
Other assets held for sale	–	7 397
	<b>11 000</b>	<b>72 468</b>

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 13. EQUITY-ACCOUNTED INVESTMENTS continued

EOH share of losses in Mondia Tech FZ-LLC for 2020 financial year is R0.4 million. This share of losses in Mondia Tech FZ-LLC exceeds the EOH interest in the equity-accounted investment, resulting in EOH not recognising further share of losses.

The Group does not guarantee losses of equity-accounted investments.

Figures in Rand thousand	2020	2019
Equity-accounted joint venture investments	11 000	110 082
Equity-accounted associate investments	6 689	190 453
Equity-accounted investments held for sale (note 14)	(11 000)	(72 468)
	6 689	228 067
Share of losses of equity-accounted joint venture investments	(2 177)	(6 604)
Share of profits/(losses) of equity-accounted associate investments	9 459	(14 297)
<b>Share of profits of equity-accounted investments</b>	<b>7 282</b>	<b>(20 901)</b>
<b>Aggregate information of equity-accounted investments that are not individually material:</b>		
<b>Joint venture investments</b>		
The Group's share of profit from continuing operations	–	(7 954)
The Group's share of post-tax losses from discontinued operations	(2 177)	(12 947)
Aggregate carrying amount of the Group's interests in these joint ventures	–	37 614

Refer to note 17 for details on the security provided on the loans secured through Security SPV.

### Reconciliation of the carrying amount of the interest in joint venture investments

Figures in Rand thousand	2020	Restated* 2019
Balance at beginning of the year	110 082	369 595
Foreign currency translation	–	11 753
Disposals of joint venture investments	(45 473)	–
Foreign currency translation recognised in profit or loss	30 173	–
Share of results after taxation	(2 177)	(6 604)
Capital contribution	–	3 243
Impairment loss	(81 605)	(267 905)
	11 000	110 082
Assets held for sale	(11 000)	(72 468)
<b>Balance at the end of the year</b>	<b>–</b>	<b>37 614</b>

\* Comparative figures previously reported have been amended to reflect continuing operations for the year ended 31 July 2020.

### The Group has the following material associate investments

Associate name:	Change Logic CS Proprietary Limited (Change Logic)	Construction Computer Software Proprietary Limited (CCS)
Principal activity:	IT applications and business solutions provider	IT applications and business solutions provider
Country of incorporation:	South Africa	South Africa
Effective interest in issued ordinary share capital:	40% (previously 100%)	30% (previously 100%)
Year end:	31 July 2020	31 July 2019
Effective date of change in control:	1 May 2020	31 July 2019

### Reconciliation of the carrying amount of the interest in associates

Figures in Rand thousand	2020	2019
Balance at beginning of the year	190 453	161 266
Share of results of associate after taxation	9 460	(14 297)
Foreign currency translation	–	(95 056)
Foreign currency translation recognised in profit or loss	–	94 547
Deemed acquisition of associate	7 254	190 453
Disposal	(200 478)	(146 460)
<b>Balance at the end of the year</b>	<b>6 689</b>	190 453

### Summarised financial information of material associates

EOH Mthombo Proprietary Limited disposed the remaining 30% of its interest in CCS for an amount of R143 million to RIB Limited, a subsidiary of German-listed RIB Software SE (RIB) on 1 May 2020. EOH Abantu Proprietary Limited sold 60% of its shareholding a wholly owned subsidiary, Change Logic for an amount of R11 million. EOH Abantu Proprietary Limited now retains a 40% shareholding in Change Logic and will still be able to participate in Change Logic expansion, decision making, growth and strategy. The change in control is reflected as deemed acquisition to equity investments, and a disposal of a formally recognised consolidated subsidiary.

# NOTES TO THE SUMMARISED **CONSOLIDATED** **FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 13. EQUITY-ACCOUNTED INVESTMENTS continued

Figures in Rand thousand	2020	2019
<b>Construction Computer Software Proprietary Limited</b>		
Current assets	–	115 374
Non-current assets	–	62 959
Current liabilities	–	(62 838)
Non-current liabilities	–	(1 582)
Total net assets	–	113 912
Proportion of the Group's ownership interest	–	34 174
Revenue	<b>202 045</b>	286 345
Profit from continuing operations	<b>33 145</b>	23 032
Total comprehensive income for the year	<b>33 145</b>	23 032
<b>Change Logic CS Proprietary Limited</b>		
Current assets	<b>36 499</b>	–
Non-current assets	<b>303</b>	–
Current liabilities	<b>17 979</b>	–
Non-current liabilities	<b>2 100</b>	–
Total net assets	<b>16 723</b>	–
Proportion of the Group's ownership interest	<b>6 689</b>	–
Revenue	<b>31 231</b>	–
Profit from continuing operations	<b>743</b>	–
Profit for the year	<b>743</b>	–



#### 14. ASSETS HELD FOR SALE

The Group has refined its operational structure into three distinct operating units to allow for leaner and more agile core businesses with separate capital and governance structures. On 11 December 2018, the Group announced that opportunities would be explored for the sale of certain non-core assets, of which many have been sold during the current and previous reporting period. There continues to be a number of businesses approved for sale and for which the sale is expected to be completed within 12 months from the reporting date. These businesses are classified as disposal groups held for sale and the assets and liabilities of these disposal groups have been presented as held for sale.

The major classes of assets and liabilities of the disposal groups, per reportable segment, classified as held for sale are as follows:

Figures in Rand thousand	iOCO	NEXTEC	IP	2020
<b>Assets</b>				
Property, plant and equipment	2 513	101 932	140 373	244 818
Goodwill and intangible assets	406	88 863	860 127	949 396
Equity-accounted investments	11 000	–	–	11 000
Other financial assets	–	13 811	5 060	18 871
Deferred taxation	–	21 152	9 979	31 131
Finance lease receivables	–	1 197	479	1 676
Inventories	–	3 804	19 472	23 276
Current taxation receivable	2 925	2 712	14 078	19 715
Trade and other receivables	53 547	225 513	244 680	523 740
Cash and cash equivalents	205	171 938	156 600	328 743
<b>Assets held for sale</b>	<b>70 596</b>	<b>630 922</b>	<b>1 450 848</b>	<b>2 152 366</b>
<b>Liabilities</b>				
Other financial liabilities	(12 739)	–	(16 777)	(29 516)
Lease liabilities	–	(27 834)	(56 709)	(84 543)
Deferred taxation	–	(1 389)	(30 094)	(31 483)
Current taxation payable	–	(22 364)	(15 343)	(37 707)
Trade and other payables	(51 292)	(319 702)	(279 849)	(650 843)
<b>Liabilities directly associated with assets held for sale</b>	<b>(64 031)</b>	<b>(371 289)</b>	<b>(398 772)</b>	<b>(834 092)</b>
<b>Net assets directly associated with the disposal groups</b>	<b>6 565</b>	<b>259 633</b>	<b>1 052 076</b>	<b>1 318 274</b>
<b>Cumulative amounts recognised in other comprehensive income</b>				
Foreign currency translation reserve	(933)	(45)	(20 808)	(21 786)
<b>Impairment loss for write-down to fair value less costs to sell</b>				
Continuing operations – operating expenses	(57 175)	(32 350)	–	(89 525)
Discontinued operations (note 10)	(63 108)	(65 736)	(60 000)	(188 844)
	<b>(120 283)</b>	<b>(98 086)</b>	<b>(60 000)</b>	<b>(278 369)</b>

