ALTRON

H1 FY20

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 31 AUGUST 2019

CONTENTS

ALLIED ELECTRONICS CORPORATION LIMITED

(Registration number 1947/024583/06)
(Incorporated in the Republic of South Africa)
Share code: AEL
ISIN: ZAE000191342

ALLIED ELECTRONICS CORPORATION LIMITED
(Registration number 1947/024583/06)
(Incorporated in the Republic of South Africa)
Share code: AEL
ISIN: ZAE000191342

UNAUDITED CONSOLIDATED INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 AUGUST 2019 AND INTERIM DIVIDEND ANNOUNCEMENT

FINANCIAL COMMENTARY

The consistent implementation of our FY17 One Altron strategy continues to deliver on our stated goal of doubling EBITDA by FY22, with comfortable debt levels, despite the ongoing challenging economy. During the financial half-year, the group's financial performance continued to improve:

- Revenue from continuing operations increased by 8% to R8.53 billion (up 17% excluding IFRS 15 – Revenue from Contracts with Customers – adjustments).
- EBITDA from continuing operations increased by 19% to R803 million (up 9% excluding R67 million IFRS 16 – Leasing – adjustments).
- HEPS from continuing operations increased by 4% to 73 cents.
- Basic earnings per share (EPS) from continuing increased by 4% to 76 cents.
- Interim dividend declared of 29 cents per share.

We continue to stay focused on delivering innovation that matters through technology solutions and services that deliver impact with tangible results for businesses and have positive societal impact. To this end, we secured key wins in the financial half-year under review. These included, amongst others, the partnership agreement entered into between Toyota, Vodacom and Netstar. Furthermore, Altron Karabina, has recently been awarded Licencing Solutions Provider status by Microsoft.

We remain on track to double EBITDA by FY22. The growth in our Altron Bytes UK operations continues to exceed our expectations. Further highlights for the period under review include our improved employee engagement and customer NPS scores.

During the period under review, the group experienced challenges in one of its operations. As previously communicated, Altron Nexus was impacted by the City of Tshwane ("CoT") Municipal Broadband Network judgement handed down against Thobela Telecoms. In addition, internal investigations following the precautionary suspension of key executives remains ongoing. Altron Nexus also experienced increased working capital demands as a result of large infrastructure projects and increased business activity.

The integration of Altron Karabina, which was acquired during FY19, was slower than expected. However, this acquisition remains strategically relevant to the group given their capabilities in the fast-growing cloud and data analytics environment.

The matters above are addressed in more detail in the relevant sections below.

To improve market comprehension of our solutions and services, we have again grouped our operations into the following segments, namely Digital Transformation, Healthtech/Fintech, Smart IoT and Managed Services.

While the discontinued operations were included in the FY19 interim results, the process of disposing of non-core assets has largely been concluded and accordingly, these results are presented with discontinued operations excluded. Continuing operations' results provide stakeholders a more appropriate measure of the core sustainable earnings of Altron. The numbers and commentary below are shown post the incorporation of the impact of IFRS 16 which came into effect on 1 March 2019, and which had a positive impact of R67 million on EBITDA and a negative impact of R25 million on NPBT for the period ended 31 August 2019. IFRS 16 has been presented on a prospective basis without restating prior period numbers, in line with the accounting standard requirements.

FINANCIAL OVERVIEW

CONTINUING OPERATIONS

Revenue increased by 8% to R8.53 billion on a statutory basis. However, the impact of IFRS 15 on cloud-based sales in our UK operations is material given that these transactions are treated as agent and therefore only the margin is recognised as revenue. Taking gross cloud-based transactions with UK customers into account, group revenue grew by 17% on a like-for-like basis.

EBITDA increased by 19% to R803 million, with strong EBITDA growth from the group's Digital Transformation operations of 31%. The group's EBITDA margin on statutory revenue increased to 9.4% compared to 8.5% in the prior half-year. Within a South African context, the group generates 85% of its revenue from the private sector and 15% from the public sector. The EBITDA growth for the half-year was largely attributable to organic growth.

The depreciation charge for the group increased from R256 million to R347 million and net finance expense increased from R90 million to R118 million in H1 FY20, both inclusive of the impact of IFRS 16 adjustments. Capital items were a profit of R10 million relating to the profit on disposal of fixed property offset by the impairment of contract cost in Netstar.

DISCONTINUED OPERATIONS

As previously reported, the successful disposal of the last controlled non-core assets has been concluded. Revenue and EBITDA from discontinued operations have been negligible for the period under review whilst the comparative period included positive EBITDA of R65 million from discontinued operations.

CASH MANAGEMENT

The group's overall net debt of R1.9 billion (including deferred disposal receipts), against R1.3 billion as at the end of FY19 is primarily due to the absorption of R769 million into working capital. This relates to largely due growth experienced in Altron Bytes UK and Altron Bytes Managed Solutions. Altron Nexus also experienced strong growth in contract fulfilment cost relating to public sector infrastructure projects. Cash generated from operations prior to working capital demands totalled R785 million for the period. As mentioned, net finance expenses was R119 million while tax and dividends paid were R103 million and R166 million respectively for the half-year under review.

The group utilised a net amount of R62 million on investment activities for the financial half-year. Included in this amount were R133 million relating to capital rental devices in Netstar, which reflects the continued growth in its subscriber base. R109 million was investment in property, plant and equipment and R26 million in intangible assets as development costs were capitalised throughout the reporting period. This was offset by R164 million relating to the deferred proceeds from the disposal of non-core assets. R78 million cash utilised in financing activities predominantly relates to the net repayment of term loans.

OPERATIONAL REVIEW

DIGITAL TRANSFORMATION

Bytes UK had another strong financial half-year, growing revenue by 13% and EBITDA by 46% to R303 million. Pre-IFRS 15 adjustments, like-for-like revenue for the financial half-year increased by 28%. EBITDA is not effected by IFRS 15 and accordingly increased by 46%. Furthermore, investments made into strategic growth areas, particularly on the sales-side of the business, continue to show positive results.

Altron Bytes Systems Integration ("BSI") saw the adoption of its new operating model resulting in revenue increasing by 7%, while EBITDA increased by 36% to R38 million. BSI continues to streamline the business and to drive large group initiatives in Cloud Services, IoT, Data Analytics and Security.

Altron Nexus reported revenue down by 15% to R421 million, with EBITDA loss of R25 million for the financial half-year. The decline in revenue is due to the delayed commencement of the implementation of the Gauteng Broadband Network ("GBN") Phase 2 project and the effects of IFRS 15 in recognising revenue in the first half of the financial year. EBITDA has similarly been adversely effected by the late start of GBN Phase 2 and the accompanying recognition of revenue which has been delayed.

As communicated to shareholders over recent months, judgement was handed down in the Gauteng High Court in Pretoria on 16 July 2019, setting aside the award of the CoT contract on the basis of primarily internal processes not having been followed by the CoT in the awarding of the tender. The contract was awarded to a special purpose vehicle, Thobela Telecoms (RF) Proprietary Limited ("Thobela Telecoms") in June 2015, in which Altron Nexus is involved as the primary network designer and architect, supplier of broadband equipment and related services, as well as being a minority shareholder in Thobela Telecoms. Thobela Telecoms has since been granted leave to appeal the decision directly to the Supreme Court of Appeal, with an update regarding the outcome of the appeal to be communicated at an appropriate time. The group believes it has made adequate provision against amounts due on this contract, with the added risk mitigation of the equipment for the contract being transferable to other projects.

Further to the unfortunate necessity to suspend three senior executives, as communicated to shareholders on 6 September 2019, the internal investigation of which is expected to be concluded in due course, Altron Nexus is currently being managed by a highly experienced interim management team that is focussed on delivering to customers and other key priorities. The business continues to operate on strong fundamentals.

Altron Karabina, which was acquired effective 1 September 2018 in order to extend Altron's capabilities in Cloud Services and Data Analytics, produced R86 million in revenue and break-even EBITDA for the financial half-year. While these results did not meet our expectations, the performance of Karabina during the reporting period was largely due to a significant customer of the business having been adversely impacted by the challenging local economic conditions.

