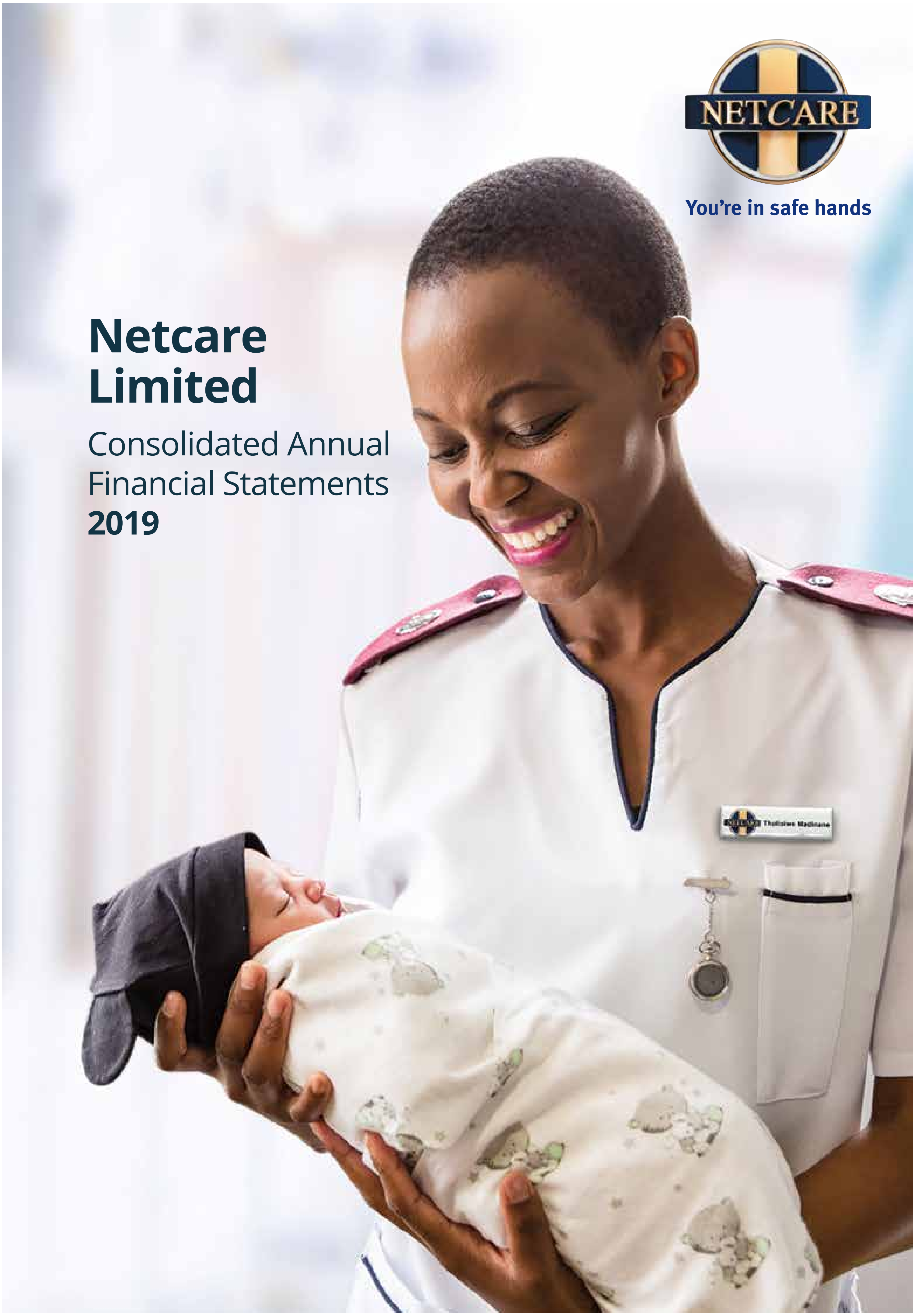
You're in safe hands

Netcare Limited

Consolidated Annual Financial Statements

2019



Contents

Netcare Limited

Annual Financial Statements 30 September 2019

These annual financial statements were prepared by the finance department of Netcare Limited acting under the supervision of KN Gibson CA(SA), Chief Financial Officer of the Group.

Directors’ responsibility and approval

The directors of Netcare Limited are responsible for the preparation and integrity of the annual financial statements of the Company and the Group, which have been prepared under the supervision of the Chief Financial Officer, Mr KN Gibson, CA(SA). These annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the requirements of the South African Companies Act, No 71 of 2008 (the Companies Act), and the JSE Listings Requirements in line with the accounting policies of the Group, which are supported by prudent judgements and estimates. The Group’s external auditors, Deloitte & Touche, are engaged to express an independent opinion on these financial statements which has been presented on pages 13 to 15.

To enable the directors to fulfil this responsibility, the Group maintains internal accounting and administrative control systems designed to provide reasonable assurance that assets are safeguarded and that transactions are executed and recorded in accordance with the Group’s policies and procedures to prevent and detect material misstatement and loss.

The directors are of the opinion that such accounting and administrative control systems have been maintained during the year. Nothing has come to the attention of the Netcare Board that caused it to believe that the Group’s system of internal controls and risk management are not effective and that the internal financial controls do not form a sound basis for the preparation of reliable financial statements.

The annual financial statements are prepared on a going concern basis and in accordance with IFRS. These financial statements are audited by the external auditors in conformity with International Standards on Auditing.

The annual financial statements were approved by the Board of directors on 14 November 2019 and are signed on its behalf by:

T Brewer	**RH Friedland**	**KN Gibson**
Non-executive Board Chair	Chief Executive Officer	Chief Financial Officer

Sandton

14 November 2019

Certificate by the Company Secretary

I hereby certify that, in respect of the year under review, the Company has lodged with the Companies and Intellectual Property Commission all returns and notices required of a public company in terms of the Companies Act, section 88(2)(e) and that all such returns appear to be true, correct and up to date.

L Bagwandeen
Company Secretary

Sandton

14 November 2019

Directors' report

for the year ended 30 September 2019

Your directors have pleasure in presenting their report on the activities of Netcare Limited consolidated (the Group) and of Netcare Limited (the Company) for the year ended 30 September 2019.

Nature of business

Netcare Limited is an investment holding company incorporated in South Africa and through its subsidiaries, joint ventures and associates in Southern Africa (SA), carries on business as a private hospital group, providing an extensive range of general, emergency and specialised medical care services. Ancillary healthcare businesses include primary, administration and logistical services. Netcare Limited is a public company under the Companies' Act 71 of 2008 and the company's shares are listed on the JSE.

Financial results and review

The 2019 financial year has seen the Group deliver a resilient financial performance in a challenging market, and important strides have been made towards executing the Group's strategic objectives. The broader South African economy continues to struggle and the healthcare environment faces a number of challenges to growth. Medical scheme membership remains stagnant and funders remain focused on case management initiatives and the introduction of new hospital networks. Against this backdrop, Netcare has managed its cost base well with targeted efficiency initiatives gaining traction in the second half of the year.

In addition, the following exceptional item relating to the deregistration of West Maude Investments has had a significant impact on the Group results: A non-cash profit of R128 million arose on the realisation of the foreign currency translation reserve in West Maude Investments.

The financial results of the Group are set out on pages 16 to 96 of this report and a segment report is included in note 2.11 to the Group annual financial statements. The Company annual financial statements are presented on pages to 97 to 105 .

Subsidiaries, associates and joint ventures

Details of interests in subsidiaries, joint ventures and associates are shown on pages 106 to 109 respectively.

Acquisitions, disposals and changes in holdings

Acquisitions

During the current year, the Group acquired 100% shareholding in the following subsidiaries:

- Medicross Foreshore Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Kimberley Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Langeberg Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Monte Vista Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Upington Day Theatre Proprietary Limited, effective 23 October 2018
- Netcare Lakeview Day Hospital Proprietary Limited,effective 15 March 2019.
- Netcare Moot Day Hospital Proprietary Limited, effective 15 March 2019.
- Netcare N17 Day Hospital Proprietary Limited, effective 15 March 2019
- Saintpoint Proprietary Limited, effective 01 May 2019.
- Setegenus Proprietary Limited, effective 01 May 2019.

Disposals

During the current year, the Group disposed the following subsidiaries:

- Netcare Raslouw Propco Proprietary Limited, effective 01 November 2018.
- Proudafrique Trading 362 Proprietary Limited, effective 01 November 2018.
- Raslouw Private Hospital Proprietary Limited, effective 01 November 2018.

Changes in holdings

The Group changed its shareholding in the following subsidiaries during the year:

- As a result of a share buy back by Netcare Unitas Linac Joint Venture Proprietary Limited, the Group's shareholding increased to 60.2% from 52.6%, effective 30 October 2018.

- As a result of the acquisition of additional shares in Netcare Pinehaven Hospital Proprietary Limited, the Group's shareholding increased to 82.5% from 75.0%, effective November 2018.
- As a result of the issue of additional shares in Akeso Alberton Proprietary Limited, the Group's shareholding decreased from 96.0% to 86.0%, effective 01 May 2019.
- As a result of a share buy back by Cancare Proprietary Limited, the Group's shareholding increased to 83.3% from 60.0%, effective 01 August 2019.
- External shareholders exercised a call option on shares in Elsitron Proprietary Limited and as result the Group's shareholding decreased to 30.0% from 70.0%, and the entity is now equity accounted as an associate.

There were no other material changes in the Group to holdings in subsidiaries, associates or joint ventures during the year ended 30 September 2019.

The complete list of acquisitions, disposals, deregistrations and changes in holdings is available to shareholders on request.

Property, plant and equipment

Capital expenditure incurred during the year amounted to R1 378 million (2018: R1 512 million).

Details of capital commitments are provided in note 7.2.1 to the Group annual financial statements.

Share capital

Authorised and issued

The Company's authorised share capital remained unchanged during the year. The Company issued no shares during the year (2018: 8 200 000).

Further details of the authorised and issued share capital of the Company are provided in note 8.1 to the Group annual financial statements.

Shareholding of Company

The issued capital of the Company held by public and non-public entities as at 30 September 2019 was as follows:

	Number of shareholders	Number of shares[1]	% of issued share capital
Public	15 854	1 345 427 623	99.97
Non-public			
Directors	2	407 381	0.03
Total	15 856	1 345 835 005	100.00

1. Number of shares are net of treasury shares.

Beneficial shareholders holding 5% or more		
Public Investment Corporation	256 610 274	19.07
Allan Gray various funds	109 392 635	8.13
Coronation various funds	85 053 681	6.32
Total	451 056 590	33.52
Investment management shareholding greater than 5%		
Public Investment Corporation Group	211 798 741	15.74
Allan Gray Proprietary Limited	199 576 409	14.83
Coronation Fund Managers Limited	177 314 977	13.18
Total	588 690 127	43.75

Directors' report continued

Share incentive schemes

Particulars relating to the Forfeitable Share Plan are provided in note 4.3 to the Group annual financial statements.

Ordinary dividends paid

Details of the ordinary dividends paid for the year are (note 8.1 refers):

Rm	2019	2018
Final distribution paid		
Final dividend paid on 28 January 2019 of 60.0 cents per share (2018: 57.0 cents per share)	883	839
Special dividend paid on 28 January 2019 of 40.0 cents per share	588	–
Total	1 471	839
Interim distribution paid		
Interim dividend paid on 08 July 2019 of 47.0 cents per share (2018: 44.0 cents per share)	685	647
Total distribution paid	2 156	1 486
Dividends attributable to treasury shares	(160)	(98)
Paid to Netcare Limited external shareholders	1 996	1 388

Dividends paid are accounted for on the date of declaration. As a result, the final dividend of 64.0 cents per share declared on 14 November 2019, is not reflected in the financial statements for the year ended 30 September 2019.

In accordance with the provisions of STRATE, the electronic settlement and custody system used by the JSE Limited, the relevant dates for the dividend are as follows:

Last day to trade cum dividend	Tuesday 21 January 2020
Trading ex dividend commences	Wednesday 22 January 2020
Record date	Friday 24 January 2020
Payment date	Monday 27 January 2020

Ordinary dividends declared in respect of the current year's earnings are:

Cents	2019	2018
Interim dividend	47.0	44.0
Final dividend	64.0	60.0
	111.0	104.0
Special dividend	–	40.0
	111.0	144.0

The estimated total cash flow of the final dividend of 64.0 cents per share payable on 27 January 2020, is R861 million.