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 14. ASSETS HELD FOR SALE continued

Figures in Rand thousand	iOCO	NEXTEC	IP	2019
<b>Assets</b>				
Property, plant and equipment	85 122	128 076	4 027	217 225
Goodwill and intangible assets	795	358 272	12 853	371 920
Equity-accounted investments	72 468	–	–	72 468
Other financial assets	–	7 710	(421)	7 289
Deferred taxation	261	24 734	2 220	27 215
Inventories	4 980	30 166	–	35 146
Current taxation receivable	575	2 584	–	3 159
Trade and other receivables	99 625	532 357	88 239	720 221
Cash and cash equivalents	47 919	221 110	41 344	310 373
<b>Assets held for sale</b>	<b>311 745</b>	<b>1 305 009</b>	<b>148 262</b>	<b>1 765 016</b>
<b>Liabilities</b>				
Other financial liabilities	(978)	(4 433)	(3 837)	(9 248)
Lease liabilities	–	–	(240)	(240)
Deferred taxation	(233)	(467)	(1 873)	(2 573)
Current taxation payable	330	(11 566)	(2 614)	(13 850)
Trade and other payables	(105 586)	(404 772)	(34 270)	(544 628)
<b>Liabilities directly associated with assets held for sale</b>	<b>(106 467)</b>	<b>(421 238)</b>	<b>(42 834)</b>	<b>(570 539)</b>
<b>Net assets directly associated with the disposal groups</b>	<b>205 278</b>	<b>883 771</b>	<b>105 428</b>	<b>1 194 477</b>
<b>Cumulative amounts recognised in other comprehensive income</b>				
Foreign currency translation reserve	4 709	2 021	(926)	5 804
<b>Impairment loss for write-down to fair value less costs to sell</b>				
Continuing operations – operating expenses	–	(22 172)	–	(22 172)
Discontinued operations (note 10)	(135 374)	(450 994)	(41 799)	(628 167)
	(135 374)	(473 166)	(41 799)	(650 339)

## 15. DISPOSAL OF SUBSIDIARIES AND EQUITY-ACCOUNTED INVESTMENTS

On 11 December 2018, the Group announced that opportunities would be explored for the sale of certain non-core assets. In line with this strategy the Group has disposed of its investments in a number of subsidiaries, associate and joint ventures during the year.

Figures in Rand thousand	Treatment before disposal	Percentage holding disposed	Date of disposal	Consideration received or receivable	Gain/(loss) on disposal
<b>Entity disposed</b>					
Clearline Group	Subsidiary	100%	1 Aug 2019	8 000	(25 772)
Enableded Group	Subsidiary	100%	1 Aug 2019	21 068	(24 039)
Moropa Site Solutions Proprietary Limited	Subsidiary	100%	1 Aug 2019	–	(5 374)
Telebo Construction Proprietary Limited	Subsidiary	100%	1 Aug 2019	3 000	(9 798)
WRP Consulting Engineers Proprietary Limited	Subsidiary	100%	1 Aug 2019	16 950	(7 877)
Bessertec Group	Joint Venture	50%	1 Aug 2019	–	7 260
TCD Dubai	Subsidiary	100%	1 Aug 2019	–	(3 708)
Healthshare Group	Subsidiary	100%	1 Sep 2019	4 000	(10 710)
D.Code Mobility Proprietary Limited	Subsidiary	100%	1 Sep 2019	3 098	(1 386)
EOH Turkey Software Services*	Subsidiary	100%	30 Sep 2019	–	255
VILT Group**	Subsidiary	100%	1 Nov 2019	64 869	(40 436)
Cool Ideas Proprietary Limited	Subsidiary	100%	30 Nov 2019	–	732
Data World Group**	Subsidiary	100%	30 Nov 2019	55 000	(40 124)
Isilumko Group	Subsidiary	100%	1 Dec 2019	25 603	(11 431)
Acron Bilsim A.S.	Joint Venture	50%	1 Dec 2019	–	(20 477)
Mehleketo Group*	Subsidiary	100%	1 Dec 2019	–	88 601
Rinedata UK Limited	Subsidiary	100%	10 Dec 2019	9 498	(4 379)
MSO International	Subsidiary	70%	31 Dec 2019	21 000	(23 688)
CSV Water Consulting Engineers Proprietary Limited*	Subsidiary	100%	31 Mar 2020	–	9 211
High Voltage Power Systems Proprietary Limited	Subsidiary	100%	31 Mar 2020	4 993	1 823
LSD Information Technology Proprietary Limited**	Subsidiary	100%	31 Mar 2020	–	(60 610)
Conso'System Consulting SARL	Joint Venture	50%	31 Mar 2020	1 791	(1 085)
aSAY Group	Joint Venture	50%	30 Apr 2020	9 413	(16 676)
CCS Group	Associate	30%	1 May 2020	157 544	(43 066)
Change Logic Proprietary Limited	Subsidiary	60%	1 May 2020	10 882	(1 675)
Arete Group	Subsidiary	100%	30 Jun 2020	–	14 236
Transaction costs					(70 514)
Net loss on disposal of subsidiaries and equity-accounted investments				416 709	(300 707)

\* Mehleketo Group, EOH Turkey Software Services and CSV Water Consulting Engineers Proprietary Limited, have been disposed of by way of liquidation.

\*\* Consideration reflected does not include extinguishment of debt on sale.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 15. DISPOSAL OF SUBSIDIARIES AND EQUITY-ACCOUNTED INVESTMENTS continued

Figures in Rand thousand	2020	2019
Cash consideration received or receivable	416 709	450 405
Less: Receivable from disposal of subsidiaries and equity-accounted investments	(82 052)	–
<b>Cash received from disposal of businesses</b>	<b>334 657</b>	450 405
Less: cash balances disposed of	(170 032)	(81 241)
<b>Cash receipt from disposal of businesses, net of cash given up</b>	<b>164 625</b>	369 164

The carrying amount of major classes of assets and liabilities, associated with subsidiaries and equity-accounted investments disposed of during the current period, are as follows:

Figures in Rand thousand	Notes	2020
<b>Assets</b>		
Property, plant and equipment		71 495
Goodwill and intangible assets		303 537
Equity-accounted investments	13	245 950
Deferred taxation		10 259
Inventories		14 950
Current taxation receivable		9 458
Trade and other receivables		630 142
Cash and cash equivalents		170 032
<b>Liabilities</b>		
Other financial liabilities	17	(244 266)
Lease liabilities		(2 764)
Trade and other payables		(547 774)

## 16. STATED CAPITAL

Figures in Rand thousand	2020	2019
<b>Stated capital</b>		
Opening balance	4 239 621	3 443 223
Shares issued for cash <sup>1</sup>	–	713 115
Shares issued as a result of the acquisition of businesses <sup>2</sup>	–	48 427
Shares issued to the Group share incentive and retention schemes <sup>3</sup>	–	1 170
Treasury shares allocated <sup>4</sup>	10 598	33 686
	<b>4 250 219</b>	4 239 621

<sup>1</sup> At fair value.