However, we are excited around the strong pipeline of net new business created in the last six months and Altron Karabina recently being awarded Microsoft Licencing Solutions Provider ("LSP") status following a rigorous tender adjudication process. The LSP contract is similar to the long-standing partnership which Altron has with Microsoft through Altron Bytes UK. Accordingly, management is confident that Altron Karabina will be able to leverage off this existing relationship and emulate the successful UK experiences in the SA marketplace as well.

Altron Arrow's experienced a challenging first half of the year, given the ongoing lethargy faced in the SA contract manufacture space, whereby the demand for the delivery of components have been subdued. This resulted in a 13% and 33% decline for the financial half-year in revenue and EBITDA (H1 FY20 R10 million), respectively. In challenging economic conditions, the business maintained its leading component distributor position. Altron Arrow continues to drive market share expansion in a declining components market by focussing on the diversification into other distribution activities by leveraging Arrow Inc. established global brand.

HEALTHTECH/FINTECH

Altron Bytes Secure Transaction Solutions ("BSTS") produced revenue in line with H1 FY19 and grew EBITDA by 10% to R148 million, driven by improved EBITDA margins of 25%. The business continues to evolve from a hardware supplier to a managed services provider in the high-growth Fintech space, which is reflected in the positive EBITDA growth.

The underlying components of this business performed well, with the NuPay division again being the outstanding performer. The Fintech side of the business continues to grow in line with expectations, with focus being maintained on those areas which represents high growth opportunities. In the Healthtech space, the business is broadening its offerings and taking appropriate steps to align with the NHI programme and the opportunities which it will bring.

SMART IoT

Netstar, inclusive of its Australian operations, showed continued improvements in its performance. The business reported a 3% increase in revenue and 13% improvement in EBITDA to R291 million. The steps taken by the business to move its ground recovery contract in stolen vehicle recovery has been bedded down and is performing above expectations, with significant cost efficiencies realised during the financial half-year.

Netstar reported the launch of its global connected-car partnership with Toyota and Vodacom, rolling-out connectivity features and in-car Wi-Fi on all new Toyota and Lexus models. This is a strategic partnership for the group, which includes a revenue-sharing agreement with Vodacom on data bundles specifically for Toyota customers. This partnership positions the business well to grow further in the Smart IoT space.

MANAGED SERVICES

Altron Bytes Document Solutions ("BDS") has seen revenue and EBITDA improve by 5% and 10% respectively with the latter amounting to R35 million. In partnership with our exclusive OEM supplier, Xerox, we continue to gain market share through a sustained sales effort into a declining market. We have seen new wins in the production sector and are now focussing on further expanding into the rest of Africa.

Strategically the business remains focused on selected growth areas, including managed print services and the high-end production environment. BDS' growth strategy of driving cross-selling of Altron's various offerings into its extensive base of more than 4 500 customers remains on course.

Altron Bytes Managed Solutions ("BMS") reported revenue and EBITDA increase of 8% and 48% respectively for the financial half-year. EBITDA amounted to R43 million. In a highly competitive market, BMS is focused on quality of service while closely managing its cost base and maintaining its drive to enhance annuity income. Further improvement in the performance of BMS is being driven by the ongoing diversification of its market segments and offerings, including an ongoing focus on growing into retail and end-user computing.

Altron Bytes People Solutions ("BPS") revenue declined by 5% for the financial half-year (gross revenue increased by 3% before IFRS 15 adjustments), with EBITDA in line with the prior reporting period. As BPS' customer base continues to digitally transform their businesses and finding new and innovative ways to service their customers, it results in declining voice call volumes through BPS' call centre environments. This has necessitated an internal drive by the business to reduce costs in line with declining call volumes, as well as including integrated channels into our existing solutions. BPS remains focussed on growing its enabling technologies, including robotic processes, in order to diversify its offerings from traditional voice channels, to provide a digitally transformed customer experience.

INTERIM DIVIDEND

Notice is hereby given that an interim gross cash dividend of 29 cents per share (23.2 cents net of 20% dividend withholding tax) for the six months ended 31 August 2019 has been declared, payable to shareholders recorded in the register of the company at the close of business on the record date appearing below. This is in line with the board's stated 2.5x dividend cover. The board has confirmed by resolution that the solvency and liquidity test as contemplated by the Companies Act, No. 71 of 2008, as amended, has been duly considered, applied and satisfied. This is a dividend as defined in the Income Tax Act, No. 58 of 1962 and is payable from income reserves. The income tax number of the company is 9725149711. The number of ordinary shares in issue at the date of this declaration is 399 414 023, including 28 180 080 treasury shares. The salient dates applicable to the interim dividend are as follows:

Dividend dates

Last day to trade *cum* dividend	Tuesday, 12 November 2019
Commence trading *ex* dividend	Wednesday, 13 November 2019
Record date	Friday, 15 November 2019
Payment date	Monday, 18 November 2019

Share certificates may not be dematerialised or rematerialised between Wednesday, 13 November 2019 and Friday, 15 November 2019.

DIRECTORATE

During the financial half-year, our board continued to provide valuable input to the group in realising Altron's vision and mission through the steadfast implementation of the One Altron strategy.

Save for the appointment of Mr Cedric Miller as Altron Chief Financial Officer and executive director with effect from 1 May 2019, as previously communicated, there were no changes to the composition of the Altron board during the past financial half-year.

OUTLOOK

In the ongoing muted economic conditions in the jurisdictions in which the group operates, Altron remains positioned for continued growth and accelerating the implementation of its One Altron strategy of offering end-to-end solutions to its extensive customer base. We continue to focus on organic growth, supplemented by the acquisition of selective small to medium sized businesses in our focus areas leading to enhanced capabilities or expanded geographic footprint. We will focus in particular on:

- Return Altron Nexus to profitability and conclude unethical conduct investigations
- Continued focus on working capital management
- Strengthen Top Accounts focus through appointment of Group Sales Executive and dedicated account managers
- High single digit EBITDA growth due to slow growth in SA economy
- Expand our Security offerings to the market

Any forecast financial information contained in this announcement is the responsibility of the directors and has not been reviewed or reported on by the external auditors.

For and on behalf of the board.

MJ Leeming
Chairman

M Nyati
Chief Executive

C Miller
Chief Financial Officer

Registered office
Altron House, 4 Sherborne Road, Parktown, 2193

Sponsor
Investec Bank Limited

Transfer secretaries
Computershare Investor Services Proprietary Limited, 1st Floor, Rosebank Towers, 15 Biermann Avenue, Rosebank, 2196

Directors
MJ Leeming (Chairman), M Nyati (Chief Executive)*, C Miller (Chief Financial Officer)*, AC Ball, BW Dawson, BJ Francis, GG Gelink, P Mnganga, S Sithole (Zimbabwean), SW van Graan, RE Venter

**Executive*

Group Company Secretary
WK Groenewald

23 October 2019

CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME

R millions	Note	% Change	Six months ended 31 August 2019 (Unaudited)	Restated* Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
CONTINUING OPERATIONS					
Revenue		8%	**8 531**	7 918	15 723
Operating costs excluding capital items			**(7 728)**	(7 241)	(14 116)
Earnings before interest, taxation, depreciation, amortisation, capital items and equity accounted losses (EBITDA before capital items)		19%	**803**	677	1 607
Depreciation and amortisation			**(347)**	(256)	(566)
Operating profit before capital items		8%	**456**	421	1 041
Capital items	4		**10**	16	(26)
Operating profit			**466**	437	1 015
Finance income			**47**	72	130
Finance expense			**(165)**	(162)	(306)
Share of loss of equity-accounted investees, net of taxation			**(1)**	–	(1)
Profit before taxation			**347**	347	838
Taxation			**(74)**	(78)	(158)
Profit for the period from continuing operations			**273**	269	680
DISCONTINUED OPERATIONS					
Revenue			**–**	921	1 202
Operating costs excluding capital items			**1**	(856)	(1 148)
Earnings before interest, taxation, depreciation, amortisation and capital items (EBITDA before capital items) and operating profit before capital items			**1**	65	54
Capital items	4		**(6)**	(48)	24
Operating (loss)/profit			**(5)**	17	78
Finance income			**2**	13	24
Finance expense			**(2)**	(14)	(27)
(Loss)/profit before taxation			**(5)**	16	75
Taxation			**(1)**	4	(5)
(Loss)/profit for the period from discontinued operations			**(6)**	20	70
Profit for the period from total operations			**267**	289	750
Other comprehensive income					
Items that will never be reclassified to profit or loss					
Remeasurement of net defined benefit asset/obligation			**–**	–	4
Items that are or may be reclassified subsequently to profit or loss					
Foreign currency translation differences in respect of foreign operations**			**11**	165	113
Effective portion of changes in the fair value of cash flow hedges			**–**	12	3
Other comprehensive income for the period, net of taxation			**11**	177	120
Total comprehensive income for the period			**278**	466	870