This amount excludes R68 million attributable to treasury shares.

Preference dividends

Details of the preference shares are provided in note 8.3 to the Group annual financial statements. The preference dividends paid for the year are:

Rm	2019	2018
Interim dividend	27	28
Final dividend	27	27
	54	55

The Board has confirmed by resolution that the solvency and liquidity test as contemplated by the Companies Act has been duly considered, applied and satisfied.

Directors

The composition of the Board of directors for the year and to the date of this report is as follows:

Executive directors

RH Friedland
KN Gibson

Independent non-executives

MR Bower
T Brewer – Chairperson
B Bulo
L Human – Appointed effective 13 May 2019
APH Jammine – Retired effective 30 September 2019
MJ Kuscus
KD Moroka
N Weltman

The directors standing for re-election at the annual general meeting are:
T Brewer
L Human
MJ Kuscus
KD Moroka

Board diversity

Gender	
Male	6
Female	4
Nationality	
Black South African	4
White South African	6
Independence	
Executive	2
Independent non-executive[1]	8

1. *The continued independence of independent non-executive directors that have served for a period of ten years is evaluated, taking into account the factors that may impair their independence. Following the 2019 review, the Board is satisfied that there are no relationships or circumstances likely to affect, or which appear to affect, the judgement of Adv KD Moroka as a director. The Board is also satisfied that the Chairperson of the Board, T Brewer, is independent and free from any conflicts of interest.*

The interests of directors and remuneration paid to directors are disclosed in note 4.1 to the Group annual financial statements.

Directors' report continued

Company secretary

The Company Secretary is L Bagwandeen.

The Company Secretary's contact details, and the business and postal addresses of Netcare Limited appear on page 112.

Auditors

The Group appointed Deloitte & Touche as the new auditors of Netcare Limited, pursuant to a decision by the Board to voluntarily comply with mandatory audit firm rotation prior to the prescribed date of 1 April 2023. Mr Graeme Berry is the designated audit partner.

Events after the reporting period

On 15 October 2019, Netcare approved a further allocation of 61 050 000 previously unallocated Netcare shares (the Allocation), at a strike price of R13.94 per share, to 20 350 Netcare employees (excluding executives), of which 80% are black and 65% are black women (the Beneficiaries). These shares were available under the Health Partners for Life (HPFL) Broad-based Black Economic Empowerment (B-BBEE) scheme, which was concluded in 2005.

The Allocation reflects Netcare's commitment to the imperative of building a transformed South Africa characterised by values of social and economic equality and inclusion for all and achieves this objective in a manner that enables Netcare to further strengthen the ownership component of its empowerment rating. As a result, Netcare has been able to increase its B-BBEE ownership and has improved its overall B-BBEE rating to Level 4 (from Level 5 in 2018 and Level 8 in 2017).

The Allocation, as contemplated in the HPFL B-BBEE scheme, will result in an upfront once off non-cash IFRS 2 charge of approximately R347 million to be recognised in the 2020 financial year. The dividend payable to Beneficiaries will have a negligible annual impact on Netcare's future earnings per share.

The directors are not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Group's annual financial statements, which significantly affect the financial position at 30 September 2019 or the results of its operations or cash flows for the year then ended.

Going concern

The directors have reviewed the Group and Company budget and cash flow forecasts and have satisfied themselves that the Group and Company are in a sound financial position and that they have access to sufficient borrowing facilities to meet their foreseeable cash requirements.

On the basis of this review, the Netcare directors have concluded that there is a reasonable expectation that the Group will continue to meet its financial covenants and meet its obligations as they fall due for at least the next 12 months from the date of approval of these financial statements. The directors consider it appropriate to adopt the going concern basis in preparing the Group and Company annual financial statements.

Borrowing powers

In terms of the Memorandum of Incorporation (MOI), the borrowing powers of the Company are unlimited. Any borrowings by the Group, were they to be made, would be subject to the provisions of the Group's treasury policy and the Companies Act. The details of borrowings appear in note 3.1 to the Group annual financial statements.

Special resolutions

Netcare Limited

- Annual general meeting of shareholders
  - General authority to repurchase shares.
  - Approval of non-executive director's remuneration, for the period 1 October 2019 to 30 September 2020.
  - Specific authority to repurchase shares.

Subsidiaries

The following special resolutions were passed by South African subsidiary companies to amend the MOI:

Entity	Date	Nature of resolution
Akeso Clinics Alberton Proprietary Limited	07 March 2019	Increase authorised shares
Akeso Clinics Richards Bay Proprietary Limited	10 April 2019	Name change
Medicross Foreshore Day Theatre Proprietary Limited	06 December 2018	Name change
Medicross Kimberley Day Theatre Proprietary Limited	06 December 2018	Name change
Medicross Langeberg Day Theatre Proprietary Limited	06 December 2018	Name change
Medicross Monte Vista Day Theatre Proprietary Limited	06 December 2018	Name change
My Walk Made With Soul NPC	07 December 2018	Name change
Medicross Upington Day Theatre Proprietary Limited	11 January 2019	Name change
Netcare Pinehaven Hospital Proprietary Limited	11 February 2019	Increase authorised shares
Netcare N17 Day Hospital Proprietary Limited	15 March 2019	Name change
Netcare Lakeview Day Hospital Proprietary Limited	15 March 2019	Name change
Netcare Moot Day Hospital Proprietary Limited	15 March 2019	Name change
Saintpoint Proprietary Limited	14 August 2019	Name change
Setegenus Proprietary Limited	14 August 2019	Name change

A register of special resolutions passed is available to shareholders on request.

There were no other special resolutions passed by subsidiary companies during the year under review that affect the understanding of the Company and its subsidiaries.

Audit Committee Report

for the year ended 30 September 2019

Introduction

The Audit Committee (the Committee) is pleased to present its report in terms of section 94 of the Companies Act, No 71 of 2008, as amended (the Companies Act), the King IV Report of Corporate Governance for South Africa (King IV) and the JSE Listings Requirements for the financial year ended 30 September 2019. The Committee conducted its duties in accordance with its written terms of reference approved by the Board.

Role of the Audit Committee

The Committee's main objective is to assist the Board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls and financial and corporate reporting processes.

In summary, during the year under review, the Committee performed the following roles:

- Reviewed and recommended for approval the interim and annual financial statements and related SENS and press announcements.
- Monitored and reviewed the effectiveness of internal control systems, including IT financial auditing.
- Monitored and reviewed the staffing, work plan, resources and activities of the Internal Audit function.
- Reviewed and evaluated the effectiveness of the Internal Audit, financial risk management and compliance functions.
- Reviewed the Internal Audit charter.
- Considered the implementation of the combined assurance model and risk management framework.
- Reviewed the combined assurance model to ensure its appropriate alignment to King IV which included oversight on the effectiveness of the combined assurance mechanisms in place.
- Reviewed compliance in terms of the requirements of King IV on financial reporting and the role of the Audit Committee.
- Reviewed and evaluated reports relating to findings of Internal Audit investigations and whistle-blowing arrangements.
- Assessed the effectiveness and quality of the external audit process following the end of the annual audit cycle, with reference to audit quality indicators such as those that may be included in inspection reports issued by external audit regulators.
- Reviewed the integrated reporting process so as to consider factors and risks that may impact the integrity of the annual integrated report.
- Considered and reviewed the most recent Proactive Monitoring and Thematic reports issued by the JSE.
- Recommended the annual integrated report to the Board for approval.

Structure of the Audit Committee

The Committee was appointed by the Board of directors, ratified by shareholders to hold office in respect of the financial year under review. The Committee also performs statutory duties on behalf of all relevant subsidiary companies of Netcare. The Committee members are all independent non-executive directors with adequate knowledge and experience to equip the Committee to perform its functions. The Committee satisfies the requirements as stipulated in the Companies Act. Mr M Bower is the Chair of the Committee.

The fees paid to the Committee members for the year ended 30 September 2019 were approved by the shareholders at the annual general meeting held on 1 February 2019.

Committee members' attendance is detailed below.

		Committee attendance
M Bower[1]	Audit Committee Chair	3/3
B Bulo[2]		3/3
APH Jammine[3]		3/3
N Weltman[4]		3/3

1. M Bower BCom (Cum Laude), BCompt, BCompt (Hons), CA(SA).
2. B Bulo BBuSci Hons, PDGA, CA(SA)
3. A Jammine BSc (Hons), BA (Hons), MSc, PHD (Retirement effective 30 September 2019)
4. N Weltman CTA, CA(SA)

The head of Netcare Group Internal Audit as well as Deloitte & Touche, in their capacity as external auditors to Netcare, attended and reported at all the Committee meetings. The Chief Financial Officer and the Chief Executive Officer attend by invitation. The Group risk management function is also represented at the meetings and relevant senior managers attend by invitation. To ensure an integrated and coordinated approach to the risk management process, three members of the Committee are also members of the Risk Committee. Divisional Internal Audit Committee meetings are held twice a year and Deloitte & Touche, in their capacity as external auditors of Netcare, attend these meetings.

External auditors

Deloitte & Touche is the newly appointed auditor for the Group and Company, with the audit partner, G Berry, appointed as the designated registered auditor in terms of the Companies Act. The Committee satisfied itself that both the audit firm and audit partner are independent of the Group and the Company. The Audit Committee engaged with the external auditors on its performance and provided recommendations on service delivery requirements.

The Committee approved the terms of engagement, the audit plan and the audit fees payable, as well as the nature and extent of non-audit services which Deloitte & Touche are permitted to provide to Netcare. The Committee also pre-approved, where relevant, proposed contracts with Deloitte & Touche for the provision of non-audit services to the Group. The fees to Deloitte & Touche for the financial year ended 30 September 2019 amounted to R16 million for audit services and R1 million for other services.

The Committee has a policy of periodically reviewing the controls and approvals relating to the approval of non-audit services, and is comfortable that the non-audit services approved were not excessive, were necessary and did not impact on the independence of the auditors.

Graeme Berry’s experience and knowledge has been assessed in terms of section 22.15(h)I of the JSE Listing Requirements and is considered appropriate. The audit committee also acknowledges receipt of section 22 information from Deloitte & Touche relating to the documentation received following the firms latest inspection performed by IRBA.

The Committee is of the view that the quality of the external audit, with reference to audit quality indicators is appropriate.

Internal Audit

The Committee monitors and reviews the effectiveness of the Internal Audit function and endeavours to ensure that it is adequately resourced to provide assurance on the effectiveness of the Group’s internal controls and risk management. Internal Audit has the appropriate authority within the Group to perform and discharge its duties in terms of the Internal Audit charter approved by the Committee. There is an annual audit plan, approved by the Committee, which includes an IT component to provide assurance over the IT internal control framework. Internal Audit works closely with the Committee and is able to meet with the Committee independently of management, if and when required.

The Committee has no reason to believe that the design and implementation of internal financial controls is not effective. No weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or error were detected.

Chief Financial Officer

The Committee is satisfied that the Chief Financial Officer, KN Gibson, has the appropriate experience and expertise to meet the responsibility to fulfil the duties of a financial director, in terms of the JSE Listings Requirements. The Committee is also satisfied that the Group finance function is appropriate, and that the Group has maintained internal accounting and administrative control systems.

Annual financial statements

The Committee reviewed the accounting policies and annual financial statements (of which this report forms part) to ensure that the annual financial statements comply with International Financial Reporting Standards and are appropriate for recommendation to the Board of directors for approval. The Committee is satisfied that the Board has performed a solvency and liquidity test on the Company in terms of section 46 of the Companies Act and has concluded that the Company will satisfy the test after payment of the final dividend.

Audit Committee report continued

Key Audit Matter

In reviewing the Key Audit Matter (KAM) the Audit Committee engaged with the auditors through the relevant governance structures and also held additional meetings to debate and consider the KAM:

Revenue recognition:

The Audit Committee was advised that the accuracy of revenue in Hospitals was identified as a significant risk of material misstatement, due to its dependence upon accurate recording of the numerous tariff arrangements with the funders and the appropriate calculation of revenue using those tariffs. Based on audit work conducted by both the internal and external auditors, the Audit Committee is satisfied that the revenue reported for the Group is accurate in all material respects.