<sup>2</sup> In terms of purchase and sale agreements.

<sup>3</sup> In terms of the Group Share Scheme.

<sup>4</sup> Average price paid for treasury shares is R14.48 per share (2019: R23.70).

### Authorised

500 000 000 ordinary shares of no par value

40 000 000 EOH A shares of no par value

## Issued

Figures in Rand thousand

	2020	2019
<b>Reconciliation of the number of shares in issue</b>		
Opening balance	176 545	152 797
Shares issued as a result of the acquisition of businesses	–	1 203
Shares issued to the Group share incentive and retention schemes	–	50
Shares issued as a result of the Lebashe BBBEE transaction	–	22 495
Shares in issue at the end of the year	176 545	176 545
<b>Less:</b>		
Treasury shares held in the Group share incentive schemes	(2 341)	(2 351)
Treasury shares held by wholly owned subsidiaries of the Group that will not be cancelled	(5 548)	(5 650)
	168 656	168 544
<b>EOH A shares of no par value</b>		
<b>Reconciliation of the number of shares in issue</b>		
Opening balance	40 000	–
Shares issued as a result of the Lebashe BBBEE transaction*	–	40 000
<b>Closing balance</b>	<b>40 000</b>	<b>40 000</b>

\* The Lebashe transaction was approved by shareholders on 18 September 2018 and effectively implemented on 1 October 2018. Since the date of approval Lebashe has:

- invested R750 million in two tranches in EOH ordinary shares based on a 30-day VWAP at a 10% discount for an average share price of R33.59; and
- received 40 million unlisted EOH A shares which will be redeemed in five years on 1 October 2023 through an ordinary share issue. The A shares rank equal to an EOH ordinary share in respect of voting rights and each EOH A share will receive cash dividends in an amount equal to the value of 15% of dividends paid by EOH to ordinary shareholders. The remaining 85% of the dividend value will be accrued and redeemed through the redemption of the A shares. Despite the variability in number of EOH ordinary shares that will be issued, the obligation to Lebashe is treated as an equity transaction as the settlement will be undertaken in ordinary shares and the transaction is therefore within the scope of IFRS 2.

## Unissued

323 455 039 (2019: 323 455 039) unissued ordinary shares are under the control of the directors in terms of the provisions of the Company's Memorandum of Incorporation ("MOI").

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 17. OTHER FINANCIAL LIABILITIES

Figures in Rand thousand	2020	2019
<b>Interest-bearing liabilities</b>	<b>2 739 175</b>	2 980 602
Interest-bearing bank loans secured through Security SPV	2 267 269	2 292 881
Bank overdrafts	115 253	–
Project finance loan**	135 080	127 051
Unsecured interest-bearing bank loans	215 247	548 168
Interest-bearing bank loans secured by fixed property	6 326	12 502
<b>Non-interest-bearing liabilities</b>	<b>44 043</b>	352 603
Vendors for acquisition	44 043	303 313
Other non-interest-bearing liabilities	–	49 290
Liabilities directly associated with assets held for sale (note 14)	(29 516)	(9 248)
	<b>2 753 702</b>	3 323 957
Non-current financial liabilities	5 674	2 255 825
Current financial liabilities	2 748 028	1 068 132
	<b>2 753 702</b>	3 323 957
<b>Reconciliation of other financial liabilities</b>		
Balance at the beginning of the year	3 333 205	4 103 996
Bank overdrafts	115 253	–
Proceeds from other financial liabilities	–	967 307
Repayment of other financial liabilities	(321 128)	(1 379 569)
Repayment of vendors for acquisitions	(75 286)	(366 413)
Disposal of subsidiaries	(244 266)	(64 406)
Net changes in fair value	3 685	33 199
Interest accrued on other financial liabilities	38 867	–
Capitalisation of debt restructuring fee	(51 028)	–
Other non-cash items	(16 084)	39 091
Closing balance before liabilities directly associated with assets held for sale	2 783 218	3 333 205
Liabilities directly associated with assets held for sale (note 14)	(29 516)	(9 248)
	<b>2 753 702</b>	3 323 957
<b>Financial instruments</b>		
Measured at amortised cost	2 709 659	3 020 644
Financial liabilities carried at fair value through profit or loss	44 043	303 313
	<b>2 753 702</b>	3 323 957
<b>Vendors for acquisition***</b>		
Current financial liabilities	44 043	303 313
	<b>44 043</b>	303 313

\*\* Ring-fenced debt.

\*\*\* R36 million of the balance was extinguished subsequent to year end, relating to MARS Holdings Proprietary Limited. Refer to note 22.

Interest-bearing bank loans are secured through a Security SPV which require that all the South African wholly owned subsidiaries of the Group provide a pledge and cession of:

- all shares in, and claims on loan account against, any member of the Group incorporated in South Africa;
- cash;
- cash equivalents;
- bank accounts;
- investments;
- claims;
- disposal proceeds;
- any other amounts, of any nature whatsoever, now or from time to time in the future owing to that Obligor by any third person arising out of any cause of action whatsoever, including, without limitation, all amounts owing or becoming payable to that Obligor by any of its debtors; and
- related rights.

South African wholly owned subsidiaries contributing more than 80% of the Group's adjusted EBITDA is pledged as required above, but not all South African subsidiaries have formally provided the required security and the process of providing the security is ongoing.

The interest-bearing bank loans secured through Security SPV comprises:

- an amortising facility at an interest rate of 3-month Johannesburg Interbank Average Rate (JIBAR) + 265 basis points;
- revolving credit facility at an interest rate of 3-month JIBAR + 220 basis points; and
- a bullet facility at an interest rate of 3-month JIBAR + 285 basis points.

From 1 April 2019 the secured lenders have charged an additional 250 basis points of default interest on top of the above fully drawn facilities.

The unsecured core debt comprises:

- Sanlam Note at an interest rate of 3-month JIBAR + 225 basis points.

The 3-month JIBAR referred to above is reset quarterly.

Refer to note 22 for subsequent events on the above loans.

## **18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES**

### **Financial risk management and fair value disclosures**

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance. Risk management is carried out centrally and management identifies, evaluates and analyses financial risks where necessary in close co-operation with the Group's operating business units. The Governance and Risk Committee oversees how management monitors compliance with the Group risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group's normal operations expose it to the following financial risks from its use of financial instruments:

- Capital risk
- Liquidity risk
- Interest risk
- Credit risk
- Currency risk

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy at 31 July 2020:

Figures in Rand thousand	Carrying amount				Fair value				
	Mandatorily at FVTPL	Amortised cost	Total	Held for sale	Balance	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>									
Cash and cash equivalents	-	974 580	974 580	(328 743)	645 837	-	-	-	-
Trade and other receivables	-	1 751 276	1 751 276	(361 515)	1 389 761	-	-	-	-
Finance lease receivables	-	124 516	124 516	(1 676)	122 840	-	-	-	-
Other financial assets	-	216 861	216 861	(18 871)	197 990	-	-	-	-
<b>Financial liabilities</b>									
Trade and other payables	-	858 743	858 743	(355 816)	502 927	-	-	-	-
Finance lease liabilities	-	360 965	360 965	(84 543)	276 422	-	-	-	-
Other financial liabilities	44 043	2 739 175	2 783 218	(29 516)	2 753 702	-	-	44 043	44 043