CONDENSED CONSOLIDATED
STATEMENT OF COMPREHENSIVE INCOME
(continued)

R millions	Note	% Change	Six months ended 31 August 2019 (Unaudited)	Restated* Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
Net profit / (loss) attributable to:					
Non-controlling interests			**(9)**	(3)	39
Non-controlling interests from continuing operations			**(9)**	–	25
Non-controlling interests from discontinued operations			**–**	(3)	14
Altron equity holders			**276**	292	711
Altron equity holders from continuing operations			**282**	269	655
Altron equity holders from discontinued operations			**(6)**	23	56
Net profit for the period			**267**	289	750
Total comprehensive income attributable to:					
Non-controlling interests			**(9)**	–	39
Non-controlling interests from continuing operations			**(9)**	–	25
Non-controlling interests from discontinued operations			**–**	–	14
Altron equity holders			**287**	466	831
Altron equity holders from continuing operations			**287**	434	775
Altron equity holders from discontinued operations			**–**	32	56
Total comprehensive income for the period			**278**	466	870

** Refer to note 13 for more detail in respect of the restatement of prior year balances.*
*** This component of other comprehensive income is not subject to tax.*

Basic earnings per share from continuing operations (cents)		4%	**76**	73	177
Diluted earnings per share from continuing operations (cents)		6%	**76**	72	175
Basic (loss)/earnings per share from discontinued operations (cents)		(133%)	**(2)**	6	15
Diluted (loss)/earnings per share from discontinued operations (cents)		(133%)	**(2)**	6	15
Basic earnings per share from total operations (cents)		(6%)	**74**	79	192
Diluted earnings per share from total operations (cents)		(5%)	**74**	78	190

CONDENSED CONSOLIDATED BALANCE SHEET

R millions	Notes	31 August 2019 (Unaudited)	Restated* 31 August 2018 (Unaudited)	Restated* 28 February 2019 (Audited)
Assets				
Non-current assets		**4 487**	3 874	4 171
Property, plant and equipment		**624**	618	620
Right-of-use assets	12	**435**	–	–
Intangible assets including goodwill		**1 929**	1 761	1 965
Equity-accounted investments		**11**	20	19
Financial assets at amortised cost**		**301**	277	350
Financial assets at fair value through profit or loss**		**138**	165	202
Financial assets at fair value through other comprehensive income**		**21**	21	21
Finance lease assets		**188**	175	196
Contract costs capitalised		**91**	–	83
Capital rental devices		**282**	448	293
Trade and other receivables		**93**	–	87
Defined benefit asset		**187**	170	180
Deferred taxation		**187**	219	155
Current assets		**8 059**	7 224	7 430
Inventories		**1 071**	1 002	1 017
Trade and other receivables		**5 191**	4 258	4 725
Financial assets at fair value through profit and loss		**20**	83	6
Contract assets		**280**	226	195
Taxation receivable		**13**	4	25
Restricted cash		**27**	–	26
Cash and cash equivalents		**1 402**	1 377	1 381
		8 004	6 950	7 375
Assets classified as held-for-sale		**55**	274	55
Total assets		**12 546**	11 098	11 601
Equity and liabilities				
Total equity		**3 511**	3 065	3 373
Shareholders' equity		**3 683**	3 267	3 535
Non-controlling interests		**(172)**	(202)	(162)
Non-current liabilities		**1 993**	1 279	1 424
Loans		**1 550**	1 215	1 262
Lease liabilities	12	**317**	–	–
Provisions		**–**	5	–
Contract liabilities		**89**	–	87
Deferred taxation		**37**	59	75
Current liabilities		**7 042**	6 754	6 804
Loans		**346**	450	484
Lease liabilities	12	**140**	–	–
Bank overdraft		**1 518**	1 187	1 181
Provisions		**13**	52	15
Trade and other payables		**3 541**	3 151	3 603
Financial liabilities at fair value through profit and loss		**3**	20	18
Contract liabilities		**1 371**	1 581	1 423
Taxation payable		**110**	117	80
		7 042	6 558	6 804
Liabilities classified as held-for-sale		**–**	196	–
Total equity and liabilities		**12 546**	11 098	11 601

* *Refer to note 13 for more detail in respect of the restatement of prior year balances.*

** *Other Investments disclosed as at August 2018 have been reclassified to financial assets at amortised cost, financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income*

CONDENSED CONSOLIDATED
STATEMENT OF CHANGES IN EQUITY

R millions	Attributable Share capital and premium	 Treasury shares
Balance at 28 February 2018 (Audited)	3 160	(299)
Adjustment on initial application of IFRS 9 and IFRS 15	–	–
Restated total equity at the beginning of the financial year	3 160	(299)
Total comprehensive income for the period		
Profit for the period	–	–
Other comprehensive income		
Foreign currency translation differences in respect of foreign operations	–	–
Effective portion of changes in the fair value of cash flow hedges	–	–
Total other comprehensive income	–	–
Total comprehensive income for the period	–	–
Transactions with owners, recorded directly in equity		
Contributions by and distributions to owners		
Dividends to equity holders	–	–
Issue of share capital	1	–
Share-based payment transactions	–	–
Total contributions by and distributions to owners	1	–
Changes in ownership interests in subsidiaries		
Disposal of operations	–	–
Total changes in ownership interests in subsidiaries	–	–
Total transactions with owners	1	–
Balance at 31 August 2018 (unaudited) - Restated*	3 161	(299)
Total comprehensive income for the period		
Profit for the period	–	–
Other comprehensive income		
Foreign currency translation differences in respect of foreign operations	–	–
Remeasurement on net defined benefit asset	–	–
Effective portion of changes in the fair value of cash flow hedges	–	–
Total other comprehensive income	–	–
Total comprehensive income for the period	–	–
Transactions with owners, recorded directly in equity		
Contributions by and distributions to owners		
Dividends to equity holders	–	–
Share-based payment transactions	–	–
Issue of share capital	4	–
Total transactions with owners	4	–
Balance at 28 February 2019 (Audited)	**3 165**	**(299)**
Total comprehensive income for the period		
Profit for the period	**–**	**–**
Other comprehensive income		
Foreign currency translation differences in respect of foreign operations	**–**	**–**
Total other comprehensive income	**–**	**–**
Total comprehensive income for the period	**–**	**–**
Transactions with owners, recorded directly in equity		
Contributions by and distributions to owners		
Dividends to equity holders	**–**	**–**
Share-based payment transactions	**–**	**–**
Total contributions by and distributions to owners	**–**	**–**
Changes in ownership interests in subsidiaries		
Change in shareholding of subsidiaries	**–**	**–**
Total changes in ownership interests in subsidiaries	**–**	**–**
Total transactions with owners	**–**	**–**
Balance at 31 August 2018 (unaudited)	**3 165**	**(299)**

* *Refer to note 13 for more detail in respect of the restatement of prior year balances.*

Dividends declared 29 cents per share (2019: 44 cents – final and 28 cents – interim)

to Altron equity holders				
Reserves	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
(2 614)	2 543	**2 790**	(245)	2 545
–	(1)	**(1)**	–	(1)
(2 614)	2 542	**2 789**	(245)	2 544
–	292	**292**	(3)	289
165	–	**165**	–	165
9	–	**9**	3	12
174	–	**174**	3	177
174	292	**466**	–	466
–	–	**–**	(6)	(6)
(1)	–	**–**	–	–
12	–	**12**	–	12
11	–	**12**	(6)	6
–	–	**–**	49	49
–	–	**–**	49	49
11	–	**12**	43	55
(2 429)	2 834	**3 267**	(202)	3 065
–	419	**419**	42	461
(52)	–	**(52)**	–	(52)
4	–	**4**	–	4
(6)	–	**(6)**	(3)	(9)
(54)	–	**(54)**	(3)	(57)
(54)	419	**365**	39	404
–	(105)	**(105)**	1	(104)
8	–	**8**	–	8
(4)	–	**–**	–	–
4	(105)	(97)	1	(96)
(2 479)	**3 148**	**3 535**	**(162)**	**3 373**
–	**276**	**276**	**(9)**	**267**
11	**–**	**11**	**–**	**11**
11	**–**	**11**	**–**	**11**
11	**276**	**287**	**(9)**	**278**
–	**(163)**	**(163)**	**(3)**	**(166)**
18	**–**	**18**	**–**	**18**
18	**(163)**	**(145)**	**(3)**	**(148)**
6	**–**	**6**	**2**	**8**
6	**–**	**6**	**2**	**8**
24	**(163)**	**(139)**	**(1)**	**(140)**
(2 444)	**3 261**	**3 683**	**(172)**	**3 511**