Approval of Audit Committee Report

The Committee hereby confirms that it has functioned in accordance with its terms of reference and discharged its duties for the financial year under review.

M Bower
Audit Committee Chair
Sandton

11 November 2019

Independent auditor's report

To the Shareholders of Netcare Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Netcare Limited (the Group and Company) set out on pages 16 to 109, which comprise the consolidated and separate statements of financial position as at 30 September 2019, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 30 September 2019, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. The key audit matter below was addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. The key audit matter applies to the consolidated financial statements and there are no key audit matters for the separate financial statements.

Key audit matter	How the matter was addressed in the audit
Revenue recognition	
The group earns revenue from a number of different products and services as described in note 2.1. The significant number of different funder agreements and the complexity of tariff structures gives rise to a risk regarding the accuracy of revenue. In order to address this risk, a significant level of audit effort was applied to revenue.	In evaluating the appropriateness of accuracy of revenue, we performed the following procedures: ▪ assessed the design and implementation of the Group's controls over the tariff inputs in the revenue system; ▪ agreed a sample of the tariffs in the system to the agreed contracts with the funders; ▪ for selected months of the financial year, our Actuarial and Analytics specialists recalculated ward and theatre revenue based on the tariffs, time periods and billing rules included in the revenue process; ▪ assessed changes in the tariffs and system logic in months other than those selected above; and ▪ agreed the billed time for a sample of invoices to the underlying patient files. Based on our testing, we concluded that the reported revenue was appropriate.

Independent auditor's report continued

Other matter

The consolidated and separate financial statements of the Group for the year ended 30 September 2018 were audited by another auditor who expressed an unmodified opinion on those statements on 16 November 2018.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Netcare Limited Annual Financial Statements 2019", which includes the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Integrated Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

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

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

Responsibilities of the directors for the consolidated and separate financial statements

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

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

Auditor's responsibilities for the audit of the consolidated and separate financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Netcare Limited for one year.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Graeme Berry

Partner
18 November 2019

Deloitte & Touche
Deloitte Place
The Woodlands, Woodlands drive, Woodmead Sandton

Group statement of profit or loss

for the year ended 30 September

Rm	Notes	2019	2018
Continuing operations			
Revenue	2.1	21 589	20 717
Cost of sales		(10 653)	(10 364)
Gross profit		10 936	10 353
Other income		446	511
Administrative and other expenses – excluding items below		(7 742)	(7 378)
Operating profit before items below		3 640	3 486
Realisation of foreign currency translation reserve		128	–
Impairment of contractual economic interest in the debt of BMI Healthcare		–	(1 544)
Operating profit	2.2	3 768	1 942
Investment income	3.3	172	271
Finance costs	3.4	(656)	(597)
Other financial losses – net		(2)	(1)
Attributable earnings of associates		29	32
Attributable earnings of joint ventures		46	41
Profit before taxation		3 357	1 688
Taxation	2.4	(879)	(682)
Profit for the year from continuing operations		2 478	1 006
Loss from discontinued operations	10.1	–	(467)
Profit on loss of control		–	4 205
Profit for the year		2 478	4 744
Attributable to:			
Owners of the parent		2 393	4 885
Preference shareholders		54	55
Profit attributable to shareholders		2 447	4 940
Non-controlling interest		31	(196)
		2 478	4 744
Cents			
Basic earnings per share	2.3	176.7	357.7
Continuing operations	2.3	176.7	68.5
Discontinued operations	2.3	–	289.2
Diluted earnings per share	2.3	175.0	353.6
Continuing operations	2.3	175.0	67.7
Discontinued operations	2.3	–	285.9

Group statement of comprehensive income

for the year ended 30 September

Rm	Notes	2019	2018
Profit for the year		**2 478**	4 744
Item that will not subsequently be reclassified to profit or loss		**66**	–
Remeasurement of defined benefit obligation		**91**	–
Taxation on item that will not subsequently be reclassified to profit or loss		**(25)**	–
Items that may subsequently be reclassified to profit or loss		**(161)**	(1 842)
Effect of cash flow hedge accounting		**(44)**	42
Amortisation of cash flow hedge accounting reserve		**5**	4
Change in the fair value of cash flow hedges		**(49)**	38
Effect of translation of foreign entities		**(1)**	104
Realisation of foreign currency translation reserve		**(128)**	(1 976)
Taxation on items that may subsequently be reclassified to profit or loss		**12**	(12)
Other comprehensive income for the year	8.5	**(95)**	(1 842)
Total comprehensive income for the year		**2 383**	2 902
Attributable to:			
Owners of the parent		**2 298**	2 737
Preference shareholders		**54**	55
Non-controlling interest		**31**	110
		2 383	2 902

Group statement of financial position

as at 30 September

Rm	Notes	2019	2018[1]
ASSETS			
Non-current assets			
Property, plant and equipment	2.8	12 541	12 098
Goodwill	2.10	1 606	1 614
Intangible assets	2.9	175	135
Investment in joint ventures	9.1	259	215
Investment in associates	9.2	476	501
Loans and receivables	9.3	289	249
Financial assets	6.1	5	16
Deferred lease assets		28	25
Deferred taxation	2.5	512	447
Total non-current assets		**15 891**	**15 300**
Current assets			
Loans and receivables	9.3	122	48
Inventories	5.2	564	589
Trade and other receivables	5.1	2 837	3 124
Taxation receivable		43	35
Cash and cash equivalents	3.2	1 732	1 371
		5 298	5 167
Assets classified as held for sale	10.2	226	297
Total current assets		**5 524**	**5 464**
Total assets		**21 415**	**20 764**
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	8.1	4 334	4 391
Treasury shares	8.2	(3 853)	(3 871)
Other reserves		447	635
Retained earnings		8 611	8 566
Equity attributable to owners of the parent		9 539	9 721
Preference share capital and premium	8.3	644	644
Non-controlling interest	8.4	52	50
Total shareholders' equity		**10 235**	**10 415**
Non-current liabilities			
Long-term debt	3.1	5 061	5 114
Financial liabilities	6.2	44	21
Post-employment healthcare benefit obligations	4.2	487	535
Deferred lease liabilities		54	47
Deferred taxation	2.5	238	210
Total non-current liabilities		**5 884**	**5 927**
Current liabilities			
Trade and other payables	5.3	3 462	3 288
Short-term debt	3.1	1 780	1 056
Financial liabilities	6.2	26	10
Taxation payable		23	62
Bank overdrafts	3.2	5	6
Total current liabilities		**5 296**	**4 422**
Total equity and liabilities		**21 415**	**20 764**

1. Prior year has been restated, refer to note 12 for details.

Group statement of cash flows

for the year ended 30 September

Rm	Notes	2019	2018[1]
Cash flows from operating activities			
Cash received from customers		21 890	20 203
Cash paid to suppliers and employees		(17 002)	(15 976)
Cash generated from operations	2.6	4 888	4 227
Interest paid		(602)	(729)
Taxation paid	2.7	(967)	(916)
Ordinary dividends paid by subsidiaries		(21)	(23)
Ordinary dividends paid		(1 454)	(1 388)
Special dividends paid		(542)	–
Preference dividends paid		(54)	(55)
Distribution paid to beneficiaries of the HPFL B-BBEE[2] trusts		(26)	(21)
Net cash from operating activities		1 222	1 095
Cash flows from investing activities			
Acquisition of business		–	(1 233)
Acquisition of property, plant and equipment	2.8	(1 378)	(1 512)
Additions to intangible assets	2.9	(51)	(2)
Proceeds on disposal of property, plant and equipment and intangible assets		193	44
(Payments for)/proceeds from investments and loans		(66)	92
Interest received		172	171
Dividends received		8	27
Increase in equity from joint ventures to subsidiaries		–	(1)
Cash and cash equivalents of businesses deconsolidated		(3)	(673)
Net cash from investing activities		(1 125)	(3 087)
Cash flows from financing activities			
Proceeds on disposal of treasury shares		22	48
Proceeds from issue of ordinary shares		–	3
Purchase of ordinary shares		(458)	–
Debt raised	3.1.1	2 748	3 054
Debt repaid	3.1.1	(2 050)	(1 989)
Acquisition of non-controlling interests		–	(3)
Issue of shares to non-controlling interests		3	11
Settlement of debt related to acquisition of business		–	(238)
Settlement of derivatives		–	(2)
Net cash from financing activities		265	884
Net increase/(decrease) in cash and cash equivalents		362	(1 108)
Translation effects on cash and cash equivalents of foreign entities		–	(81)
Cash and cash equivalents at the beginning of the year		1 365	2 525
Cash and cash equivalents related to assets held for sale	10.2	–	29
Cash and cash equivalents at the end of the year	3.2	1 727	1 365

1. *Prior year has been restated, refer to note 12 for details.*
2. *Health Partners for Life Broad-based Black Economic Empowerment.*

Group statement of changes in equity

for the year ended 30 September

Rm	Ordinary share capital	Treasury shares	Cash flow hedge accounting reserve	Employee share trust reserve	Foreign currency translation reserve
Balance at 1 October 2017	4 205	(3 720)	(45)	32	2 001
Shares issued during the year	186	(183)	–	–	–
Sale of treasury shares	–	39	–	–	–
Purchase of treasury shares	–	(7)	–	–	–
Acquisition of subsidiaries	–	–	–	–	–
Share-based payment reserve movements	–	–	–	–	–
Share-based payment reserve transfer to RE	–	–	–	–	–
Tax recognised in equity	–	–	–	–	–
Preference dividends paid	–	–	–	–	–
Ordinary dividends paid	–	–	–	–	–
Distributions to beneficiaries of the HPFL B-BBEE[1] trusts	–	–	–	–	–
Changes in equity interest in subsidiaries	–	–	–	–	–
Total comprehensive income for the year	–	–	30	(32)	(1 889)
Ordinary movements	–	–	30	–	87
Deconsolidation of BMI Healthcare	–	–	–	(32)	(1 976)
Balance at 30 September 2018	4 391	(3 871)	(15)	–	112
Impact of adoption of IFRS 9	–	–	–	–	–
Tax impact of adoption of IFRS 9	–	–	–	–	–
Balance at 1 October 2018	**4 391**	**(3 871)**	**(15)**	–	**112**
Shares purchased and cancelled during the year[2]	**(57)**	–	–	–	–
Sale of treasury shares	–	**18**	–	–	–
Share-based payment reserve movements	–	–	–	–	–
Reclassification of investment reserve to retained earnings	–	–	–	–	–
Reclassification of reserves	–	–	–	–	**13**
Tax recognised in equity	–	–	–	–	–
Preference dividends paid	–	–	–	–	–
Ordinary dividends paid[3]	–	–	–	–	–
Special dividends paid	–	–	–	–	–
Written put option over non-controlling interest	–	–	–	–	–
Distributions to beneficiaries of the HPFL B-BBEE[1] Trusts	–	–	–	–	–
Changes in equity interests in subsidiaries	–	–	–	–	–
Total comprehensive income for the year	–	–	**(32)**	–	**(129)**
Profit for the year	–	–	–		–
Other comprehensive income	–	–	**(32)**	–	**(129)**
Balance at 30 September 2019	**4 334**	**(3 853)**	**(47)**	–	**(4)**
Notes	8.1	8.2			

1. *Health Partners for Life Broad-based Black Economic Empowerment.*
2. *Refer to note 8.1 for details on the shares purchased.*
3. *Refer to note 8.1 for detail of the ordinary dividends paid.*

Investment fair value reserve	Share-based payment reserve	Retained earnings	Equity attributable to owners of the parent	Preference share capital and premium	Non-controlling interest	Total shareholders' equity
90	403	5 316	8 282	644	(64)	8 862
–	–	–	3	–	–	3
–	–	16	55	–	–	55
–	–	–	(7)	–	–	(7)
–	–	–	–	–	8	8
–	54	–	54			54
–	(9)	9	–	–	–	–
–	–	16	16	–	–	16
–	–	–	–	(55)	–	(55)
–	–	(1 388)	(1 388)	–	(23)	(1 411)
–	–	(21)	(21)	–	–	(21)
–	–	(10)	(10)	–	19	9
–	–	4 628	2 737	55	110	2 902
–	–	680	797	55	(180)	672
–	–	3 948	1 940	–	290	2 230
90	448	8 566	9 721	644	50	10 415
–	–	(50)	(50)	–	–	(50)
–	–	10	10	–	–	10
90	448	8 526	9 681	644	50	10 375
–	–	(401)	(458)	–	–	(458)
–	–	3	21	–	–	21
–	50	–	50	–	–	50
(90)	–	90	–	–	–	–
–	–	(13)	–	–	–	–
–	–	(9)	(9)	–	–	(9)
–	–	–	–	(54)	–	(54)
–	–	(1 454)	(1 454)	–	(21)	(1 475)
–	–	(542)	(542)	–	–	(542)
–	–	(9)	(9)	–	–	(9)
–	–	(30)	(30)	–	–	(30)
–	–	(9)	(9)	–	(8)	(17)
–	–	2 459	2 298	54	31	2 383
–	–	2 393	2 393	54	31	2 478
–	–	66	(95)	–	–	(95)
–	498	8 611	9 539	644	52	10 235

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Notes to the Group annual financial statements

for the year ended 30 September

1. Accounting framework and critical judgements

1.1 Basis of preparation

The Group and Company financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and comply with the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the requirements of the Companies Act and the JSE Listings Requirements.