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy at 31 July 2019:

Figures in Rand thousand	Carrying amount				Fair value				
	Mandatorily at FVTPL	Amortised cost	Total	Held for sale	Balance	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>									
Cash and cash equivalents	-	1 358 956	1 358 956	(310 373)	1 048 583	-	-	-	-
Trade and other receivables*	-	3 024 989	3 024 989	(720 221)	2 304 768	-	-	-	-
Finance lease receivables	-	179 413	179 413	-	179 413	-	-	-	-
Other financial assets	28 332	67 285	95 617	(7 289)	88 328	-	-	28 332	28 332
<b>Financial liabilities</b>									
Trade and other payables*	-	1 393 011	1 393 011	(544 628)	848 383	-	-	-	-
Finance lease liabilities	-	57 601	57 601	(240)	57 361	-	-	-	-
Other financial liabilities	303 313	3 029 892	3 333 205	(9 248)	3 323 957	-	-	303 313	303 313

\* Comparative figures relating to held for sale amounts have been restated.

The Group does not have any financial instruments that are subject to offsetting.

All cash and cash-equivalents, short-term receivables and short-term payables carrying amounts approximate their fair values due to their short-term nature.

There have been no transfers between levels of the fair value hierarchy.



### Financial liabilities at fair value through profit or loss

Financial liabilities measured at fair value through profit or loss, in terms of the hierarchy, are classified as level 3 as the valuation techniques used are based on unobservable inputs for the liability.

### Vendors for acquisition

The balance in respect of vendors for acquisition relates to the contingent consideration where business combinations are subject to profit warranties. The profit warranties allow for a defined adjusted value to the consideration payable in the event that the warranted profit after tax is not achieved, or in the event that it is exceeded, an agreed sharing in the surplus. The fair value of the contingent arrangement is initially estimated by applying the income approach assuming that the relevant profit warrant will be achieved. Subsequent measurement uses the income approach to calculate the present value of the expected settlement payment using the latest approved budgeted results and reasonable growth rates for the remainder of the relevant warranty periods taking into account any specific circumstances.

Profit warrant periods normally extend over a 24-month period.

Upwardly revised performance expectations would result in an increase in the related liability, limited to the terms of the applicable purchase agreement.

Fair values have been determined using discounted cash flows. Unobservable inputs include budgeted results based on margins, discount rates and revenue growth rates historically achieved by the various segments. The applicable discount rate is 7%, discounting cash flows over a two-year period. Changing such inputs to reflect reasonably possible alternative assumptions does not significantly change the fair value of the vendors for acquisition liability.

The EOH Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that reports directly to the Group Chief Financial Officer who oversees all significant fair value measurements.

### Vendors for acquisition reconciliation of movement

Figures in Rand thousand	2020	2019
Balance at the beginning of the year	303 313	633 709
Disposals	(187 735)	–
Paid to vendors	(75 286)	(366 413)
Foreign exchange effects	66	2 818
Net changes in fair value	3 685	33 199
Balance at the end of the year	44 043	303 313

### Non-recurring fair value measurements

Disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. The fair values are determined based on sales agreements that are in place for each of the disposal groups that are held for sale. The total of such fair values is R1 033 million (2019: R856 million). These fair values are categorised as level 3, based on inputs used.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued Gains or losses from continuing operations

Figures in Rand thousand	2020	Restated* 2019
Fair value gains/(losses) on financial assets at fair value through profit or loss	24 430	(12 000)
Fair value (losses) on financial liabilities at fair value through profit or loss	(3 685)	(33 199)
	<b>20 745</b>	(45 199)

\* Comparative figures previously reported have been amended to reflect continuing operations prevailing for the year ended 31 July 2020.

### Capital risk management

The Group recognises as part of its strategic intent an appropriate capital structure is required to ensure both sustainability of the business and to leverage growth opportunities.

The Group has a historically large debt burden which is not fit for purpose in terms of its capital structure. The stated objective of the Group has been to deleverage the Group to an appropriate capital structure. The deleverage process has primarily been done by disposing of non-core assets and certain IP assets (as disclosed in note 15). The Group is targeting a 70% equity to 30% debt ratio. Significant progress has been made in this regard over the past year.

While the Group is focused on creating a fit for purpose capital structure the full focus has been on deleveraging. Appropriate funding for the business has also been a key focus.

In terms of allocating capital within the business the Group looks at Return on Invested Capital metrics (ROIC) to allocate capital. This is measured against the Group's discount rate of 12.6%, to ensure there is value creation whereby ROIC needs to exceed the discount rate.

The debt to equity ratios were as follows:

	2020	2019
Debt* (R'000)	2 753 702	3 323 957
Equity at market value (R'000)	858 009	3 138 969
Debt to equity ratio	<b>76:24</b>	51:49

\* Debt reflects amounts owed to funders.

Refer to note 22 which provides further discussion surrounding the EOH Group debt reduction strategy.

### Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by reviewing future commitments and credit facilities to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period from the date of the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Figures in Rand thousand	Less than 1 year	Between 2 and 5 years
<b>At 31 July 2020</b>		
Other financial liabilities	2 885 894	5 674
Lease liabilities	173 506	227 462
Trade and other payables	858 743	–
<b>At 31 July 2019 Restated</b>		
Other financial liabilities*	1 551 716	2 101 123
Lease liabilities	33 000	28 754
Trade and other payables*	1 393 011	–

\* Other financial liabilities have been restated to reflect undiscounted cashflows. Trade and other payables have been restated to correct the accounting of prepaid expenses, refer to note 6.

The expected maturity of financial liabilities is not expected to differ from the contractual maturities as disclosed above.

During the financial period PiA Solar SA Proprietary Limited had breached its debt covenant requirements. As a result, the related borrowing of R132 million has been classified as current within the Group's statement of financial position.

Subsequent to the reporting date the Group has entered into agreements with its lenders, refer to note 22 for further information thereon.

### Interest risk

The cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate owing to changes in the market interest rate. The fair value interest rate risk is the risk that the value of the financial instrument will fluctuate because of changes in the market interest rates. The Group assumes exposure to the effects of the fluctuations in the prevailing levels if the market interest rates on both the fair value and cash flow risks fluctuate.

Interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group policy is to maintain most of its borrowings in variable rate instruments. The variable rates are influenced by movements in the prime borrowing rates. During the reporting period, the Group's borrowings at variable rates were denominated in Rands.

The Group analyses its interest rate exposure on an ongoing basis. The Group does not hedge against fluctuations in interest rates.

At 31 July 2020, if the interest rate on Rand-denominated borrowings had been 1% higher/lower with all other variables held constant, pre-tax profit for the year would have been R26 million (2019: R30 million) lower/higher, mainly as a result of higher interest expense on floating rate borrowings.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### Credit risk and expected credit losses

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's other financial assets, finance lease receivables, trade and other receivables contract assets and cash and cash equivalents.