CONDENSED CONSOLIDATED
STATEMENT OF CASH FLOWS

R millions	Notes	Six months ended 31 August 2 019 (Unaudited)	Restated* Six months ended 31 August 2018 (Unaudited)	Restated* Year ended 28 February 2019 (Audited)
CASH FLOWS (UTILISED IN) / FROM OPERATING ACTIVITIES				
Cash generated by operations		**46**	471	1 127
Interest received		**50**	77	134
Interest paid		**(169)**	(177)	(330)
Dividends received from equity accounted investees and other investments		**–**	4	4
Taxation paid		**(103)**	(48)	(147)
Dividends paid, including to non-controlling interests		**(166)**	–	(111)
		(342)	327	677
CASH FLOWS UTILISED IN INVESTING ACTIVITIES				
Proceeds on the disposal of subsidiaries and businesses net of cash	8.2	**164**	73	176
Proceeds on the disposal of property, plant and equipment and intangible assets		**52**	–	123
Acquisition of subsidiaries, net of cash acquired		**(10)**	–	(218)
Cash inflow/(outflow) relating to finance lease arrangements		**12**	–	(6)
Acquisition of intangible assets		**(26)**	(24)	(93)
Acquisition of property, plant and equipment		**(109)**	(72)	(190)
Other investing activities		**(145)**	(42)	(206)
		(62)	(65)	(414)
CASH FLOWS FROM/(UTILISED IN) FINANCING ACTIVITIES				
Loans repaid	8.1	**(133)**	(255)	(1 716)
Loans advanced	8.1	**300**	4	1 543
Settlement of finance leases		**(89)**	–	(12)
Other financing activities		**–**	2	–
		78	(249)	(185)
Net (decrease) / increase in cash and cash equivalents		**(326)**	13	78
Net cash and cash equivalents at the beginning of the period		**200**	95	95
Cash and cash equivalents at the beginning of the period		**200**	95	95
Cash previously classified as held-for-sale		**–**	–	–
Effect of exchange rate fluctuations on cash held		**10**	82	27
Net cash and cash equivalents at the end of the period		**(116)**	190	200

* *Refer to note 13 for more detail in respect of the restatement of prior year balances.*

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Altron is a leading ICT business, operating in a number of geographies. Its principal subsidiaries are Altron TMT Proprietary Limited (which includes various operating divisions); Netstar Proprietary Limited and the balance of the Netstar group (including its Australian operations); Altron Nexus Proprietary Limited; Bytes Software Services Limited and Phoenix Software Limited in the UK; and the Altron Rest of Africa operations.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements for the six months ended 31 August 2019 are prepared in accordance with International Financial Reporting Standard, (IAS) 34 *Interim Financial Reporting*, SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC), Financial Pronouncements as issued by the Financial Reporting Standards Council (FRSC), and the requirements of the Companies Act of South Africa.

The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 28 February 2019, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

This report was compiled under the supervision of Mr Cedric Miller, Chief Financial Officer.

3. PRINCIPAL ACCOUNTING POLICIES

The accounting policies applied in the preparation of the condensed consolidated financial statements are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous consolidated financial statements except as described below.

The group adopted all new accounting pronouncements that became effective in the current reporting period. IFRS 16 *Leases* and its impact on Normalised Headline earnings had a material effect on the group. The reclassifications and the adjustments arising from the adoption of IFRS 16 have been recognised in the opening statement of financial position on 1 March 2019, which is disclosed in note 12.

A number of other new pronouncements including IFRIC 23 are effective for the group from 1 March 2019, these have been considered and do not have a material effect on the group's interim financial statements.

R millions	**Six months ended 31 August 2019 (Unaudited)**	Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
4. CAPITAL ITEMS			
Continuing operations			
Net profit on disposal of property, plant and equipment	**23**	16	16
Impairment of property, plant and equipment	**–**	–	(7)
Profit on disposal of operations	**3**	–	–
Impairment of goodwill	**(5)**	–	–
Contract costs written off	**(11)**	–	(35)
	10	16	(26)
Discontinued operations			
Impairment of property, plant and equipment	**–**	(6)	–
Impairment of intangible assets	**–**	(22)	–
Impairment of held-for-sale disposal groups	**–**	(53)	(67)
(Loss)/profit on disposal of discontinued operations	**(6)**	30	30
Loss on disposal of intangible assets	**–**	–	(2)
Profit on disposal of property, plant and equipment	**–**	3	63
	(6)	(48)	24
Total	**4**	(32)	(2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

	R millions	Six months ended 31 August 2019 (Unaudited)	Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
5.	**HEADLINE EARNINGS PER SHARE**			
	Headline earnings per share from continuing operations (cents)	**73**	70	179
	Headline earnings per share from discontinued operations (cents)	**–**	13	12
	Headline earnings per share from total operations (cents)	**73**	83	191
	Diluted headline earnings per share from continuing operations (cents)	**72**	69	179
	Diluted headline earnings per share from discontinued operations (cents)	**–**	13	12
	Diluted headline earnings per share from total operations (cents)	**72**	82	191
	Normalised headline earnings per share from continuing operations (cents)	**77**	70	179
5.1	**Reconciliation between attributable earnings and headline earnings**			
	Earnings attributable to shareholders	**276**	292	711
	Capital items - gross	**(4)**	32	3
	Tax effect of capital items	**(1)**	2	(6)
	Non-controlling interest in capital items	**(2)**	(18)	–
	Headline earnings	**269**	308	708
	Headline earnings per share from total operations (cents)	**73**	83	191
5.2	**Reconciliation between attributable earnings and headline earnings from continuing operations**			
	Earnings attributable to shareholders	**282**	269	655
	Capital items	**(10)**	(16)	26
	Tax effect of capital items	**(1)**	5	(18)
	Non-controlling interest in capital items	**(2)**	–	–
	Headline earnings	**269**	258	663
	Headline earnings per share from continuing operations (cents)	**73**	70	179
5.3	**Reconciliation between attributable earnings and headline earnings from discontinued operations**			
	Earnings attributable to shareholders	**(6)**	23	56
	Capital items	**6**	48	(23)
	Tax effect of capital items	**–**	(3)	12
	Non-controlling interest in capital items	**–**	(18)	–
	Headline earnings	**–**	50	45
	Headline earnings per share from discontinued operations (cents)	**–**	13	12

	Six months ended 31 August 2019 (Unaudited) Number of shares	Six months ended 31 August 2018 (Unaudited) Number of shares	Year ended 28 February 2019 (Audited) Number of shares
5.4 Reconciliation of weighted average number of shares			
Issued shares at the beginning of the year (A ordinary and N ordinary shares)	**399 380 572**	399 092 426	399 092 426
Effect of own shares held at the beginning of the year	**(28 180 081)**	(28 180 081)	(28 180 081)
Effect of shares issued during the year	**4 392**	11 784	100 522
Weighted average number of shares	**371 204 883**	370 924 129	371 012 867
5.5 Reconciliation between number of shares used for earnings per share and diluted earnings per share			
Weighted average number of shares	**371 204 883**	370 924 129	371 012 867
Dilutive options	**3 767 719**	3 889 908	3 801 170
Weighted average number of shares (diluted)	**374 972 602**	374 814 037	374 814 037

R millions	Six months ended 31 August 2019 (Unaudited)	Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
5.6 Reconciliation between earnings and diluted earnings			
Earnings attributable to shareholders	**276**	292	711
Diluted earnings	**276**	292	711
5.7 Reconciliation between headline earnings and diluted headline earnings			
Headline earnings	**269**	308	708
Diluted headline earnings	**269**	308	708
Diluted headline earnings per share from total operations (cents)	**72**	82	191

5.8 Reconciliation between headline earnings and normalised headline earnings from continuing operations

Normalised headline earnings have been presented to demonstrate the impact of IFRS 16.