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognised in the period in which the estimates are revised. The actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements have been disclosed in note 1.4.

The financial statements are presented in South African Rand (ZAR), the functional currency of the Group and Company and all amounts are rounded to the nearest million, except where otherwise indicated. Foreign currency exchange rates used in the preparation of converting into Rands are set out below:

	30 September 2019	30 September 2019	30 September 2018	30 September 2018
	Closing rate	Average rate	Closing rate	Average rate
MZN Mozambique Meticals	4.05	4.11	4.28	4.59

The Group and Company financial statements have been prepared on the historical cost basis, except for the following material items included in the statement of financial position that are measured as described below:

- Derivative financial instruments are measured at fair value;
- Certain non-current assets held for sale are measured at fair value less costs to sell; and
- Post-employment healthcare benefit obligations are measured in terms of the projected unit credit method.

Operating activities

The activities of the Group's operating segments are described below:

- **Hospital and emergency services**
  This segment is further disaggregated into Hospital and pharmacy operations, covering our private acute hospital network, and non-acute services. The non-acute services include emergency medical services, the operation of private mental health clinics as well as cancer care services.
- **Primary Care**
  This segment offers comprehensive primary healthcare services, employee health and wellness services, and administrative services to medical and dental practices.

1.2 Going concern

The directors consider it appropriate to adopt the going concern basis in preparing the Group and Company's annual financial statements.

Notes to the Group annual financial statements continued

1. Accounting framework and critical judgements continued

1.3 Accounting policies

The accounting policies applied in the preparation of these Group and Company financial statements are consistent in all material respects with those applied for the year ended 30 September 2018, except for the changes noted in note 11 relating to the adoption of new and revised accounting standards in the current year.

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

1.4 Critical accounting judgements, estimates and assumptions

Critical accounting judgements

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

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

Refer note 2.5, deferred taxation, for judgements that have been made in the process of applying the Group's accounting policies in relation to the recognition of deferred tax assets.

Key sources of estimation uncertainty

Impairment of assets and future cash flows

The Group tests its fixed assets for impairment when indicators of impairment exist and goodwill is tested annually. The recoverable amounts of assets (including goodwill), individual CGUs and groups of CGUs are based on the Group's best estimate of the future cash flows relating to those assets or CGUs, including assessments of the probable rental cash flows under the Group's leases, discounted to reflect the time value of money and the risks specific to the asset, group of assets or leases and contracts under consideration. The resulting impairment calculations are sensitive to changes in the timing or quantum of future cash flows. Changes in one or more of these inputs to management's estimations could result in reversals of impairment losses, or the recognition of further non-cash impairment charges. See notes 2.8 and 2.10 for further discussion of the methodology and rationale for selecting these inputs to management's estimations.

1.5 Events after the reporting period

On 15 October 2019, Netcare approved a further allocation of 61 050 000 previously unallocated Netcare shares (the Allocation), at a strike price of R13.94 per share, to 20 350 Netcare employees (excluding executives), of which 80% are black and 65% are black women (the Beneficiaries). These shares were available under the Health Partners for Life (HPFL) Broad-based Black Economic Empowerment (B-BBEE) scheme, which was concluded in 2005.

The Allocation reflects Netcare's commitment to the imperative of building a transformed South Africa characterised by values of social and economic equality and inclusion for all and achieves this objective in a manner that enables Netcare to further strengthen the ownership component of its empowerment rating. As a result, Netcare has been able to increase its B-BBEE ownership and has improved its overall B-BBEE rating to Level 4 (from Level 5 in 2018 and Level 8 in 2017).

The Allocation, as contemplated in the HPFL B-BBEE scheme, will result in an upfront once off non-cash IFRS 2 charge of approximately R347 million to be recognised in the 2020 financial year. The dividend payable to Beneficiaries will have a negligible annual impact on Netcare's future earnings per share.

The directors are not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Group's annual financial statements, which significantly affect the financial position at 30 September 2019 or the results of its operations or cash flows for the year then ended.

2. Investments and returns

2.1 Revenue

Revenue is recognised when the Group transfers control of goods and services to the customer. Revenue is derived from the following major categories:

Rm	2019	2018
Hospital and Emergency services	**20 794**	20 000
Hospital and pharmacy operations	**19 706**	19 202
Non-acute services	**1 088**	798
Primary Care		
Services	**795**	717
	21 589	20 717

Hospital and pharmacy operations' services comprise of ward and theatre fees and the sale of pharmaceutical and other consumables incidental in the provision of hospital services. Revenue is recognised over the period of the patient's stay, as and when the Group meets the performance obligations by rendering the services as per the contract between the Group and the patient.

Non-acute services includes emergency services, mental health and cancer care. In emergency services, which includes road and air emergency services, recognition occurs when the recoverability of revenue has been determined to be probable. At the time of delivery of the service, in an emergency situation, the counterparty has not entered into the contract. Revenue is recognised once the contract has been entered into with the patient, their next of kin or the medical aid of which the patient is a member.

Revenue from Primary Care services is recognised as the administration services to medical and dental practises are performed, or over a period of time as the patient is treated. The Group recognises revenue over the period of the patient's treatment, as and when the Group meets the performance obligations of the contract by rendering the services specified.

For all major categories, revenue is measured at the consideration the Group is entitled to under the contract with the patient and excludes any amounts collected on behalf of third parties.

The disaggregation of revenue above is consistent with the revenue information disclosed for each reportable segment under IFRS 8: *Operating Segments* (refer to note 2.11.2).

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.2 Operating profit

Rm	Notes	2019	2018
Operating profit		**3 768**	1 942
After charging:			
Amortisation of intangible assets	2.9	**11**	13
Auditors' remuneration		**23**	18
Audit fees – current year		**16**	15
Audit fees – prior year		**6**	3
Other services		**1**	–
Depreciation of property, plant and equipment	2.8	**737**	710
Directors' emoluments	4.1.3	**25**	28
Executive directors paid by subsidiaries			
Basic remuneration, bonuses, retirement and medical benefits		**15**	18
Non-executive directors			
Consulting fees and fees for services as directors		**10**	10
Employee costs (excluding directors' emoluments)		**7 631**	7 330
Salaries and wages		**7 206**	6 921
Group retirement benefit contributions		**375**	354
Share-based payment expenses		**50**	54
Impairment of goodwill[1]	2.10	**–**	1
Impairment of investment in associate		**5**	–
Impairment of property, plant and equipment	2.8	**7**	8
Impairment losses on financial assets		**9**	–
Loss on disposal of investments		**27**	–
Loss on disposal of property, plant and equipment[2]		**5**	7
Operating lease charges		**629**	617
Land and buildings and other		**601**	585
Motor vehicles		**28**	32
Technical, managerial and secretarial services		**3**	5
After crediting:			
Fair value gain on investments on acquisition of control[3]		**–**	3
Fair value gain on investment		**5**	–
Profit on disposal of property, plant and equipment		**69**	12
Profit on disposal of investments		**2**	4
Property rental income		**343**	316

1. *2018 headline earnings adjustments includes an amount of R6 million for the impairment of goodwill. That figure is inclusive of R5 million impairment on goodwill by a joint venture that is equity accounted and is reported therein as it is a headline earnings adjustment.*
2. *2018 headline earnings adjustments includes an amount of R11 million impairment of property, plant and equipment. That figure is inclusive of R3 million impairment on property held by a joint venture that is equity accounted and is reported therein as it is a headline earnings adjustment.*
3. *2018 headline earnings adjustments includes an amount of R5 million fair value gain on investments on acquisition of control. That figure is inclusive of R2 million fair value gain on investments held by a joint venture that is equity accounted and is reported therein as it is a headline earnings adjustment.*

2. Investments and returns continued

2.3 Earnings per share

Earnings per share is derived by dividing profit for the year by the weighted average number of shares in issue after taking the Forfeitable Share Plan and HPFL B-BBEE Trust units into account. Appropriate adjustments are made in calculating diluted and headline earnings per share.

Diluted earnings per share reflects the potential dilution that could occur by taking the free portion if the shares of the Group's outstanding share options and HPFL B-BBEE trust units were exercised. The number of shares outstanding is adjusted to show the potential dilution if employee share options and HPFL B-BBEE Trust units are converted into ordinary shares.

No adjustments were made to reported earnings attributable to shareholders in the computation of diluted earnings per share.

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

Adjusted headline earnings per share is a measurement used by the chief operating decision maker as a key measure of sustainable earnings from trading operations. The calculation of adjusted headline earnings per share excludes non-trading and/or non-recurring items, and is based on the adjusted profit attributable to ordinary shareholders, divided by the weighted average number of ordinary shares in issue during the year. The presentation of adjusted headline earnings is not an IFRS requirement.

Adjusted headline earnings represent headline earnings which have been adjusted for specific items of a non-trading and/or non-recurring nature, including:

- Gains or losses on financial instruments;
- Impairments and reversal of impairments on loans;
- Acquisition costs;
- Regulatory inquiry costs;
- Onerous lease provisions;
- Significant restructuring costs;
- New business development costs;
- Realisation of reserves through profit or loss;
- B-BBEE transaction costs;
- Changes in tax rates; and
- Other non-trading and /or non-recurring items.

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.3 Earnings per share continued

Cents	2019	2018
Basic earnings per share	176.7	357.7
Continuing operations	176.7	68.5
Discontinued operations	–	289.2
Diluted earnings per share	175.0	353.6
Continuing operations	175.0	67.7
Discontinued operations	–	285.9
Headline earnings/(loss) per share	165.9	49.3
Continuing operations	165.9	68.8
Discontinued operations	–	(19.5)
Diluted headline earnings/(loss) per share	164.3	48.8
Continuing operations	164.3	68.0
Discontinued operations	–	(19.2)
Adjusted headline earnings/(loss) per share[1]	171.2	158.1
Continuing operations	171.2	171.6
Discontinued operations[1]	–	(13.5)
Diluted adjusted headline earnings/(loss) per share	169.5	156.3
Continuing operations	169.5	169.6
Discontinued operations	–	(13.3)

1. 2018 restated due to calculation error.