Trade receivables, contract assets and finance lease receivables comprise a widespread customer base, spread across diverse industries and geographical areas. The Group has a general policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. Management evaluates credit risk relating to customers on an ongoing basis, taking into account its financial position, past experience and other relevant factors. If customers are independently rated, these ratings are also considered.

The carrying amounts of financial assets represent the maximum credit exposure. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets. Financial assets exposed to credit risk at year end were as follows:

Figures in Rand thousand	2020	Restated* 2019
Other financial assets	803 319	614 615
Finance lease receivables	129 034	188 413
Trade and other receivables	2 147 577	3 597 562
Cash and cash equivalents	974 580	1 409 265
Contract assets	671 077	840 811
	<b>4 725 586</b>	6 650 666

\* The comparative figures presented have been restated to reflect gross amounts. The restatement has no impact on other disclosures presented in the annual financial statements.

Impairment losses on financial assets recognised in profit or loss from continuing operations were as follows:		
Impairment loss on other financial assets	68 973	433 455
Impairment reversals on finance lease receivables	(2 681)	(909)
Impairment loss on trade and other receivables*	190 170	88 206
Impairment losses on cash and cash equivalents	–	50 309
Impairment loss on contract assets*	64 250	35 323
	<b>320 712</b>	606 384

\* Impairment losses on trade and other receivables and contract assets include losses of R107 million and R37 million respectively which have been provided for during the period.

At the reporting date, the Group did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

### **Trade receivables and contract assets**

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry in which customers operate.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. The Group's exposure and the credit scores of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread among approved counterparties. Credit exposure is controlled by counterparty credit limits that are reviewed and approved by the risk management committee/credit control department annually.

The average credit period on sales of goods and services range from 30 days to 120 days. 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 end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated.

Customers are grouped according to their credit characteristics. The customers grouped in a particular segment, which is industry segments, share similar credit risk characteristics. Trade receivables are assessed for impairment on a collective basis. The contract assets relate to unbilled work-in-progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The Group does not have trade receivable and contract assets for which no loss allowance is recognised because of collateral held.

### **Expected credit loss assessment for trade receivables and contract assets**

The allowance for impairment of trade receivables and contract assets is created to the extent and as and when required, based upon the expected collectability of accounts receivable. The Group uses a provision matrix to measure the ECLs of trade receivables and contract assets.

Loss rates as per the provision matrix are calculated using a 'roll rate'/flow rate' method based on the probability of a receivable progressing through successive stages of delinquency to write-off. 'Roll rates'/flow rates' are calculated separately for exposures in different industry segments based on the common credit risk characteristics. The exposure to credit risk table presents the gross carrying amount of trade debtors and contract assets by industry together with the associated expected credit loss.

The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

A default event is considered to have occurred when aged 90 days or beyond. Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, among others, the failure of a debtor to engage in a repayment plan with the entity, and a failure to make contractual payments for a period of greater than 90 days past due.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

Trade receivables and contract assets continued

Expected credit loss assessment for trade receivables and contract assets continued

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets as at 31 July 2020:

Figures in Rand thousand	Gross amount	Weighted average loss rate %	Expected credit loss
Contract assets	671 077	19	127 143
<b>Industry</b>			
Automotive	9 423	16	1 467
Central government	157 485	16	25 582
Construction	40 482	14	5 527
Education	25 821	18	4 542
Energy	68 489	5	3 435
Environmental	4 325	10	449
Financial services	315 617	8	25 919
Food and beverage	83 176	10	8 096
Health	59 013	9	5 054
Hospitality	38 888	26	10 190
Human Capital	14 050	5	736
Information technology	126 327	16	19 989
Legal services	9 781	2	157
Local Government	413 396	13	55 711
Manufacturing and logistics	141 806	16	22 372
Marketing and advertising	3 497	11	389
Membership organisation	176	7	13
Mining	82 211	14	11 788
Other	170 055	39	66 459
Professional business and advisory services	12 073	7	796
Property and facilities management	5 493	11	608
Public benefit organisation	1 408	18	247
Reseller	11 283	83	9 358
Retail	62 655	19	11 888
Security and defence	732	8	62
State-owned entity	132 371	21	27 653
Telecommunications	107 228	16	17 131
	<b>2 768 336</b>		<b>462 762</b>

The following table provides information about the exposure to credit risk and ECLs for trade receivables and contract assets as at 31 July 2019:

<b>Figures in Rand thousand</b>	Gross amount*	Weighted average loss rate %	Expected credit loss
<b>Industry</b>			
Automotive	45 920	6	2 672
Central government	284 510	33	92 654
Construction	396 524	6	24 270
Education	109 398	11	12 054
Energy	101 066	8	8 048
Environmental	13 156	6	827
Financial services	320 873	7	20 875
Food and beverage	253 763	8	20 881
Health	59 037	5	2 837
Hospitality	65 202	8	5 083
Human capital	20 675	1	243
Information technology	193 052	11	21 351
Legal services	13 702	12	1 599
Legislatures	4 326	2	73
Local government	1 062 713	22	231 043
Manufacturing and logistics	278 700	4	10 712
Marketing and advertising	1 485	2	24
Membership organisations	2 650	2	63
Mining	178 552	14	25 018
Others	224 977	4	9 497
Professional business and advisory services	5 962	8	500
Property and facilities management	25 932	6	1 614
Public benefit organisations	200	2	3
Reseller	14 693	6	822
Retail	81 537	3	2 488
Security and defence	4 089	20	814
State-owned entity	114 454	16	18 295
Telecommunications	310 599	7	21 695
	<b>4 187 744</b>		<b>536 055</b>

\* Gross amount reflected includes contract assets.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### Trade receivables and contract assets continued

#### Expected credit loss assessment for trade receivables and contract assets continued

The expected loss rate by industry is based on payment profiles of sales over a 11-month period respectively and the corresponding historical credit losses experienced within this period. These loss rates are adjusted to reflect a deterioration in the risk of the customer and macro-economic overlay affecting the ability of the customers to settle the receivables. The macro-economic overlay is based on the difference in default rates during 2008-2010 financial crisis versus a financial non-crisis period and applied to the portion of each industry that is expected to be affected by the COVID-19 crisis (this industry expectation is taken from Fitch).

Movements in the allowance for impairment in respect of trade receivables and contract assets:

Figures in Rand thousand	2020		2019	
	Trade receivables	Contract assets	Trade receivables*	Contract assets*
Opening balance	442 219	93 836	573 980	37 534
Impairment losses recognised on receivables and contract assets	106 840	36 967	93 628	81 517
Amounts written off during the year as uncollectible	(158 827)	–	(51 616)	–
Disposals	(54 475)	(3 660)	–	–
Transfer to assets held for sale	(25 271)	(2 548)	(183 164)	(25 215)
Foreign exchange translation (gains)/ losses	(139)	–	9 391	–
<b>Closing balance</b>	<b>310 347</b>	<b>124 595</b>	442 219	93 836

\* Comparative period amounts have been disaggregated to reflect trade receivables and contract assets separately.

Trade receivables with a contractual amount of R158 million (2019: R52 million) were written-off during the year.

### Cash and cash equivalents

The Group maintains its cash and cash equivalents with banks and financial institutions having good reputation, good past track record and high-quality credit rating and also reviews their credit worthiness on an on-going basis.