The presentation of normalised headline earnings is not an IFRS defined measure nor requirement.

Headline earnings are reconciled to normalised headline earnings as follows:

R millions	Six months ended 31 August 2019 (Unaudited)	Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
Headline earnings	**269**	258	663
Implications of IFRS 16	**25**	–	–
Tax effect of adjustments	**(7)**	–	–
Non-controlling interest in adjustments	**(1)**	–	–
Normalised headline earnings	**286**	258	663

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

6. FAIR VALUES AND RISK MANAGEMENT

(a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value as the carrying amounts of these financial assets and liabilities are considered to be a reasonable approximation of fair value.

31 August 2019

	Carrying amount		Fair value			
R millions	Measured at fair value	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
Preference share investment in Technologies Acceptances Receivables Proprietary Limited	**21**	**21**	**–**	**–**	**21**	**21**
Cash collateral – Share linked incentive ("SLI") hedge	**138**	**138**	**138**	**–**	**–**	**138**
Forward exchange contracts	**20**	**20**	–	**20**	**–**	**20**
	179	**179**	**138**	**20**	**21**	**179**
Financial liabilities measured at fair value						
Forward exchange contracts	**(3)**	**(3)**	**–**	**(3)**	**–**	**(3)**
	(3)	**(3)**	**–**	**(3)**	**–**	**(3)**

28 February 2019

	Carrying amount		Fair value			
R millions	Measured at fair value	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value						
Preference share investment in Technologies Acceptances Receivables Proprietary Limited	21	21	–	–	21	21
Cash collateral – Share linked incentive ("SLI") hedge	108	108	108	–	–	108
Investment in Aberdare Cables Proprietary Limited	94	94	–	–	94	94
Forward exchange contracts	6	6	–	6	–	6
	229	229	108	6	115	229
Financial liabilities measured at fair value						
Forward exchange contracts	(18)	(18)	–	(18)	–	(18)
	(18)	(18)	–	(18)	–	(18)

The carrying amounts of financial assets that are not subsequently measured at fair value i.e. finance lease assets and financial assets are considered to approximate the fair value.

The carrying amount of financial liabilities that are not subsequently measured at fair value i.e. financial liabilities at amortised cost are considered to approximate the fair value.

6. FAIR VALUES AND RISK MANAGEMENT (continued)

(a) Accounting classifications and fair values (continued)

The different levels as disclosed in the table above have been defined as follows:

Level 1	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3	Inputs for the asset or liability that are not based on observable market date (unobservable inputs).

(b) Measurement of fair values

Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 2 and Level 3 fair values, as well as the significant unobservable inputs used.

Financial instruments measured at fair value

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between significant unobservable inputs and fair value measurements
Forward exchange contracts	*Market comparison technique:* The fair value of foreign exchange contracts are marked-to-market by comparing the contracted forward rate to the present value of the current forward rate of an equivalent contract with the same maturity date.	Not applicable	Not applicable
Preference share in Technologies Acceptances Receivables Proprietary Limited	The dividend growth model was used to determine the fair value of the preference share using the historic dividends that were received from the investment.	Discount rate of 14.68% (February 2019: 14.68%) Annual perpetuity growth 0% (February 2019: 0%)	The estimated fair value would increase/(decrease) if: • the discount rate was lower/(higher) by 1% then the value would increase/(decrease) by R2 million; • the annual perpetuity growth rate was higher/(lower) by 1% then the value would increase/(decrease) by R2 million.

Transfers

There were no transfers between levels 1, 2 or 3 of the fair value hierarchy for the years ended 31 August 2019 and 28 February 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

7. RELATED PARTY TRANSACTIONS

The group has a related-party relationship with its associates, joint ventures and key management.

R millions	**Six months ended 31 August 2019 (Unaudited)**	Six months ended 31 August 2018 (Unaudited)	Year ended 28 February 2019 (Audited)
Transactions			
Sale of goods and services to joint venture	**8**	123	31
Services received from associates	**–**	148	57
Interest earned from associate	**–**	3	–
Dividends received from joint venture	**–**	13	–
Dividends received from associates	**–**	1	–
Key management remuneration	**49**	30	60
Balances			
Thobela Telecoms – joint venture (trade receivables)	**309**	265	301
Thobela Telecoms – joint venture (credit loss allowance)	**(59)**	–	–

8 SIGNIFICANT EVENTS AND TRANSACTIONS

8.1 Debt refinance

During the prior year, the Group renegotiated its long-term debt refinancing with the banks at more favourable terms. The previous drawn facility of R1.2 billion was settled on 28 February 2019. A long-term facility of R2 billion was granted to the Group of which R1.3 billion was drawn at 28 February 2019, resulting in an undrawn revolving credit facility (RCF) of R700 million at 28 February 2019.

After 28 February 2019, R133 million was repaid, and R300 million was drawn of the undrawn RCF facility. The remaining undrawn RCF amounted to R400 million.

8.2 Proceeds on disposal

	Six months ended 31 August 2019 (Unaudited) R millions
Investment in Aberdare Cables Proprietary Limited	**94**
Preference Share Investment in Auto X Proprietary Limited	**64**
Other	**6**
	164

Investment in Aberdare Cables Proprietary Limited

At 28 February 2019, the investment in Aberdare Cables Proprietary Limited was classified as a non-current financial asset at fair value through profit and loss, and had a carrying value of R94 million.

The valuation of the investment was underpinned by the underlying call and put option structure implemented by the group with the other shareholder to this investment.

The put option was exercised in the current financial year.

Preference Share Investment in Auto X Proprietary Limited

Effective 1 July 2017, Powertech Industries Proprietary Limited disposed of 100% of its equity interest in the Auto X group for R324 million. This operation formed part of the Powertech group. R188 million was received on the effective date, with the balance of the proceeds deferred and to be settled out of actual receipts received by Auto X from the Automotive Production Development Programme. These deferred proceeds are in the form of a preference share, which had a carrying value of R61 million at 28 February 2019. The preference share investment was fully redeemed during the current period.

8.3 Credit risk concentration risk and significant judgement applied by management

Gross trade receivable with Thobela Telecoms (RF) Proprietary Limited ("TT")

Altron Nexus holds a jointly controlled interest in TT. TT is the vehicle through which the City of Tshwane (CoT) has contracted for the procurement and installation of a fibre broadband network (CoT project). Nexus has in turn been contracted by TT to complete the build and implementation of the CoT project.

In the prior year, CoT initiated legal proceedings to halt progress on the project combined with a review of the tender given concerns over internal CoT irregularities related to the tender process. During the current year, the court set aside the CoT's municipal broadband network project contract (refer to note 9).

As at the end of the reporting period, the Group had an outstanding balance of R309 million (February 2018: R301 million) outstanding from TT. The increase in the balance from the prior year is as a result of delay costs that were invoiced to TT in terms of the agreements entered into.

As at 31 August 2019, a loss allowance amounting to R59 million has been raised taking into account collateral.

9. EVENTS AFTER REPORTING PERIOD

- The group declared a dividend of 29 cents per share on 23 October 2019.
- Altron Nexus/City of Tshwane Municipal broadband network judgment

  As mentioned in note 8.3, on 16 July 2019 judgment was handed down in the Gauteng High Court in Pretoria relating to the application brought by the City of Tshwane ("CoT") to review and set aside the tender and award of the Altron Nexus/CoT Municipal Broadband Network contract. The Court's decision was to set aside the awarding of the contract.

  During September 2019, Thobela Telecoms was granted leave to appeal the decision directly to the Supreme Court of Appeal. The court date has not yet been set.
- The directors are not aware of any other events after the reporting period that will have an impact on financial position, performance or cash flows of the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10. REVENUE BY SEGMENT

The Altron group is a diversified group which derives its revenues and profits from a variety of sources.

Segmentation is based on the group's internal organisation and reporting of revenue based upon internal accounting presentation.

Revenue by reportable segment is disaggregated by major product/service and geographic region below.