Million	2019	2018
Weighted average number of ordinary shares		
The weighted average number of ordinary shares used in the calculations is as follows:		
Weighted average number of shares	1 345	1 362
Potential dilutive effect of employee share options and HPFL B-BBEE Trust units	13	16
Forfeitable Share Plan	6	6
HPFL B-BBEE Trust units	7	10
Diluted weighted average number of shares	1 358	1 378

2. Investments and returns continued

2.3 Earnings per share continued

Rm	2019	2018
Basic earnings per share		
The profit used in the calculation of basic earnings per share is as follows:		
Profit for the year	2 478	4 744
Adjusted for:		
Dividends paid on shares attributable to the Forfeitable Share Plan	(16)	(13)
Preference shareholders	(54)	(55)
Non-controlling interest	(31)	196
Profit attributable to owners of the parent	2 377	4 872
Adjusted for discontinued operations:		
Profit from discontinued operations	–	(3 939)
Profit for the purposes of basic and diluted earnings per share from continuing operations	**2 377**	**933**

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.3 Earnings per share continued

Rm	Pre tax and non-controlling interests 2019	Net 2019	Pre tax and non-controlling interests 2018	Net 2018
Headline earnings				
Headline earnings are determined as follows:				
Earnings used in the calculation of basic earnings per share	**3 221**	**2 377**	5 428	4 872
Adjusted for:				
Fair value gains on investments on acquisition of control	–	–	(5)	(5)
Impairment of goodwill	–	–	6	6
Recognition of impairment of investment in associate	5	5	–	–
Realisation of foreign currency translation reserve	(128)	(128)	–	–
Recognition of impairment of property, plant and equipment	7	7	11	10
Profit on loss of control	–	–	(4 205)	(4 205)
Loss on disposal of property, plant and equipment	5	4	9	6
Profit on disposal of property, plant and equipment and intangible assets	(69)	(59)	(12)	(9)
Loss on disposal of subsidiary	27	27	–	–
Profit on disposal of subsidiary	(2)	(2)	(4)	(3)
Headline earnings	**3 066**	**2 231**	1 228	672
Adjustments for discontinued operations:				
Loss from discontinued operations	–	–	467	266
Net profit on disposal of property, plant and equipment	–	–	(2)	(1)
Headline earnings from continuing operations	**3 066**	**2 231**	1 693	937

2. Investments and returns continued

2.3 Earnings per share continued

Rm	Pre tax and non-controlling interests 2019	Net 2019	Pre tax and non-controlling interests 2018	Net 2018
Adjusted headline earnings				
Adjusted headline earnings are determined as follows:				
Headline earnings	3 066	2 231	1 228	672
Adjusted for:				
Settlement loss on FEC option	–	–	2	2
Amortisation of cash flow hedge accounting reserve	5	4	3	3
Fair value losses on derivative financial instruments	1	1	85	49
Ineffectiveness gains on cash flow hedges	(4)	(3)	(4)	(3)
Health Market Inquiry	34	25	36	26
Akeso related transaction costs	–	–	18	13
Reversal of onerous lease provision	–	–	(168)	(68)
Recognition of impairment of contractual economic interest in debt of BMI Healthcare	–	–	1 544	1 322
Recognition of loan impairment	19	19	6	6
Restructure costs incurred by BMI Healthcare	–	–	212	101
Restructure costs incurred by Netcare in respect of BMI Healthcare	13	9	45	32
Restructure costs incurred by Hospital Division	22	16	–	–
Adjusted headline earnings	3 156	2 302	3 007	2 154
Adjustments for discontinued operations:				
Loss from discontinued operations	–	–	471	266
Headline earnings adjustments relating to discontinued operations	–	–	(2)	(1)
Fair value losses on derivative financial instruments	–	–	(85)	(49)
Reversal of onerous lease provisions	–	–	168	68
Restructure costs incurred by BMI Healthcare	–	–	(212)	(101)
Adjusted headline earnings from continuing operations	3 156	2 302	3 347	2 337

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.4 Taxation

Rm	2019	2018
South African normal taxation		
Current year	(900)	(862)
Prior years	9	2
Capital gains tax	(9)	(3)
	(900)	(863)
Foreign taxation		
Current year	(11)	(16)
Income tax	(911)	(879)
South African deferred taxation		
Current year	25	197
Prior years	6	–
	31	197
Foreign deferred taxation		
Current year	1	–
	1	–
Deferred taxation	32	197
Total taxation per statement of profit or loss	(879)	(682)
Reconciliation of effective taxation rate (%)		
South African normal tax rate	28.0	28.0
Adjusted for:		
Assessed losses (utilised)/created	(0.1)	1.1
Capital gains tax	0.3	0.2
Different foreign tax rate	–	(0.1)
Net non-taxable income and allowances	(0.5)	(0.8)
Consulting fees	0.3	1.2
Legal fees	–	0.2
Donations	0.1	0.1
Non-deductible depreciation	0.2	0.3
Earnings from associates and joint ventures	(0.6)	(1.2)
Learnership allowances	(0.6)	(1.2)
Other	0.1	(0.2)
Contractual economic interest in the debt of BMI Healthcare	–	13.1
Profit on loss of control	(1.1)	–
Prior years' taxation	(0.5)	(0.1)
Different trust tax rates	0.1	(1.0)
Effective taxation rate	26.2	40.4

Rm	2019	2018
Estimated taxation losses		
Unused tax losses available for set-off against future taxable income	486	458
Utilised against the deferred tax balance	(332)	(255)
Not recognised as a deferred tax asset	154	203

2. Investments and returns continued

2.5 Deferred taxation

Deferred taxation assets and liabilities are offset where there is a legal enforceable right to offset and relates to taxes levied by the same revenue authority and legal entity.

Rm	Note	2019	2018
Reconciliation of movement			
Balance at beginning of year		237	43
Current year charge			
Per the statement of profit or loss:	2.4	32	198
Continuing operations		32	197
Discontinued operations		–	1
Amounts recognised in other comprehensive income:		(13)	(13)
continuing operations		(13)	(12)
discontinued operations		–	(1)
Amounts recognised directly in equity		10	21
Acquisition of business		–	(12)
Disposal of business		8	–
Balance at end of year		274	237
Comprising:			
Deferred tax assets		512	447
Deferred tax liabilities		(238)	(210)
		274	237

The deferred taxation assets include amounts relating to two subsidiary companies. These two companies are currently in a start-up phase and are making losses at this early stage. The Group has assessed the future profitability of these two entities and concluded that the deferred taxation assets arising from deductible temporary differences and tax losses will be recoverable using the estimated future taxable income based on approved business plans and forecasts for the subsidiaries. The forecasts and business plans were benchmarked against existing similar business units to substantiate the likelihood of generating future taxable profits.

In terms of established business units a shorter forecast period was used to assess the future profitability using approved business plans and forecasts.

The tax losses incurred by the subsidiaries can be carried forward indefinitely and have no expiry date.

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.5 Deferred taxation continued

Rm	Balance at beginning of year	Recognised in profit or loss (continuing operations)	Recognised in profit or loss (discontinued operations)
2019			
Property, plant and equipment	**(250)**	**(47)**	**–**
Prepayments	**(16)**	**7**	**–**
Allowance for doubtful debts	**50**	**5**	**–**
Post-employment benefit obligations	**150**	**12**	**–**
Payroll accruals and provisions	**189**	**23**	**–**
Deferred lease liabilities/derivatives	**15**	**6**	**–**
Calculated tax losses	**72**	**22**	**–**
Financial instruments	**4**	**1**	**–**
Other temporary differences	**23**	**3**	**–**
	237	**32**	**–**

Rm	Balance at beginning of year	Recognised in profit or loss (continuing operations)	Recognised in profit or loss (discontinued operations)
2018			
Property, plant and equipment	(79)	(30)	–
Prepayments	(10)	(5)	–
Allowance for doubtful debts	42	7	–
Post-employment benefit obligations	141	11	–
Payroll accruals and provisions	164	24	–
Deferred lease liabilities/derivatives	(649)	4	28
Calculated tax losses	603	(9)	(26)
Financial instruments	16	–	–
Other temporary differences	(185)	195	(1)
	43	197	1

Recognised in other comprehensive income (continuing operations)	Recognised in other comprehensive income (discontinued operations)	Recognised directly in equity	Acquisitions/ disposals	UK deconsolidation	Foreign currency exchange differences	Balance at end of year
–	–	–	8	–	–	(289)
–	–	–	–	–	–	(9)
–	–	10	–	–	–	65
(25)	–	–	–	–	–	137
–	–	–	–	–	–	212
–	–	–	–	–	–	21
–	–	–	–	–	–	94
12	–	–	–	–	–	17
–	–	–	–	–	–	26
(13)	–	10	8	–	–	274

Recognised in other comprehensive income (continuing operations)	Recognised in other comprehensive income (discontinued operations)	Recognised directly in equity	Acquisitions/ disposals	UK deconsolidation	Foreign currency exchange differences	Balance at end of year
–	–	–	(10)	(120)	(11)	(250)
–	–	–	(1)	–	–	(16)
–	–	–	1	–	–	50
–	(1)	–	–	(1)	–	150
–	–	–	1	–	–	189
–	–	–	–	562	70	15
–	–	–	2	(441)	(57)	72
(12)	–	–	–	–	–	4
–	–	21	(5)	–	(2)	23
(12)	(1)	21	(12)	–	–	237

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.6 Cash generated from operations

Rm	Notes	2019	2018[1]
Operating profit from continuing operations		3 768	1 942
Operating loss from discontinued operations	10.1	–	(186)
Adjustments for:			
Amortisation of intangible assets	2.9	11	46
Depreciation of property, plant and equipment	2.8	737	916
Profit on disposal of property, plant and equipment and intangible assets	2.2	(69)	(12)
Loss on disposal of property, plant and equipment and intangible assets	2.2	5	9
Impairment of property, plant and equipment	2.8	7	8
Impairment of goodwill	2.2	–	1
Realisation of foreign currency translation reserve		(128)	–
Impairment of receivables		49	60
Recognition of loan impairments		19	6
Recognition of impairment of associate		5	–
Recognition of impairment of contractual economic interest in the debt of BMI Healthcare		–	1 544
Loss/(profit) on disposal of investments in subsidiaries (net)		25	(4)
Increase in deferred lease liabilities		3	3
Share-based payment expense	4.3	50	54
Provisions raised		–	161
Fair value gains on investments on acquisition of control	2.2	–	(3)
Other non-cash flow items		(21)	25
Cash generated from operations before working capital changes		4 461	4 570
Decrease/(increase) in trade and other receivables		301	(730)
Decrease/(increase) in inventories		25	(10)
Increase in trade and other payables		101	397
		4 888	4 227

1. 2018 has been restated.

2.7 Taxation paid

Rm	2019	2018
Amounts payable at beginning of year (net)	27	50
Charge per the statement of profit or loss (excluding deferred taxation)	911	882
Other taxation movements through equity	9	3
Acquisition of subsidiaries	–	8
Amounts receivable/(payable) at end of year (net)	20	(27)
	967	916

2. Investments and returns continued

2.8 Property, plant and equipment

Property, plant and equipment is stated at acquisition cost, including any costs directly attributable to bringing the assets to the location and condition necessary for them to be capable of operating in the manner intended by management, less accumulated depreciation and any impairment losses.

Property, plant and equipment is considered for impairment if there is reason to believe that impairment may be necessary. Factors taken into consideration include the economic viability of the asset itself and where it is a component of a larger cash-generating unit (CGU), the viability of the unit.

The recoverable amounts are determined by projecting the future cash flows expected to be generated by the assets, taking into consideration market conditions and the expected useful lives of the assets. The present value of these cash flows is determined using an appropriate discount rate.

Where appropriate, the fair value of assets less cost to sell is used in the impairment assessment. For property assets, this is determined using an estimate of fair market value taking into account advice from an external professional valuator. Key judgements in determining the fair market value include the fair market rental amount and the effective yield.

The higher of fair value less costs to sell or value in use is compared to the carrying value of the asset or related CGU and, if lower, the assets are impaired to that value.

Property, plant and equipment is depreciated to estimated residual value on a straight-line basis over the assets' expected useful lives. The depreciation method, estimated remaining actual useful lives and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments apply a conservative view taking into account the specialised nature of the buildings, the regulated environment in which the hospitals operate, the area in which the hospital operates, utilizing external residual value information and taking any recent disposals of hospital property into account.

Land is not depreciated. In prior years and the current year, the residual value of all buildings was considered and determined to be higher than the carrying value. Buildings are therefore no longer depreciated, except for new builds which will depreciate to the estimated residual value. The Group has identified significant components that need to be accounted for separately for the asset class Buildings. The components' useful lives and the method of depreciation have been determined on a reasonable basis which reflects the patterns of consumption.