Due to the short-term nature of these assets and historical experience, cash and cash equivalents are regarded as having a low probability of default and therefore the related expected credit loss is deemed to be insignificant. However, a cash balance held within a Zimbabwe bank account, related to Twenty Third Century Systems, which has been fully provided for during the 2019 financial year at R50 million, this was due to the risk of changes in currency within Zimbabwe of the bank balance and the difficulty in getting the funds at that time.

The risk rating grade (Moody's) of cash and cash equivalents for the current year are set out below. Given these credit ratings, management does not expect any counterparty to fail to meet its obligations.



Figures in Rand thousand	Cash and cash equivalents
<b>Credit rating of financial institution</b>	
Aaa – A3	249 772
Baa3 – B2	684 120
Other	40 688
	<b>974 580</b>

### Finance lease receivables

The policy choice is to measure the loss allowance at an amount equal to lifetime expected credit losses.

### Other financial assets

Other Financial Assets are specific assets and were assessed individually for expected credit losses, using the general approach under IFRS 9 raising a life-time expected credit loss. The expected credit loss model of IFRS 9 requires the classification and measurement of expected credit losses using the general model is a three-stage model. The three stages are performing (stage 1), underperforming (stage 2) and non-performing (stage 3). Management evaluates the credit worthiness of counterparties on an ongoing basis, taking into account their financial position, past experience and other relevant factors that may indicate whether there is a significant increase in credit risk.

Allowances have been raised considering the probability of default by the borrower.

Expected credit losses have been raised for a significant portion of other financial assets. The balance of other financial assets comprises amounts receivable from the sale of Construction Computer Software 3 Limited and Change Logic CS Proprietary Limited, both of which have settled subsequent to the reporting period. Given the credit losses of banking institutions, restricted cash balances are not exposed to a significant increase in credit risk. Specific assessments were performed on loans provided to equity-accounted entities and Enterprise Development loans.

Movements in the allowance for impairment in respect of other financial assets:

Figures in Rand thousand	2020 Other financial assets
Opening balance	520 628
Impairment losses recognised on other financial assets	70 106
Amounts written off during the year as uncollectible	(7 677)
Disposals	(594)
Transfer to assets held for sale	(2 890)
Closing balance	<b>579 573</b>

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 18. FINANCIAL ASSETS AND FINANCIAL LIABILITIES continued

### Currency risk

The Group operates internationally but has limited exposure to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar, the Euro and the British Pound.

Foreign exchange risk arises from future commercial transactions, recognised assets or liabilities that are denominated in a currency that is not the entity's functional currency and net investments in foreign operations. The Groups strategy to dispose of non-core business lines has resulted in the sale of the majority of its foreign investments. The Group has limited investments in foreign operations where the assets are exposed to foreign currency translation risk.

Financial assets and financial liabilities are analysed by currency as follows:

### Foreign currency financial instruments

Figures in Rand thousand	2020				
	Financial assets			Financial liabilities	
	Other financial assets	Trade and other receivables	Cash and cash equivalents	Other financial liabilities	Trade and other payables
British Pound	–	26 090	69 067	(67)	(34 369)
US Dollar	–	85 062	65 603	–	(132 964)
Arab Emirates Dirham	–	55 883	11 749	(1 656)	(77 294)
Euro	–	67 490	35 327	(16 762)	(79 548)
Egyptian Pound	–	67 221	493	–	(27 450)
Indian Rupee	–	–	22	–	(29)
Saudi Riyal	–	1 430	270	–	(259)
Other	686	56 789	96 460	(407)	(57 216)

  

Figures in Rand thousand	2019				
	Financial assets			Financial liabilities	
	Other financial assets	Trade and other receivables	Cash and cash equivalents	Other financial liabilities	Trade and other payables
British Pound	–	56 108	33 407	(11)	(41 973)
US Dollar	870	136 296	17 680	–	(89 124)
Arab Emirates Dirham	6 091	73 614	10 264	(2 486)	(107 976)
Euro	–	177 237	24 107	(51 779)	(101 288)
Egyptian Pound	–	59 148	5 192	–	(39 806)
Indian Rupee	–	60 210	7 933	–	(11 930)
Saudi Riyal	–	41 604	7 071	–	(38 246)
Other	–	94 731	60 523	(461)	(50 903)

## 19. CASH GENERATED FROM OPERATIONS

Figures in Rand thousand	2020	Restated* 2019
Loss before taxation from:	<b>(1 635 168)</b>	(4 581 649)
Continuing operations	<b>(1 326 350)</b>	(4 017 160)
Discontinued operations	<b>(308 818)</b>	(564 489)
Adjustments for:		
Depreciation and amortisation	<b>498 004</b>	435 816
Impairment of assets	<b>522 475</b>	2 258 840
Loss/(profit) on disposal of subsidiaries, equity-accounted investments and property, plant and equipment	<b>263 675</b>	(120 868)
Share of equity-accounted losses	<b>(7 282)</b>	-
Share-based payments expense	<b>48 285</b>	247 614
Net finance costs	<b>377 917</b>	299 911
Net financial asset impairment losses	<b>332 319</b>	978 517
Inventory write-off/impairment	<b>30 907</b>	50 868
Provisions	<b>259 698</b>	410 427
Other non-cash items	<b>(17 253)</b>	(27 557)
Cash generated/(utilised) before changes in working capital	<b>673 577</b>	(48 081)
Working capital changes net of effects of disposal of subsidiaries	<b>33 158</b>	550 188
Decrease in inventories	<b>103 625</b>	39 113
Decrease in trade and other receivables	<b>596 569</b>	311 333
(Decrease)/increase in trade and other payables	<b>(667 036)</b>	199 742
<b>Cash generated from operations</b>	<b>706 735</b>	502 107

\* Refer to note 6 – Restatement of consolidated annual financial statements for the impact on the affected assets, liabilities and equity. The restatement adjustments are all non-cash adjustments and therefore do not impact cash generated before working capital changes or any other line items on the consolidated statement of cash flows.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 20. RELATED-PARTY TRANSACTIONS

The Group entered into various transactions with related parties.

Figures in Rand thousand	2020	2019
<b>Transactions with associates and joint ventures</b>		
Sales of products and services	3 899	7 292
Purchases of products and services	3 272	46 574
<b>Balances arising from sales/purchases of goods and services with associates and joint ventures</b>		
Trade receivable balances with related parties	3 773	3 777
Trade payable balances with related parties	8 176	1 631
<b>Loans receivable from associates and joint ventures:</b>		
– Gross loans receivable from associates and joint ventures	57 772	42 413
– Allowances for expected credit losses on loans to associates and joint ventures	(36 450)	–
<b>Transactions between Group companies (subsidiaries)</b>		
Sale of products and services	2 075 904	2 710 967
Purchases of products and services	1 741 043	2 468 138
Operating expenses	334 861	235 349
Interest received	–	2 835
<b>Outstanding balances arising from sales/purchases of goods and services</b>		
Loans from EOH Holdings Limited to subsidiaries	163 193	2 831 549
Loans to EOH Holdings Limited from subsidiaries	59 149	65 968
<b>Directors' remuneration</b>		
Executive directors are defined as key management.		
<b>Vendor loans and receivables</b>	<b>287</b>	870

## 21. CONTINGENCIES AND COMMITMENTS

### Contingencies

EOH Holdings Limited ('EOH') issued parent company guarantees ('PCGs'), as required by a client for a wholly owned subsidiary PiA Solar SA Proprietary Limited ('PiA'). The guarantees provided are for a period of years during both construction and after handover including an operation warranty guarantee, which by the nature could (in the event of underperformance by PiA) compel EOH to either ensure physical performance or settle such underperformance in cash terms. While PiA had undergone some operational challenges as a result of several factors, including COVID-19, the Group has intervened in order to minimise the potential impact of these PCGs. The projects subject of these PCGs are now substantially complete, with the last project to achieve handover to the end client expected during November, 2020. The Group thus believes that the risk presented by the PCGs, albeit still in existence, is now sufficiently mitigated such that no cash flow impact is expected in the future.