31 August 2019

R millions

Continuing operations

Revenue by product	Altron Bytes Document Solutions	Altron Bytes Managed Solutions	Altron Bytes People Solutions	Managed Services	Altron Nexus
Project related revenue	**–**	**–**	**–**	**–**	**242**
Over time	–	–	–	–	242
Sale of goods and related services	**595**	**265**	**–**	**860**	**79**
At a point in time	595	265	–	860	79
Over time	–	–	–	–	–
Maintenance, support and outsource services	**135**	**295**	**–**	**430**	**100**
Over time	135	295	–	430	100
Training and skills management	**–**	**–**	**208**	**208**	**–**
Over time	–	–	208	208	–
Software, cloud and licences, including software assurance services	**–**	**–**	**17**	**17**	**–**
At a point in time	–	–	7	7	–
Over time	–	–	10	10	–
Software application and development	**–**	**–**	**–**	**–**	**–**
Over time	–	–	–	–	–
Switching and other transactional services	**–**	**–**	**–**	**–**	**–**
Over time	–	–	–	–	–
Total revenue from contracts with customers	**730**	**560**	**225**	**1 515**	**421**
Rental finance income	23	–	–	**23**	–
Total revenue	**753**	**560**	**225**	**1 538**	**421**
Revenue by geographic region					
South Africa	706	502	217	1 425	408
Rest of Africa	47	58	3	108	13
Total Africa	**753**	**560**	**220**	**1 533**	**421**
Europe	–	–	–	–	–
Rest of world	–	–	5	5	–
Total international	**–**	**–**	**5**	**5**	**–**
Total revenue	**753**	**560**	**225**	**1 538**	**421**

Altron Bytes Systems Integration	Bytes Technology Group UK	Altron Rest of Africa and other international operations	Altron Karabina	Digital Transformation	Altron Bytes Secure Transaction Solutions	Healthtech/ Fintech	Netstar	Smart IoT	Altron Arrow	Corporate and consolidation	Other	Continuing operations
215	**109**	**–**	**77**	**643**	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**	**639**
215	109	–	77	643	–	–	–	–	–	(4)	(4)	639
454	**313**	**135**	**–**	**981**	**111**	**111**	**764**	**764**	**250**	**(93)**	**157**	**2 873**
428	313	135	–	955	88	88	73	73	250	(78)	172	2 148
26	–	–	–	26	23	23	691	691	–	(15)	(15)	725
284	**30**	**25**	**–**	**439**	**69**	**69**	**–**	**–**	**–**	**(70)**	**(70)**	**868**
284	30	25	–	439	69	69	–	–	–	(70)	(70)	868
–	**16**	**–**	**–**	**16**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**	**221**
–	16	–	–	16	–	–	–	–	–	(3)	(3)	221
9	**3 405**	**–**	**9**	**3 423**	**80**	**80**	**–**	**–**	**–**	**(73)**	**(73)**	**3 447**
9	2 843	–	–	2 852	80	80	–	–	–	(73)	(73)	2 866
–	562	–	9	571	–	–	–	–	–	–	–	581
102	**–**	**–**	**–**	**102**	**20**	**20**	**–**	**–**	**–**	**–**	**–**	**122**
102	–	–	–	102	20	20	–	–	–	–	–	122
37	**–**	**–**	**–**	**37**	**301**	**301**	**–**	**–**	**–**	**–**	**–**	**338**
37	–	–	–	37	301	301	–	–	–	–	–	338
1 101	**3 873**	**160**	**86**	**5 641**	**581**	**581**	**764**	**764**	**250**	**(243)**	**7**	**8 508**
–	–	–	–	**–**	–	**–**	–	**–**	–	–	**–**	**23**
1 101	**3 873**	**160**	**86**	**5 641**	**581**	**581**	**764**	**764**	**250**	**(243)**	**7**	**8 531**
1 031	–	8	86	1 533	558	558	674	674	246	(96)	150	4 340
63	–	118	–	194	23	23	3	3	–	(9)	(9)	319
1 094	**–**	**126**	**86**	**1 727**	**581**	**581**	**677**	**677**	**246**	**(105)**	**141**	**4 659**
4	3 856	1	–	3 861	–	–	–	–	–	(138)	(138)	3 723
3	17	33	–	53	–	–	87	87	4	–	4	149
7	**3 873**	**34**	**–**	**3 914**	**–**	**–**	**87**	**87**	**4**	**(138)**	**(134)**	**3 872**
1 101	**3 873**	**160**	**86**	**5 641**	**581**	**581**	**764**	**764**	**250**	**(243)**	**7**	**8 531**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10. REVENUE BY SEGMENT (continued)

The Altron group is a diversified group which derives its revenues and profits from a variety of sources.

Segmentation is based on the group's internal organisation and reporting of revenue based upon internal accounting presentation.

Revenue by reportable segment is disaggregated by major product/service and geographic region below.

31 August 2018

R millions

Continuing operations

Revenue by product - Restated*	Altron Bytes Document Solutions	Altron Bytes Managed Solutions	Altron Bytes People Solutions	Managed Services	Altron Nexus
Project related revenue	**–**	**–**	**–**	**–**	**256**
Over time	–	–	–	–	256
Sale of goods and related services	**434**	**149**	**–**	**583**	**110**
At a point in time	434	149	–	583	110
Over time	–	–	–	–	–
Maintenance, support and outsource services	**286**	**368**	**172**	**826**	**130**
Over time	286	368	172	826	130
Training and skills management	**–**	**–**	**40**	**40**	**–**
Over time	–	–	40	40	–
Software, cloud and licences, including software assurance services*	**–**	**–**	**25**	**25**	**–**
At a point in time*	–	–	25	25	–
Software application and development	**–**	**–**	**–**	**–**	**–**
Over time	–	–	–	–	–
Switching and other transactional services	**–**	**–**	**–**	**–**	**–**
Over time	–	–	–	–	–
Total revenue from contracts with customers	**720**	**517**	**237**	**1 474**	**496**
Revenue by geographic region					
South Africa	649	458	237	1 344	459
Rest of Africa	71	59	–	130	37
Total Africa	**720**	**517**	**237**	**1 474**	**496**
Europe	–	–	–	–	–
Rest of world	–	–	–	–	–
Total international	**–**	**–**	**–**	**–**	**–**
Total revenue - Continuing operations	**720**	**517**	**237**	**1 474**	**496**

Altron Bytes Systems Integration	Bytes Technology Group UK*	Altron Rest of Africa and other international operations	Altron Karabina	Digital Transformation	Altron Bytes Secure Transaction Solutions	Healthtech/ Fintech	Netstar	Smart IoT	Altron Arrow	Corporate and consolidation	Other	Continuing operations
136	**115**	**–**	**–**	**507**	**2**	**2**	**–**	**–**	**–**	**(12)**	**(12)**	**497**
136	115	–	–	507	2	2	–	–	–	(12)	(12)	497
411	**63**	**98**	**–**	**682**	**134**	**134**	**732**	**732**	**287**	**(59)**	**228**	**2 359**
411	63	98	–	682	134	134	–	–	287	(41)	246	1 645
–	–	–	–	–	–	–	732	732	–	(18)	(18)	714
344	**318**	**32**	**–**	**824**	**39**	**39**	**10**	**10**	**–**	**(42)**	**(42)**	**1 657**
344	318	32	–	824	39	39	10	10	–	(42)	(42)	1 657
–	**16**	**–**	**–**	**16**	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**54**
–	16	–	–	16	–	–	–	–	–	(2)	(2)	54
–	**2 915**	**–**	**–**	**2 915**	**97**	**97**	**–**	**–**	**–**	**(120)**	**(120)**	**2 917**
–	2 915	–	–	2 915	97	97	–	–	–	(120)	(120)	2 917
137	**–**	**–**	**–**	**137**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**	**134**
137	–	–	–	137	–	–	–	–	–	(3)	(3)	134
–	**–**	**–**	**–**	**–**	**308**	**308**	**–**	**–**	**–**	**(8)**	**(8)**	**300**
–	–	–	–	–	308	308	–	–	–	(8)	(8)	300
1 028	**3 427**	**130**	**–**	**5 081**	**580**	**580**	**742**	**742**	**287**	**(246)**	**41**	**7 918**
972	–	–	–	1 431	570	570	630	630	287	(105)	182	4 157
56	–	130	–	223	10	10	2	2	–	(9)	(9)	356
1 028	**–**	**130**	**–**	**1 654**	**580**	**580**	**632**	**632**	**287**	**(114)**	**173**	**4 513**
–	3 214	–	–	3 214	–	–	–	–	–	(125)	(125)	3 089
–	213	–	–	213	–	–	110	110	–	(7)	(7)	316
–	**3 427**	**–**	**–**	**3 427**	**–**	**–**	**110**	**110**	**–**	**(132)**	**(132)**	**3 405**
1 028	**3 427**	**130**	**–**	**5 081**	**580**	**580**	**742**	**742**	**287**	**(246)**	**41**	**7 918**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