The assumptions regarding estimated useful lives for the 2019 financial year were as follows:

Land	Indefinite
Buildings	1 – 50 years
Leasehold improvements	Shorter of the lease term and the asset's useful life
Computer equipment	3 – 5 years
Furniture and equipment	1 – 16 years
Medical equipment	1 – 12 years
Motor vehicles	5 years
Plant and machinery	1 – 20 years

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.8 Property, plant and equipment continued

Rm	Freehold and leasehold land and buildings	Assets under construction	Computer equipment
Carrying value at 1 October 2017	9 499	492	353
Additions	119	748	66
Disposals	(9)	(7)	(2)
Depreciation	(163)	–	(113)
Recognition of impairment	(5)	–	–
Acquisition of businesses	511	1	2
Transfers to intangible assets	–	–	(6)
Transfers between categories	446	(503)	27
Transfer to non-current assets held for sale[1]	(51)	–	–
Translation of foreign entities	(113)	(14)	(11)
UK deconsolidation	(1 257)	(189)	(112)
Carrying value at 30 September 2018	8 977	528	204
Additions	**42**	**623**	**77**
Disposals	**(27)**	**(2)**	**–**
Depreciation	**(116)**	**–**	**(94)**
Recognition of impairment	**(7)**	**–**	**–**
Transfers between categories	**754**	**(764)**	**9**
Deconsolidation of subsidiary	**(85)**	**(44)**	**–**
Carrying value at 30 September 2019	**9 538**	**341**	**196**

1. Transfer of assets of Netcare Rand Hospital, Netcare Bell Street Hospital, and aircraft in the prior year.

Furniture and equipment	Medical equipment	Motor vehicles and aircraft	Plant and machinery	Total
159	3 361	32	12	13 908
57	499	20	3	1 512
–	(10)	(7)	(1)	(36)
(61)	(571)	(5)	(3)	(916)
–	–	(3)	–	(8)
20	21	–	–	555
–	–	–	–	(6)
–	26	–	4	–
–	(7)	(9)	–	(67)
–	(104)	–	–	(242)
–	(1 044)	–	–	(2 602)
175	2 171	28	15	12 098
47	**570**	**16**	**3**	**1 378**
(2)	**(25)**	**(6)**	**–**	**(62)**
(60)	**(456)**	**(7)**	**(4)**	**(737)**
–	**–**	**–**	**–**	**(7)**
(6)	**7**	**–**	**–**	**–**
–	**–**	**–**	**–**	**(129)**
154	**2 267**	**31**	**14**	**12 541**

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.8 Property, plant and equipment continued

Rm	Cost	Accumulated depreciation and impairments	Carrying value
2019			
Freehold and leasehold land and buildings	**10 836**	**(1 298)**	**9 538**
Assets under construction	**341**	**–**	**341**
Computer equipment	**669**	**(473)**	**196**
Furniture and equipment	**369**	**(215)**	**154**
Medical equipment	**5 077**	**(2 810)**	**2 267**
Motor vehicles and aircraft	**42**	**(11)**	**31**
Plant and machinery	**31**	**(17)**	**14**
Net carrying value	**17 365**	**(4 824)**	**12 541**
2018			
Freehold and leasehold land and buildings	10 286	(1 309)	8 977
Assets under construction	528	–	528
Computer equipment	629	(425)	204
Furniture and equipment	399	(224)	175
Medical equipment	4 722	(2 551)	2 171
Motor vehicles	35	(7)	28
Plant and machinery	29	(14)	15
Net carrying value	16 628	(4 530)	12 098

2. Investments and returns continued

2.8 Property, plant and equipment continued

Fair value – Land and Buildings

The Netcare property portfolio reflects its land and buildings (excluding furniture and fittings, medical equipment, loose plant and machinery and commissioning costs) at carrying book value, based on historic cost less accumulated depreciation, of R9.5 billion as at 30 September 2019. The fair market value of the portfolio's land and buildings (also exclusive of furniture and fittings, medical equipment, loose plant and machinery and commissioning costs) was independently valued by Mills Fitchet at R25.3 billion as at 30 September 2018. The fair value of properties with operating facilities was determined using the capitalisation of income approach or other relevant income approach methodologies, and the market value was used for the land component.

In terms of the fair value hierarchy, the fair value measurement of the hospital property portfolio would be classified as a level 3. The inputs into the valuation, i.e. the value of the first year's income, are not quoted in an active market, but are observable based on the rental contracts signed with the various tenants. The market value is determined based on an estimated amount for which the asset could be exchanged on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing, and where the parties had each acted knowledgeably, prudently and without compulsion. The following material assumptions were made in performing the valuation:

- Capitalisation rate of between 9.0% and 11.75%.
- The valuation exercise has assumed fair value in continuation of existing use is the highest and best use of the building.
- The hospital valuations were carried out on the basis of trading potential and as such it was assumed that the businesses will at all times be effectively and competently managed, operated and promoted, and the businesses will be properly staffed, stocked and capitalised.
- The properties are valued free and clear of any liens or encumbrances.
- The Group has assumed:
  - There is full compliance with all applicable state and local environmental regulations and laws, and that the site is free of any noxious waste that could affect value.
  - There are no hidden or unapparent conditions of the properties, subsoil or structures that render them more or less valuable.
  - All applicable zoning and use regulations and restrictions have been complied with.
  - All required licenses, certificates of occupancy, consents, or other legislative or administrative authority from local or national government or private entity or organisation have been or can be obtained or renewed for any use on which the value estimate is based.
  - The utilisation of the land and improvements is within the boundaries or property lines of the property description and that there is no encroachment or trespass.

Relationship of unobservable inputs to fair value

Unobservable input	Relationship of unobservable inputs to fair value
Discount rate	The higher the discount rate and the terminal yield, the lower the fair value.
Terminal yield	
Capitalisation rate	The higher the capitalisation rate and the expected vacancy rate, the lower the fair value.
Expected vacancy rate	
Rental growth rate	The higher the rental growth rate, the higher the fair value.

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.8 Property, plant and equipment continued

Impairment losses recognised in the year

An impairment loss is recognised to the extent by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

The key assumptions used in the value in use calculations are as follows:

- Latest management budgets for the period from 1 October 2019 to 30 September 2020, using key assumptions concerning caseload volume, payor and case mix, tariff changes, general inflation and staffing cost movements.

Capitalisation rates range between 9.0% – 11.75% per annum.

Based on the calculations performed, the recoverable amount for a Mental Health clinic was lower than the carrying value, and an impairment loss of R7 million (2018: R8 million) was recognised in administrative and other expenses.

Borrowing costs

Borrowing costs of R32 million (2018: R15 million) were capitalised during the year and are included in the "Additions" disclosed.

Security

Property, plant and equipment with a carrying value of R31 million (2018: R34 million) has been encumbered as security for debt. Refer to note 3.1.1 for more details.

2.9 Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets are considered for impairment if there is any reason to believe that impairment may be necessary. Factors taken into consideration include the economic viability of the asset itself and where it is a component of a larger cash-generating unit, the viability of the unit.

Intangible assets are amortised on a straight-line basis over their estimated useful lives. The amortisation methods and remaining useful lives are reviewed at least annually. The estimation of the useful lives of intangible assets is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement. Amortisation has been included in operating profit.

The assumptions regarding estimated useful lives for the 2019 financial year were as follows:

Management contracts	Over contract period
Computer software – purchased	2 – 6 years
Computer software – other	20 years
Development expenditure	Over contract period
Other	4 years

Management contracts comprise the value of contracts with third parties to operate hospital facilities.

The closing balance of development expenditure in 2019 includes software related to CareOn, as well as clinical intellectual property in the Mental health division.

2. Investments and returns continued

2.9 Intangible assets continued

Rm	Management contracts and other	Software	Development expenditure	Total
2019				
Net carrying value				
Cost	55	192	63	310
Accumulated amortisation and impairment losses	(12)	(123)	–	(135)
	43	69	63	175
Movement in the carrying value				
Carrying value at 1 October 2018	28	71	36	135
Additions – internally developed	–	–	51	51
Amortisation	(2)	(9)	–	(11)
Transfers between categories	17	7	(24)	–
Carrying value at 30 September 2019	43	69	63	175
2018				
Net carrying value				
Cost	30	183	45	258
Accumulated amortisation and impairment losses	(2)	(112)	(9)	(123)
	28	71	36	135
Movement in the carrying value				
Carrying value at 1 October 2017	72	231	29	332
Acquisition of business	11	–	11	22
Additions	–	2	–	2
Disposals	–	–	(3)	(3)
Amortisation	(4)	(41)	(1)	(46)
Transfers from property, plant and equipment	–	6	–	6
Translation of foreign entities	(3)	(13)	–	(16)
UK deconsolidation	(48)	(114)	–	(162)
Carrying value at 30 September 2018	28	71	36	135

No borrowing costs were capitalised during the 2019 and 2018 years.

Prior year restated to correct classification.

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.10 Goodwill

Rm	Note	2019	2018
Net carrying value			
Cost		1 639	1 647
Accumulated impairment losses		(33)	(33)
		1 606	1 614
The movement in carrying value of goodwill is as follows:			
Balance at beginning of year		1 614	1 705
Acquisition of business		–	936
Impairment		–	(1)
Change from joint venture to subsidiary		–	2
Translation of foreign entities		–	(88)
Deconsolidation of subsidiary		(8)	(940)
Balance at end of year		1 606	1 614

Goodwill impairment testing

Goodwill is allocated to the cash generating unit (CGU) that is expected to benefit from the acquisition and is measured and managed at an operating segment level.

Goodwill is considered for impairment annually.

The recoverable amounts are determined by projecting the future cash flows expected to be generated by the assets, taking into account market conditions and the expected useful lives of the assets. The present value of these cash flows is determined using an appropriate discount rate.

The tangible and intangible assets constituting the hospital CGUs are tested for impairment prior to the portfolio CGU being tested for goodwill impairment. Any further impairment losses, arising from the portfolio CGU value in use calculation, are applied against goodwill and immediately recognised in the statement of profit or loss.

The carrying value of goodwill has been allocated to the following CGUs for impairment testing:

Rm	2019	2018
Hospital operations	504	493
Primary Care operations	166	185
Mental health operations	936	936
	1 606	1 614

The decrease in the Primary Care goodwill is due to the transfer of certain day theatres to the Hospital operations.

2. Investments and returns continued

2.10 Goodwill continued

Hospital, Primary Care and Mental health operations

The recoverable amounts of the Hospital, Primary Care and Mental health operations' CGUs are determined based on value in use. The value in use is calculated as the present value of the projected cash flows attributable to each CGU. The key assumptions in the value in use calculations for each CGU are as follows:

- The future projected cash flows are based on management's forecast for the five-year period from 1 October 2019 to 30 September 2024. Key assumptions applied in the cash flow forecasts include activity and tariff changes, salary increases and inflation.
- The pre-tax weighted average cost of capital (WACC) for Hospital operations of 13.5% (2018: 14.0%), Primary Care operations of 13.3% (2018: 12.2%) and for Mental health of 13.4% has been calculated.
- The pre-tax WACC has been informed by the post-tax WACC of 11.0% (2018: 11.4%). This post-tax WACC has been calculated by an independent entity based on current market assessments of the optimal capital structure, cost of debt and cost of equity.
- Long-term growth rate of 5.5% (2018: 5.5%).

The amount by which the value in use exceeds the carrying value provides sufficient evidence to enable the directors to conclude that a reasonable change in any of the key assumptions would not result in an impairment loss.

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	Approach used to determine values
Activity	Average annual growth rate over the five-year forecast period is based on past performance and management's expectations of healthcare market development.
Tariff changes	Guidance obtained from the Netcare Tariff Committee, based on past experience with funders and the outcome of ongoing tariff negotiations, taking into consideration both historic and forward looking average inflation rates.
Salary increases	Management forecasts salary cost increases based on the current structure of the business, adjusting for inflationary increases but not reflecting any possible future restructuring or cost saving measures.
Inflation	Management forecast inflation using guidance obtained from local banks on their long term inflation forecasts for the country.
Growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rate is consistent with forecasts included in industry reports.
Pre-tax discount rates	Reflect specific risks relating to the relevant segments.

Notes to the Group annual financial statements continued

2. Investments and returns continued

2.11 Segment report

Information reported to the chief operating decision maker (the Executive Committee) is based on two segments which are separately reported on. Refer to note 1.1 for further details.

2.11.1 Measurement of segment performance and allocation of resources

The segmental analysis reflects the operating structure under which management currently reports. The segments are reviewed by the Executive Committee to the operating profit level. The segments are comprised of :

- Hospital and Emergency services, further disaggregated into Hospital and pharmacy operations, and non-acute services which includes the provision of emergency services, mental health services and cancer care.
- Primary Care.