During the course of the current financial year, the Group also issued a PCG for another subsidiary EOH Mthombo (Pty) Ltd relating to the implementation of an ERP solution at the City of Johannesburg (COJ) for a project which was signed during the 2017 financial year. The COJ guarantee compels the Group to either ensure physical performance or settle such underperformance in cash terms. A cash balance of R53 million is currently in restricted cash.

### Fine imposed by the JSE Limited

The JSE Limited (JSE) imposed a fine on the Group on 29 July 2020 for prior period errors contained in the Group's previously published financial statements for the financial years ended 31 July 2017 and 31 July 2018. The fine was for R7.5 million of which R2.5 million is suspended for a period of five years on condition that the Group is not found to be in breach of material and important provisions of the JSE Listings Requirements. The R5 million was raised as liability at 31 July 2020, with the suspended amount being a contingent liability.

### Legal claims

The Company and its subsidiaries are involved in various litigation matters arising in the ordinary course of business, none of which are considered to be material on an individual basis. Management has no reason to believe that the disposition of these matters will have a materially adverse effect on the consolidated financial position of the Company.

# NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 21. CONTINGENCIES AND COMMITMENTS continued

### Uncertain tax exposure

The Group operates in numerous tax jurisdictions and the Group's interpretation and application of the various tax rules applied in direct and indirect tax filings may result in disputes between the Group and the relevant tax authority. The outcome of such disputes may not be favourable to the Group. At year end there were a number of tax disputes ongoing in various of the Group's operating entities, the most significant of which related to a PAYE dispute which the Group is contesting. At 31 July 2020, the Group had provided for R257 million on the PAYE liability assessed and potential future assessments, and have submitted a notice of objection to the tax authority and based on internal and external legal and technical advice obtained, the Group remains confident that it has a strong legal case to contest the remaining exposure. R10 million of the R257 million provision was repaid as at 31 July 2020.

There is further uncertainty regarding historical taxes that may be due as a result of the impact of the fraudulent transactions identified in the forensic investigation performed by ENS during the 2019 financial year. Provisions based on best estimates were recognised at 31 July 2019 and no changes were made during the period ended 31 July 2020.

### Uncertain exposure due to suspect transactions

An assessment was undertaken in relation to contracts flagged by ENS as being associated with suspicious activities, for purposes of determining the likelihood of a claim/s being raised against EOH in relation to the contracts in question. The total contingent exposure identified in consequence of the results of that assessment is R84.2 million.

The assessments which resulted in a claim being regarded as *likely* and where a contingent liability was identified were in relation to the following contracts:

- Amathole District Municipality (ADM) - SAP Implementation Contracts: there are disputes raised by ADM as to deliverables and sums payable to EOH under this contract, however, EOH maintains that it has performed substantially on the contract. Deloitte prepared a forensic report on instructions of National Treasury (10 October 2019) and National Treasury issued an Intervention and Close-Out report (27 February 2020). ADM did not accept the findings of the Intervention and Close-Out report (27 February 2020), however, no further steps have yet been taken by ADM. In the event of a successful challenge to the validity of the contract, EOH would be entitled to just and equitable relief and would never be exposed for the full value of the contract.
- USAASA – SAP Implementation: National Treasury is investigating this contract, however the scope of the investigation is unknown to EOH. There is a risk that there may be a finding of impropriety in the contract. This contract came to a natural conclusion at the end of 2017, with EOH having performed and with no claims or complaints or having arisen since. Any claims to be raised will have probably prescribed. In the event of a successful challenge to the validity of this contract, EOH, having performed under the contract, would be entitled to motivate a just and equitable remedy. It would be unlikely and certainly contrary to the principles of just and equitable relief, that EOH would have to "refund" USAASA.

The assessments which resulted in claims being regarded as *possible* and where a contingent liability was identified were in relation to the following contracts:

- Department of Water and Sanitation (DWS) – Project Muratho SAP Upgrade: This contract came to its natural conclusion in October 2015 with EOH having performed thereunder and with no claims or complaints being instituted against it. It is unlikely that any attempt to set aside this contract would succeed due to excessive delay. In the event of a successful challenge to the validity of this contract, EOH having performed under the contract would be entitled to motivate a just and equitable remedy and would not be expected to ‘refund’ DWS.
- DWS – SAP Roll-Out to Catchment Management Agencies: The contract came to an end in September 2016 with no claims being instituted, for the same reasons outlined above, any attempt to overturn this contract would encounter difficulties due to delay and would not require an appropriate ruling as to just and equitable remedy in circumstances where performance was rendered.
- City of Johannesburg – SAP Licence Sale: The contract came to conclusion with EOH having performed its obligations in 2015 with no claims subsequently arising. Any claims will, in all likelihood, have prescribed. In the event of a successful challenge to the validity of this contract, EOH having performed under the contract would be entitled to motivate a just and equitable remedy.
- Department of Home Affairs (DHA) – ABIS (Biometric): There are currently no disputes relating to the value received, however, there are current disputes relating to contractual interpretation and entitlement derived under the contract terms, as amended, with EOH claiming R53 million excluding VAT and DHA claiming R44 million.

## Commitments

Figures in Rand thousand	2020	2019
Expected, but not yet contracted capital expenditure	169 171	112 846
Minimum operating lease payments due under IAS 17 in the prior year – as lessee		
– within one year		153 717
– within two to five years		260 596
– beyond five years		–
		527 159

# NOTES TO THE SUMMARISED **CONSOLIDATED** **FINANCIAL STATEMENTS** CONTINUED

FOR THE YEAR ENDED 31 JULY 2020

## 22. **EVENTS AFTER REPORTING DATE** **COVID-19**

The Group considers information obtained subsequent to the reporting date, in relation to events it knows or should have known and expected eventualities identified as at 31 July 2020, as adjusting subsequent events. With regards to financial reporting impacts associated with COVID-19, the key principle is that COVID-19 is considered to be sufficiently prevalent in the Group's major markets at 31 July 2020. Therefore, COVID-19 related events that arise in the post balance sheet period, that provide additional information in relation to assets and liabilities in existence at 31 July 2020, have been considered adjusting subsequent events. New events which occur after 31 July 2020, which do not relate to existing assets and liabilities related to COVID-19 at the reporting date (such as donations to relief initiatives), are considered to be non-adjusting subsequent events, and these, together with their relating financial effects, have been disclosed to the extent that they are considered to be material.