10. REVENUE BY SEGMENT (continued)

31 August 2018

Discontinued operations

R millions	Powertech Group	Multimedia Group	Discontinued operations
Revenue by product			
Sale of goods and related services	**427**	**494**	**921**
At a point in time	427	494	921
Total revenue	**427**	**494**	**921**
Revenue by geographic region			
South Africa	394	481	875
Rest of Africa	33	–	33
Total Africa	**427**	**481**	**908**
Rest of world	–	13	13
Total international	**–**	**13**	**13**
Total revenue - Discontinued operations	**427**	**494**	**921**
Total revenue - Total operations			**8 839**

* *Refer to note 13 for more detail in respect of the restatement of prior year balances.*

11. REPORTING SEGMENTS

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the group's other components. The group determines and presents operating segments based on the information that is internally provided to the group's executive committee, who is the group's chief operating decision-makers (CODM). An operating segment's operating results are reviewed regularly by the CODM to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available. Segment results that are reported to the CODM include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets (primarily the group's headquarters and the subgroup's headquarters).

The segmental information has been prepared to highlight the continuing and discontinued operating segments. This provides more insight into revenue, earnings before interest, taxation, depreciation, amortisation, capital items and equity accounted losses (EBITDA before capital items), operating profit before capital items and depreciation disclosed in the statement of comprehensive income.

11. REPORTING SEGMENTS (continued)

The below is categorised in accordance with the group's reporting segments. The segment revenues and earnings before interest, taxation, depreciation, amortisation, capital items and equity accounted losses (EBITDA before capital items) generated by each of the group's segments are summarised as follows:

R millions	Revenue Aug 2019	Revenue Aug 2018 Restated*	Revenue Feb 2019	EBITDA before capital items Aug 2019	EBITDA before capital items Aug 2018	EBITDA before capital items Feb 2019
Altron Bytes Document Solutions	**753**	720	1 498	**35**	32	74
Altron Bytes Managed Solutions	**560**	517	1 168	**43**	29	77
Altron Bytes People Solutions	**225**	237	458	**20**	20	26
Managed Services	**1 538**	1 474	3 124	**98**	81	177
Altron Nexus	**421**	496	1 185	**(25)**	–	123
Altron Bytes Systems Integration	**1 101**	1 028	2 027	**38**	28	105
Bytes Technology Group UK*	**3 873**	3 427	6 373	**303**	207	368
Altron Rest of Africa and other international operations	**160**	130	285	**9**	14	8
Altron Karabina	**86**	–	105	**–**	–	10
Digital Transformation	**5 641**	5 081	9 975	**325**	249	614
Netstar	**764**	742	1 521	**291**	258	583
Smart IoT	**764**	742	1 521	**291**	258	583
Altron Bytes Secure Transaction Solutions	**581**	580	1 141	**148**	134	289
Healthtech/Fintech	**581**	580	1 141	**148**	134	289
Altron Arrow	**250**	287	499	**10**	15	25
Corporate and consolidation	**(243)**	(246)	(537)	**(69)**	(60)	(81)
Other	**7**	41	(38)	**(59)**	(45)	(56)
Continuing operations	**8 531**	7 918	15 723	**803**	677	1 607
Multimedia Group	**–**	494	775	**(2)**	34	15
Autopage Group	**–**	–	–	**4**	(5)	5
Powertech Group	**–**	427	427	**(1)**	36	34
Discontinued operations	**–**	921	1 202	**1**	65	54
Altron Group	**8 531**	8 839	16 925	**804**	742	1 661

* *Refer to note 13 for more detail in respect of the restatement of prior year balances.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(continued)

11. REPORTING SEGMENTS (continued)

Segment EBITDA before capital items can be reconciled to operating profit before capital items as follows:

R millions	Aug 2019	Aug 2018	Feb 2019
EBITDA before capital items – total operations	**804**	742	1 661
Reconciling items:			
Depreciation – Property, plant and equipment	**(85)**	(85)	(179)
Depreciation – Right-of-use assets	**(73)**	–	–
Amortisation	**(66)**	(64)	(134)
Amortisation of costs incurred to acquire contracts and capital rental devices	**(123)**	(107)	(253)
Total operating profit before capital items	**457**	**486**	**1 095**
Discontinued operations profit before capital items	**(1)**	(65)	(54)
Continuing operations profit before capital items	**456**	**421**	**1 041**

Revenues/EBITDA before capital items/operating profit from segments below the quantitative thresholds are attributable to smaller operating segments of the Altron group. None of those segments have met any of the quantitative thresholds for determining reportable segments for the reportable periods.

Quantitative thresholds have been calculated based on totals for the Altron group and not per sub-group.

12. CHANGES IN ACCOUNTING POLICIES

The group has adopted the following new accounting pronouncements as issued by the International Accounting Standards Board (IASB), which were effective for the group from 1 March 2019:

- IFRS 16 *Leases* (IFRS 16)

The group has adopted IFRS 16 retrospectively from 1 March 2019, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The right-of-use asset was measured at the value of the lease liability and adjusted by the amount of any previously recognised prepaid or accrued lease payments. The reclassifications and the adjustments arising from the adoption of IFRS 16 are therefore recognised in the opening statement of financial position on 1 March 2019.

Adoption of IFRS 16

The adoption of IFRS 16 has the following impact on the group:

IFRS 16 introduced a single, on-balance sheet accounting model for leases. As a result, the group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. After the adoption of IFRS 16, the group recognised a depreciation expense on the right-of-use assets and an interest expense accruing on the lease liabilities. Cash generated from operations increased as lease costs are no longer included in this category. Interest paid increased, as it includes the interest portion of the lease liability payments and the capital portion of lease liability repayments is included in cash used in financing activities. Lessor accounting remains similar to previous accounting policies.

The group's leasing activities and significant accounting policies

The group's leases include buildings, high sites and motor vehicles. The term on rental contracts are generally fixed, however, they may have renewal periods as described below.

From 1 March 2019, the group recognises right-of-use assets and lease liabilities at the lease commencement date for most leases. However, the group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets (e.g. office and computer equipment) and for short-term leases, i.e. leases that at commencement date have lease terms of 12 months or less. The group recognises the lease payments associated with these leases as an expense on a straight-line basis.

The group has applied the practical expedient to 'grandfather' previous assessments performed on existing contracts to determine if these contracts are, or contain, leases.

12. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 (continued)

The recognised right-of-use assets relate to the following types of assets:

	31 August 2019 R millions	1 March 2019 R millions
Buildings	**334**	311
High sites	**75**	83
Motor vehicles	**26**	22
Total right-of-use assets	**435**	416

The increase in right-of-use assets mainly relate to additions during the current year.

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 March 2019.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. Interest costs are charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. It is remeasured when there is a change in future lease payments arising from a change in index or rate, a change in the estimate of the amount payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The associated right-of-use assets were measured at the amount equal to the lease liability and are subsequently measured at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability. The right-of-use assets are depreciated over the shorter of the assets' useful lives and the lease terms on a straight-line basis.

Lease and non-lease components

A number of lease contracts include both lease and non-lease components. The group has not elected the practical expedient to account for non-lease components as part of its lease liabilities and right-of-use assets. Therefore, non-lease components are accounted for as operating expenses and are recognised in profit or loss as they are incurred.

Renewal and termination options

Certain lease contracts include an option to renew the lease for a further period, or allow for an earlier termination date. Majority of these contracts allow for extension or earlier termination to be determined by the group and not the lessor.

The Group applies judgement in assessing whether extension or termination options will be exercised and these options are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). In performing its assessment, management will consider all facts and circumstances that will align with the group's business plan and future outlook.

Where possible high sites have been grouped on a portfolio basis based on contracts with similar characteristics. Management have used hindsight as well as budgets and forecasts to determine an average renewal period for portfolios identified. A single discount rate was also applied.