2.11.2 Segment report – 2019

Rm	Hospital and pharmacy operations[1]	Non-acute services	Hospital and Emergency services	Primary Care	Inter-segment elimination[2]	Group
Statement of profit or loss						
Revenue	19 706	1 104	20 810	795	(16)	21 589
EBITDA[3] – before item below	4 152	118	4 270	118	–	4 388
Depreciation and amortisation	(636)	(58)	(694)	(54)	–	(748)
Operating profit – before item below	3 516	60	3 576	64	–	3 640
Realisation of foreign currency translation reserve	128	–	128	–	–	128
Operating profit	3 644	60	3 704	64	–	3 768
Additional segment information						
Impairment of property, plant and equipment	–	(7)	(7)	–	–	(7)

1. *EBITDA and operating profit in 2019 are inclusive of UK related restructure costs amounting to R13 million, Hospital division restructure costs amounting to R22 million, a loss on disposal of a subsidiary amounting to R27 million and profit on disposal of property, plant and equipment amounting to R69 million.*
2. *Relates to revenue earned in the Hospital and Emergency services segment.*
3. *Earnings before interest, tax, depreciation and amortisation.*

Segment report – 2018

Rm	Hospital and pharmacy operations[1]	Non-acute services	Hospital and Emergency Services	Primary Care	Group
Statement of profit or loss					
Revenue	19 202	798	20 000	717	20 717
EBITDA[2] – before item below	4 090	10	4 100	109	4 209
Depreciation and amortisation	(636)	(37)	(673)	(50)	(723)
Operating profit – before item below	3 454	(27)	3 427	59	3 486
Impairment of contractual economic interest in debt of BMI Healthcare	(1 544)	–	(1 544)	–	(1 544)
Operating profit	1 910	(27)	1 883	59	1 942

1. *EBITDA and operating profit in 2018 are inclusive of UK related restructure costs amounting to R45 million, and Akeso transaction costs amounting to R18 million.*
2. *Earnings before interest, tax, depreciation and amortisation.*

3. Funding

3.1 Debt

All borrowings except for finance leases are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 6.3.

3.1.1 Long-term debt

Rm	Note	2019	2018
Total debt		6 841	6 170
Short-term portion		(1 780)	(1 056)
Non-current portion	6.3.3	5 061	5 114
Comprising:			
Secured liabilities at amortised cost			
Finance lease liabilities		26	29
Unsecured liabilities at amortised cost			
Promissory notes and commercial paper in issue		4 761	4 411
Bank loans		2 050	1 700
Other		4	30
		6 841	6 170

Rm Terms of repayment	Security	Effective interest rate at 30 September 2019	2019	2018
Finance leases Repayable in monthly instalments ending in 2022	Secured by medical equipment and motor vehicles with a book value of R31 million (2018: R34 million)	9.4% – 9.8%	26	29
Promissory notes and commercial paper in issue Repayable on maturity on 23 January 2020, 26 July 2020, 27 July 2020, 15 February 2021, 29 March 2021, 07 December 2021, 24 March 2022,15 February 2023 and 07 December 2023.		8.0% – 8.7%	4 761	4 411
Bank and Other Repayable on maturity on 23 June 2020, 20 November 2021, 31 May 2021,30 November 2022 and 23 January 2023		8.0% – 10.0%	2 054	1 730
			6 841	6 170

Notes to the Group annual financial statements continued

3. Funding continued

3.1 Debt continued

3.1.1 Long-term debt continued

Finance lease liabilities

	Minimum lease payments		Present value of minimum lease payments	
Rm	2019	2018	2019	2018
Less than 1 year	3	8	3	8
Later than 1 year but not later than 5 years	25	21	23	21
	28	29	26	29
Less: Future finance charges	(2)	(1)	–	–
	26	28	26	29

Maturity profile[1]

Rm	Total	< 1 year	1 – 2 year	2 – 3 years	3 – 4 years	> 4 years
2019	8 069	2 304	1 725	1 570	1 871	599
2018	7 519	1 525	1 717	1 471	2 188	618

1. *This maturity analysis includes the contractual undiscounted cash flows, represented by gross commitments, including finance charges. These amounts are different to those reflected in the statement of financial position, which are based on discounted cash flows.*

Undrawn borrowing facilities

The Group has the following undrawn borrowing facilities at 30 September:

Rm	2019	2018
Facilities expire:		
Within 1 year	1 300	1 600
Between 1 and 2 years	500	–
After 2 years or more	3 239	4 089
	5 039	5 689

3. Funding continued

3.1 Debt continued

3.1.1 Long-term debt continued

Debt reconciliation

Rm	Long-term debt	Short term-debt	Total
1 October 2018	**5 114**	**1 056**	**6 170**
Cash flows:			
Repayment of debt	**(1 000)**	**(1 050)**	**(2 050)**
Proceeds of debt raised	**2 248**	**500**	**2 748**
Non-cash:			
Transfer between categories	**(1 275)**	**1 275**	**–**
Change in shareholding	**(26)**	**(1)**	**(27)**
30 September 2019	**5 061**	**1 780**	**6 841**

Rm	Long-term debt	Short term debt	Total
1 October 2017	7 232	1 678	8 910
Cash flows:			
Repayment	–	(1 989)	(1 989)
Proceeds	2 293	760	3 053
Non-cash:			
Transfer between categories	(985)	985	–
Interest	45	–	45
Translation of foreign currency entities	(299)	(33)	(332)
Deconsolidation of BMI healthcare	(3 172)	(345)	(3 517)
30 September 2018	5 114	1 056	6 170

3.2 Cash and cash equivalents and bank overdrafts

Cash and cash equivalents are classified as financial assets measured at amortised cost and bank overdrafts are classified as financial liabilities measured at amortised cost.

All cash and cash equivalents and bank overdrafts are denominated in South African Rand.

Rm	Note	2019	2018
Cash on hand and balances with banks	6.3.3	**1 732**	1 371
Bank overdrafts	6.3.3	**(5)**	(6)
		1 727	1 365
Included in cash and cash equivalents is restricted cash:			
HPFL B-BBEE trusts		**306**	182

Refer to note 6.3 for discussion on credit risk and capital management.

Notes to the Group annual financial statements continued

3. Funding continued

3.3 Investment income

Investment income comprises interest on funds invested with financial institutions, which are recognised in profit or loss. Investment income is recognised in profit or loss as it accrues, using the effective interest method.

Rm	2019	2018
Interest on bank accounts and other	172	167
Interest income on contractual economic interest in the debt of BMI Healthcare	–	104
	172	271

3.4 Finance costs

Finance costs comprise interest expenses on borrowings and post-employment benefit plan interest costs which are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case they are then capitalised property, plant and equipment.

Rm	Notes	2019	2018
Interest on bank loans and other		193	215
Interest on promissory notes		409	333
Total funding finance costs		602	548
Post-employment benefit plan finance costs	4.2.1	54	49
		656	597

4. Our people

4.1 Remuneration of directors and prescribed officers

4.1.1 Interests of directors and prescribed officers

Ordinary shares

The beneficial and non-beneficial interests of directors and prescribed officers in the ordinary shares of the Company were:

Number of shares	1 Oct 2018[1]	Options exercised	Disposed	30 Sep 2019	Directly[2]	Indirectly[3]
Executive directors						
RH Friedland	10 387 444	59 531	(10 423 163)	23 812	23 812	–
KN Gibson	358 315	25 254	–	383 569	383 569	–
Non-executive directors						
N Weltman	10 000	–	–	10 000	–	10 000
Prescribed officers						
J du Plessis	35 735	19 333	(25 000)	30 068	30 068	–
	10 791 494	104 118	(10 448 163)	447 449	437 449	10 000

1. *The information in this column is consistent with 30 September 2018.*
2. *The direct shares held are beneficial.*
3. *The indirect shares held are non-beneficial.*

Preference shares

N Weltman holds 1 100 non-beneficial preference shares in the Company.

The register of interests of directors in the shares of the Company is available to shareholders on request.

No prescribed officer holds any interest in the Company's preference shares.

At the date of this report, these interests remain unchanged.

4.1.2 Directors' and prescribed officers' share options

Health Partners for Life

The following share options were held by directors and prescribed officers at 30 September 2019:

Number of options	Grant date	1 Oct 2018	Exercised	30 Sep 2019
Executive directors				
KN Gibson	2 Oct 2006	1 041	–	1 041
Weighted average exercise price		12.34	–	12.34
Prescribed officers				
CE Grindell	25 Oct 2005	1 200	–	1 200
Weighted average exercise price		6.42		6.42
		2 241	–	2 241

No share options were granted in 2019 (2018: Nil).

2 241 Health Partners for Life share options had vested as at 30 September 2019 (2018 : 2 241).

Notes to the Group annual financial statements continued

4. Our people continued

4.1 Remuneration of directors and prescribed officers continued

4.1.2 Directors' and prescribed officers' share options continued

Forfeitable share plan

The following forfeitable shares were held by directors and prescribed officers at 30 September 2019:

Number of options	Grant date	1 Oct 2018	Granted	Shares forfeited during the year	Exercised (sold and retained)	30 Sep 2019	Market price at exercise date (cents)	Gain arising on exercise (R)
Executive directors								
RH Friedland[1]	FSP 2: 20 Jan 2016	1 388 665	–	(68 036)	(113 393)	1 207 236	26.78	3 037
KN Gibson[2]		592 080	–	(28 861)	(48 103)	515 116	26.78	1 288
Prescribed officers								
J Du Plessis	FSP 3: 20 Jan 2018	466 932	–	(22 094)	(36 825)	408 013	26.78	986
C Grindell		216 911	–	(4 364)	(13 094)	199 453	22.24	291
N Phillipson		290 172	–	(290 172)	–	–	–	–
WN van der Merwe		273 445	–	(5 559)	(16 679)	251 207	20.13	336
		3 228 205	–	(419 086)	(228 094)	2 581 025		5 938

1. *RH Friedland exercised 113 393 (2018: 154 622) share options during the year in terms of the Forfeitable Share Plan.*
2. *KN Gibson exercised 48 103 (2018: 61 892) share options during the year in terms of the Forfeitable Share Plan.*

The forfeitable shares vest in 9 tranches from 13 June 2015 in terms of the rules of the scheme.

Refer to note 4.3.2 for more details on the forfeitable shares.

4.1.3 Directors' and prescribed officers' emoluments

Emoluments paid to directors and prescribed officers of the Company by the Company and its subsidiaries (excluding gains on share options exercised) for the year to 30 September 2019, are set out below:

Executive director

R'000	Salary	Short-term contributions	Retirement fund contributions	Guaranteed package	Bonuses[1]	Total	Fair value of options granted[2]
2019							
RH Friedland	9 035	26	765	9 826	–	9 826	2 258
KN Gibson	4 668	26	409	5 103	–	5 103	963
	13 703	52	1 174	14 929	–	14 929	3 221
2018							
RH Friedland	8 628	24	734	9 386	2 750	12 136	6 753
KN Gibson	4 459	24	392	4 875	875	5 750	2 872
	13 087	48	1 126	14 261	3 625	17 886	9 625

1. *Incentive bonuses paid in respect of the previous financial year.*
2. *The fair value of options granted is the annual expense determined in accordance with IFRS 2.*

4. Our people continued

4.1 Remuneration of directors and prescribed officers continued

4.1.3 Directors' and prescribed officers' emoluments continued

Non-executive directors

Fees for services as directors

R'000	2019	2018
MR Bower	1 356	1 196
T Brewer	2 177	1 810
B Bulo	1 169	1 100
L Human[1]	405	–
APH Jammine[2]	1 169	1 225
JM Kahn[3]	–	1 020
MJ Kuscus	1 162	1 177
KD Moroka	990	996
N Weltman	1 508	1 314
	9 936	9 838

1. *Appointed as director effective 13 May 2019*
2. *Retired as director effective 30 September 2019*
3. *Retired as Chair and director effective 31 March 2018*

Prescribed officers

R'000	Salary	Short-term contributions	Retirement fund contributions	Guaranteed package	Bonuses[1]	Total	Fair value of options granted[2]
2019							
J Du Plessis	4 270	26	343	4 639	–	4 639	761
C Grindell	2 863	26	251	3 140	500	3 640	487
S Mhlongo[3]	1 052	9	100	1 161	–	1 161	–
N Phillipson[4]	227	2	19	248	–	248	–
WN van der Merwe	3 561	26	301	3 888	–	3 888	553
	11 973	89	1 014	13 076	500	13 576	1 801
2018							
J Du Plessis	4 081	24	328	4 433	1 100	5 533	2 230
C Grindell	2 445	24	215	2 684	350	3 034	917
N Phillipson	2 526	24	208	2 758	350	3 108	1 458
WN van der Merwe	3 404	24	287	3 715	500	4 215	1 138
	12 456	96	1 038	13 590	2 300	15 890	5 743

1. *Incentive bonuses paid in respect of the previous financial year.*
2. *The fair value of options granted is the annual expense determined in accordance with IFRS 2.*
3. *Appointed as Managing Director– Akeso Clinics on 15 May 2019.*
4. *Resigned effective 1 November 2018.*

Notes to the Group annual financial statements continued

4. Our people continued

4.2 Post-employment healthcare benefit obligations

Post-employment defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include subsidy inflation and the discount rate. Additional details of the valuation method and assumptions used are provided below.