### **Update to unsecured interest-bearing loan**

On 28 August 2020, the Group entered into a new arrangement with an unsecured interest-bearing loan provider with an outstanding capital amount of R200 million, in terms of which they would not be repaid, but rather participate in the deleveraging and refinancing plan and be secured through their participation in the security SPV arrangements.

### **Debt reduction plan**

The Group entered into an agreement with its lenders to deleverage R1 600 million by 1 April 2021. As at 31 July 2020 R540 million had been paid towards the R500 million target due by 30 August 2020. A further payment of R700 million was required by 30 November 2020. R450 million of the 30 November 2020 target was met. The Group's disposal process, which is a road to deleverage, has been impacted by COVID-19 in terms of the time to close a deal and investors taking a conservative view on investing capital into new assets. Lockdown level 5 and level 4 had a significant impact on delaying the process as well as an impact on operating performance of the IP B2B2C assets. The months since July have seen a meaningful improvement in the performance of these assets. As a result of these delays the Group was unlikely to meet its R700 million target for 30 November 2020. The Group has obtained a waiver on financial covenants and an amendment to defer the R250 million target to 28 February 2021 when the last payment is due of the total R1.6 billion.

The Group is in advanced discussions with its lender group to restructure the debt into a more long-term acceptable capital structure and has signed an indicative term sheet.

### **Disposal of assets**

On 13 December 2019, EOH advised shareholders that a sales agreement had been entered into between EOH Abantu Proprietary Limited (EOH Abantu), a wholly owned subsidiary of EOH and a subsidiary of Afrocentric Investment Corporation Limited (Afrocentric), in terms of which EOH Abantu disposed of all of its shares in Dental Information Systems Holdings Proprietary Limited (Denis) for a total consideration of R250 million. All suspensive conditions pertaining to the Denis transaction have now been fulfilled and the first R234 million payment related to the transaction was received on 30 September 2020, with R16 million being held in escrow until 1 April 2022.

On 20 April 2020, EOH announced the sale of the remaining 30% stake in CCS to RIB Limited (RIB), a wholly owned subsidiary of RIB Software SE, for a total consideration of R143 million. In addition to the early exercise of the call option, RIB agreed to release the full cash amount in escrow of R47 million, by no later than 30 September 2020 which has now been completed.



### **Disposal of MARS Holdings Proprietary Limited**

The Group entered into a share purchase agreement (SPA) on 18 November 2020 to dispose of 100% of the issued ordinary shares of MARS Holdings Proprietary Limited, together with its subsidiaries and associates (together "Syntell"), to K2020776145 South Africa Proprietary Limited ("the Purchaser"), for a consideration of R211 million ("the Base Purchase Price") ("the Transaction").

The Transaction is in line with EOH's stated strategic intent of selling non-core assets as it seeks to right-size the Group and deleverage its balance sheet. Furthermore, the execution of the Transaction provides EOH with the opportunity to extinguish the last sizeable VFA liability of R36 million on the EOH balance sheet ("the VFA Liability").

The cash consideration received by EOH will primarily be utilised to reduce debt which is consistent with EOH's objective of creating a fit-for-purpose capital structure. The remainder of the proceeds will be utilised for the working capital requirements of EOH.

On 18 November 2020, the Purchaser paid the Group a cash amount equal to the Base Purchase Price, less the VFA Liability of R36 million. Furthermore, a shareholder loan from the Group of R10.5 million was settled by Syntell prior to the Signature Date.

The SPA contains undertakings, warranties and indemnities that are customary for a transaction of this nature and the Transaction is not subject to any conditions precedent.

### **Liquidation of NEXTEC Advisory Proprietary Limited**

NEXTEC Advisory Proprietary Limited, being a wholly owned subsidiary in the Group, was placed in voluntary liquidation subsequent to reporting date. The company reflected a loss after tax for the year of R27 million and has a negative net asset value at 31 July 2020 of R17 million. The business of this company was its use of a radio frequency identification tracking solution developed for the public sector. The Tshwane Trust has formally been appointed as liquidator.

### **Forensic investigation into suspect payments**

At the initial stage of the investigation, three contracts were identified as having apparent irregularities including collusion to bypass State Information Technology Agency (SITA) processes to enable over-invoicing. The provision for the over-invoicing was raised in the Group's 2019 annual financial statements and remained with no update required.

EOH declared the over-invoicing to the National Treasury at a meeting on 31 May 2019 and has already commenced reimbursing the Special Investigations Unit for the over-charging in two contracts, pursuant to an agreement which states that EOH will repay approximately R42 million as reimbursement for the overcharging. EOH is in the process of finalising a similar reimbursement arrangement with regards to the remaining third and final contract.



# CORPORATE INFORMATION

## **EOH HOLDINGS LIMITED**

Incorporated in the Republic of South Africa  
Registration number: 1998/014669/06  
JSE share code: EOH  
ISIN code: ZAE000071072  
(EOH or the Company or the Group)

### **Directorate**

#### *Non-executive*

Andrew Mthembu (*appointed as Chairman effective 6 February 2020*)  
Andrew Marshall (*appointed 21 May 2020*)  
Bharti Harie (*appointed with effect from 1 January 2021*)  
Ismail Mamoojee  
Jabu Moleketi (*appointed 1 September 2020*)  
Jesmane Boggenpoel  
Mike Bosman  
Nosipho Molope (*appointed with effect from 1 January 2021*)  
Sipho Ngidi (*appointed 20 February 2020*)  
Dr Xolani Mkhwanazi (*Chairman deceased 4 January 2020*)  
Dr Anushka Bogdanov (*appointed as Lead Independent Non-executive Director on 7 February 2020; resigned on 28 July 2020*)  
Dr Moretlo Molefi (*resigned with effect from 15 December 2020*)

#### *Executive*

Stephen van Coller (*Group Chief Executive Officer*)  
Megan Pydigadu (*Group Chief Financial Officer*)  
Fatima Newman (*Group Chief Risk Officer*)

### **Group Company Secretary**

EOH Secretarial Services Proprietary Limited, represented by Neill O'Brien

### **Registered address**

Block D, EOH Business Park, Osborne Lane, Bedfordview, 2007  
PO Box 59, Bruma, 2026

### **Telephone**

+27 (0) 11 607 8100

### **Website**

[www.eoh.co.za](http://www.eoh.co.za)

### **Investor email**

[IR@eoh.com](mailto:IR@eoh.com)

### **Auditor**

PricewaterhouseCoopers Inc. South Africa  
4 Lisbon Lane, Waterfall City, Jukskei View, 2090

### **Sponsor**

Java Capital Trustees and Sponsors Proprietary Limited  
Registration number: 2006/005780/07  
6th Floor, 1 Park Lane, Wierda Valley, Sandton, 2196  
PO Box 522606, Saxonwold, 2132

### **Transfer secretaries**

Computershare Investor Services Proprietary Limited  
Registration number: 2004/003647/07  
Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196  
Private Bag X9000, Saxonwold, 2132



[www.eoh.co.za](http://www.eoh.co.za)