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

12. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 (continued)

Impacts on transition

On transition to IFRS 16, the group recognised right-of-use assets and lease liabilities. The impact on transition is summarised below:

	1 March 2019 R millions
Right-of-use assets	**433**
Adjusted by previously recognised prepaid or accrued lease payments	**(17)**
Total assets	**416**
Lease liabilities – non-current	**280**
Lease liabilities – current	**153**
Total liabilities	**433**

Reconciliation of lease commitments to lease liability recognised as at 1 March 2019

When measuring lease liabilities for leases that were previously classified as operating leases, the group discounted lease payments using its incremental borrowing rate at 1 March 2019. A reconciliation of the operating lease commitments disclosed as at 28 February 2019 discounted using the incremental borrowing rate at 1 March 2019 to the lease liability recognised on 1 March 2019 is disclosed below:

	R millions
Operating lease commitments at 28 February 2019 (Restated)**	**517**
Discounted using the group's incremental borrowing rate***	**(71)**
Less: Short-term leases and low-value leases recognised on a straight-line basis as expense	**(13)**
Lease liability recognised as at 1 March 2019	**433**
Of which are:	
Current lease liabilities	**153**
Non-current lease liabilities	**280**
	433

** *Due to the implementation of IFRS 16, operating lease commitments as disclosed at 28 February 2019, have been restated for the following:*

Operating lease commitments disclosed as at 28 February 2019	**481**
Contracts previously excluded from operating lease commitments	**58**
Non-lease components previously recognised in operating lease commitments	**(22)**
Operating lease commitments at 28 February 2019 (Restated)	**517**

*** *The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 March 2019 was between 4.8% and 10.5% due to the different geographic locations of the group's operations.*

Impacts for the period

As a result of applying IFRS 16, in relation to the leases that were previously classified as operating leases,

12. CHANGES IN ACCOUNTING POLICIES (continued)

Adoption of IFRS 16 (continued)

the group recognised R435 million of right-of-use assets and R457 million of lease liabilities at 31 August 2019.

Also in relation to those leases under IFRS 16, the group has recognised depreciation and interest costs, instead of operating lease expenses of R67 million that would have been recognised under IAS 17. During the six months ended 31 August 2019, the group recognised R73 million of depreciation charges and R19 million of interest costs from these leases.

Earnings per share decreased by 5 cents per share for the six months ended 31 August 2019 as a result of the adoption of IFRS 16.

Cash from operating activities includes interest paid on lease liabilities of R19 million and cash flows from/(utilised in) financing activities includes R69 million for the capital portion of lease liability repayments. The cash flows were previously recognised as net cash generated by operations.

13 CORRECTION OF ACCOUNTING TREATMENT IN AUGUST 2018 COMPARATIVES

Only the August 2018 comparatives require restatement, as February 2019 was restated in the prior year annual financial statements.

Matters identified

13.1 The group sells goods under finance lease arrangements in certain parts of its business. As part of these transactions, the group enters into back-to-back arrangements with an external party to receive cash from the transaction on day one. As the customer settles the monthly lease instalments with the group, the group settles its monthly instalments with the external financier. In previous years, the finance lease asset and the finance lease liability were set off on presentation in the balance sheet. Upon analysis of the IFRS requirements for set off, i.e. that the group currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, were not met. Due to the offset requirements not being met in accordance with the requirements of IFRS, the finance lease asset and finance lease liability needed to be presented separately on the balance sheet and as a result the comparative balances were accordingly restated.

13.2 The group enters into arrangements in terms of which it acts as a clearing/collecting agent on behalf of certain merchants. In terms of these arrangements, the group collects the cash on behalf of the merchant which is paid into the group's bank account, after which it is paid over by the group to the merchant immediately once the payment clears the bank account. In prior years, the group netted the amounts received into its bank account and the amounts payable to the merchant when presenting its balance sheet. Upon reflection, it was concluded that the balance sheet presentation as previously applied was not appropriate and the cash received as well as the payable to the merchant should have been included on a gross basis, resulting in the comparative balances being restated. As this arrangement had an impact on the cash on hand balances maintained by the group, the statement of cash flow has been restated to reflect the impact of the additional cash on hand at the end of the preceeding reporting periods.

13.3 In reviewing contracts which include post sale support or software product upgrades, it was concluded that revenue should be deferred over the contract term in accordance with IFRS 15.

13.4 *Cloud services and related licences*

The group reviewed its accounting policy for the sale of cloud services (and related licences) on adoption of IFRS 15. Previously, management applied their judgement in determining the accounting in accordance with the "risks and rewards" approach followed under IAS 18, which resulted in these arrangements being accounted for by the group as the principal. One of the considerations applied in reaching this conclusion was the consideration of credit risk.

Under IFRS 15, based on the concept of "control" and the transfer thereof; and the change in the criteria to be considered when assessing whether an arrangement should be accounted for on a principal or agent basis, these arrangements are now accounted for by the group as an agent in terms of IFRS 15. One of the previously relevant indicators, i.e. credit risk is no longer included in the guidance under IFRS 15 further supporting the conclusion reached.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(continued)

13. CORRECTION OF ACCOUNTING TREATMENT IN AUGUST 2018 COMPARATIVES (continued)

13.5 The cumulative effect of above had an impact on the adjustment to opening retained income recognised at 31 August 2018 and has therefore been restated. Shareholders equity at February 2019 was correctly stated.

These adjustments have been corrected by updating each of the affected financial statement line items for the period 31 August 2018 as follows:

R millions	31 August 2018 As previously reported	Adjustments	Restated
Statement of financial position			
(Extract)			
Non-current assets			
Finance lease assets	88	87	**175**
Current assets			
Trade and other receivables	3 343	915	**4 258**
Cash and cash equivalents	1 237	140	**1 377**
Equity and liabilities			
Total equity			
Shareholders equity	3 264	3	**3 267**
Non-current liabilities			
Loans	1 128	87	**1 215**
Current liabilities			
Loans	354	96	**450**
Contract liabilities	762	819	**1 581**
Trade and other payables	3 014	137	**3 151**

R millions	31 August 2018 As previously reported	Adjustments	Restated
Statement of comprehensive income			
(Extract)			
Revenue	9 779	(1 861)	7 918
Operating costs excluding capital items	(9 102)	1 861	(7 241)

R millions	31 August 2018 As previously reported	Adjustments	Restated
Cash flow			
(Extract)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	630	(159)	**471**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Loans advanced	–	4	**4**
Loans repaid	(251)	(4)	**(255)**
Net increase/(decrease) in cash and cash equivalents	172	(159)	**13**
Net cash and cash equivalents at the beginning of the year	(204)	299	**95**
Net cash and cash equivalents at the end of the year	50	140	**190**

SUPPLEMENTARY INFORMATION

(Total Operations – Unaudited)

R millions	Six months ended 31 August 2019	Six months ended 31 August 2018	Year ended 28 February 2019
Depreciation and amortisation	**347**	256	566
Net foreign exchange profit	**11**	31	11
Cash flow movements			
Capital expenditure (including intangibles)	**135**	96	283
Net additions to contract fulfilment costs	**(3)**	(12)	(142)
Additions to contract fulfilment costs	**131**	95	246
Contract costs written off	**(11)**	–	(35)
Amortisation of costs incurred to fulfil contracts during the year	**(123)**	(107)	(353)
Capital commitments	**62**	16	–
Contingent liabilities			
There were no contingent liabilities identified as at 31 August 2018			
Weighted average number of shares (millions)	**371**	371	370
Diluted average number of shares (millions)	**375**	373	372
Shares in issue at end of period (millions)	**371**	371	371
Ratios (total operations)			
EBITDA margin	**9.4%**	8.4%	9.8%
ROCE	**16.9%** *	20.5% *	21.4%
ROE	**15.6%** *	20.4% *	21.3%
ROA	**9.6%** *	12.0% *	12.0%
RONA	**12.7%** *	12.6% *	17.3%
Current ratio	**1.1:1**	1.1:1	1.1:1
Acid test ratio	**1:1**	0.9:1	0.9:1

* *Annualised*

ALTRON

CONTACT US

Altron
4 Sherborne Road, Parktown 2193
Gauteng SOUTH AFRICA

PO Box 981, Houghton 2041
Gauteng SOUTH AFRICA

www.altron.com