Remeasurement losses are recognised in other comprehensive income.

Rm	2019	2018
Post-employment healthcare benefits	487	535

In South Africa the Group provides post-employment healthcare benefits to certain retired employees. Employees who joined the employment of the Group prior to 1 November 2004 are entitled to a post-employment medical aid subsidy. Due to previous employment benefits offered, the Group has honoured its contractual commitment in respect of post-employment healthcare obligations before the change in policy.

An actuarial valuation of the post-employment healthcare benefits of Netcare Medical Scheme is performed at least every three years, using the projected unit credit method. The post-employment medical healthcare benefits are unfunded.

4. Our people continued

4.2 Post-employment healthcare benefit obligations continued

Details of the defined benefit obligations are set out below.

Valuation

Last actuarial valuation performed by PwC (SA)	30 September 2019
Valuation method adopted	Project unit credit method

%	Note	2019	2018
Principal actuarial assumptions			
Net discount rate		3.5	2.4
Subsidy inflation		6.4	7.3

Rm	Note	2019	2018
Actuarial obligation of amounts recognised in the statement of financial position			
Unfunded obligation		487	535
Reconciliation of defined benefit obligation to amounts recognised in the statement of financial position			
Liability at beginning of year		535	497
Current service cost		13	13
Interest cost	3.4	54	49
Benefits paid		(24)	(22)
Transfer of employees		–	(2)
Remeasurement gains		(91)	–
Change in financial assumptions		(69)	–
Experience variance		(22)	–
Liability at end of year		487	535
Post-employment healthcare costs recognised in the statement of profit or loss			
Service cost		13	13
Interest cost		54	49
Total cost recognised in profit or loss		67	62
Amount recognised in other comprehensive income			
Remeasurement on the defined benefit liability		(91)	–
Taxation		25	–
Net actuarial gains recognised in other comprehensive income		(66)	–

The current service cost for the year has been included in the employee benefits expense in profit or loss.

The Group expects to contribute approximately R83 million to the post employment subsidy in 2020 (2019: R76 million).

Notes to the Group annual financial statements continued

4. Our people continued

4.2 Post-employment healthcare benefit obligations continued

Sensitivity Analysis

The effect of a 1% increase or decrease in the inflation assumption on the service cost, interest cost and accrued liability is shown below:

	Change in service cost (Rm)	Change in interest cost (Rm)	Change in accrued liability (Rm)
1% increase in inflation	1	3	29
1% decrease in inflation	(1)	(2)	(19)
The results of the valuation are sensitive to changes in the assumptions used. The effect of adjusting the assumptions is shown below:			
Discount rate decrease of 1.0%			(7)
Discount rate increase of 1.0%			17

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the prior period.

The scheme exposes the Group to a number of risks:

Interest rate risk: The scheme's liabilities are assessed using market yields on government bonds to discount the liabilities. An increase in the interest rate will increase the plan liability.

Mortality risk: An increase in the life expectancy of the plan participants will increase the plan's liability.

Inflation risk: An increase in the inflation rate will impact healthcare costs, which will increase the plan liability.

4. Our people continued

4.3 Share-based payments

The Group has two equity settled share schemes, namely the Netcare Limited Forfeitable Share Plan (FSP) and Health Partners for Life (B-BBEE transaction).

The fair value of options granted in terms of the Trust units issued in terms of the Health Partners for Life initiative are determined using the Trinomial model. The fair value of forfeitable shares granted in terms of the Forfeitable Share Plan is determined by using the weighted average traded share price on grant date.

Additional details regarding the assumptions used to value the share options and trust units are shown below.

The following amounts relating to share-based payments were included, before tax in the statement of profit or loss during the year.

Rm	Notes	2019	2018
Equity-settled			
Netcare Limited Forfeitable Share Plan	4.3.1	50	53
The Group awards forfeitable shares to certain employees subject to performance (performance shares) and retention (retention shares) conditions. The total amount to be expensed over the vesting period is determined with reference to the fair value of the units at grant date and is expensed on a straight-line basis over the vesting period. The fair value is determined by using the weighted average traded share price on grant date and the assumptions to determine the fair value are detailed in note 4.3.2. For the performance shares, the probability of achieving the performance condition is used to determine the expense in each reporting period. Vesting conditions, including performance conditions, are taken into account by adjusting the number of forfeitable shares so that the amount recognised for services received as consideration for the forfeitable shares granted, will be based on the number of forfeitable shares that eventually vest. The fair value model and the assumptions used to determine the fair value are detailed in note 4.3.1.			
Health Partners for Life (B-BBEE transaction)	4.3.2	–	1
The beneficiaries of the Health Partners for Life Trusts hold Trust units which entitle them to the economic benefits linked to the value of a specified number of Netcare shares over a vesting period. The total amount to be expensed over the vesting period is determined with reference to the fair value of the units at grant date and is expensed on a straight-line basis over the vesting period. The fair value is determined by using the Trinomial model and the assumptions used to determine the fair value are detailed in note 4.3.2.			
		50	54

Notes to the Group annual financial statements continued

4. Our people continued

4.3 Share-based payments continued

The maximum aggregate number of shares which may be allocated at any time to all participants in respect of the Netcare Share Incentive Scheme together with the Forfeitable Share Plan shall not exceed 222 811 277 shares, either alone or when aggregated with the existing share plans, in each case as determined pursuant to the provisions applicable to the relevant existing share plans.

Shares available for allocation

Number of shares	2019	2018
Shares allotted	**210 397 391**	209 628 092
Share options granted	**9 371 768**	11 004 262
Unallocated share options	**3 042 118**	2 178 923
	222 811 277	222 811 277

4.3.1 Netcare Limited Forfeitable Share Plan

The Forfeitable Share Plan (FSP) was introduced as a long-term incentive for selected employees who will receive shares in the Company for no consideration. The purpose of the FSP is to provide both an incentive to participants to deliver the Group's business strategy over the long-term and to act as a retention mechanism. There are two types of share awards based on retention and performance. The retention share awards vest over a period of continued employment as stipulated in the award letter. The vesting of the performance share awards is subject to continued employment over the vesting period and meeting certain financial performance targets.

The participant shall not be entitled to any voting rights prior to vesting. Participants will not have their votes at a general/ annual general meeting taken into account for the purpose of resolutions proposed in terms of the JSE Listings Requirements.

In the event of death, serious disability, retrenchment or retirement of a participant, a portion of the award, to be calculated in terms of the provisions of the FSP, shall vest. If the participant's employment is terminated, the unvested portion of the award will be forfeited in its entirety, or partially at the discretion of the Remuneration Committee, and all rights will lapse immediately on the date of termination of employment.

It should be noted that the maximum number of shares allocated in respect of all unvested awards granted to any participant in respect of the FSP, shall not exceed 1% of the ordinary shares in issue.

Vesting periods of shares issued

Number of shares issued	2019	2018
Within 1 year	**2 132 264**	1 183 434
Within 1 – 2 years	**3 198 253**	2 259 346
Within 2 – 3 years	**2 540 948**	3 354 668
Within 3 – 4 years	**1 500 303**	2 641 363
Within 4 – 5 years	**–**	1 565 451
	9 371 768	11 004 262

4. Our people continued

4.3 Share-based payments continued

4.3.1 Netcare Limited Forfeitable Share Plan continued

Analysis of award dates and prices of shares

Grant date	Outstanding at 1 Oct 2018	Granted	Grant date fair value in Rands	Forfeited	Exercised	Outstanding at 30 Sep 2019
Retention shares						
20 January 2016	875 737	–		(51 566)	(412 057)	412 114
24 February 2016	14 386	–		–	(7 192)	7 194
30 March 2017	35 003	–		(6 667)	(14 164)	14 172
1 June 2017	13 467	–		(13 467)	–	–
16 April 2018	1 667	–		–	(833)	834
20 January 2018	3 125 678	23 008		(211 274)	–	2 937 412
29 June 2018	82 057	–		–	–	82 057
21 September 2018	20 000	–		–	–	20 000
4 December 2018	–	31 967	25.77	–	–	31 967
28 January 2019	–	30 500	25.16	–	–	30 500
30 January 2019	–	5 000	24.63	–	–	5 000
4 February 2019	–	15 000	24.35	–	–	15 000
	4 167 995	105 475		(282 974)	(434 246)	3 556 250
Performance shares						
20 January 2016	2 043 135	–		(451 039)	(321 874)	1 270 222
24 February 2016	21 578	–		(3 596)	(3 596)	14 386
30 March 2017	52 500	–		(15 414)	(8 750)	28 336
1 June 2017	20 200	–		(20 200)	–	–
16 April 2018	2 500	–		–	(833)	1 667
20 January 2018	4 594 299	23 007		(300 921)	–	4 316 385
29 June 2018	82 055	–		–	–	82 055
21 September 2018	20 000	–		–	–	20 000
4 December 2018	–	31 967	25.77	–	–	31 967
28 January 2019	–	30 500	25.16	–	–	30 500
30 January 2019	–	5 000	24.63	–	–	5 000
4 February 2019	–	15 000	24.35	–	–	15 000
	6 836 267	105 474		(791 170)	(335 053)	5 815 518
	11 004 262	210 949		(1 074 144)	(769 299)	9 371 768

769 299 forfeitable shares had vested at 30 September 2019 and were exercised during the 2019 financial year (2018: 1 094 556).

Refer to note 4.1 for details on shares issued to directors.

The fair value is determined by using the weighted average traded share price on grant date. In determining the IFRS 2 expense, the observed attrition factor and a probability of achieving the performance conditions is applied. The final expense to be recognised, will however, be dependent on the actual number of retention shares and performance shares that ultimately vest.

The share issue cost expensed during the year amounted to R50 million (2018: R53 million). The expected unrecognised share-based payment expense relating to non-vested share issues amounts to R63 million (2018: R105 million).

Notes to the Group annual financial statements continued

4. Our people continued

4.3 Share-based payments continued

4.3.1 Netcare Limited Forfeitable Share Plan continued

The following assumptions were used to value the forfeitable shares granted:

Grants under the forfeitable share plan are entitled to the dividends during the vesting period and therefore no adjustment is made to the traded share price in this regard.

Assumptions	FSP 2 %	FSP 3 %
Annual attrition rate	10	10
Probability of performance condition – Vesting year 1	50	50
Probability of performance condition – Vesting year 2	50	50
Probability of performance condition – Vesting year 3	50	50

The remainder of shares for the first allocation of the forfeitable share plan vested and further shares were granted to eligible participants during the year.

4.3.2 Health Partners for Life (B-BBEE transaction)

The Group implemented the Health Partners for Life (HPFL) initiative on 1 October 2005, a strategy to effect Broad-based Black Economic participation and transformation within the Netcare Group and in the private healthcare sector.

A broad grouping of predominantly historically disadvantaged individuals, through their participation in the HPFL Trusts, were identified as having the opportunity to acquire Netcare shares or benefit from the dividend stream thereof.

The HPFL formed four separate Trusts being The Patient Care and Passionate People Trust, The Physician Partnerships Trust, The Mother and Child Trust and The Healthy Lifestyle Trust.

The objective of the HPFL trusts is to manage and administer the awards, settlement of debt and repurchase of trust units, the assets and liabilities of the trusts and the making of awards, if applicable, in a manner consistent with Netcare's commitment to B-BBEE and socio and economic development.

Dividends or other distributions received on HPFL shares are applied first to meet funding obligations and administrative and operating expenses, and thereafter distributed within the Trusts.

The details of the Trusts are as follows:

The Patient Care and Passionate People Trust

The Patient Care and Passionate People Trust indirectly assists the Group in attracting and retaining staff. Beneficiaries who are Netcare employees cease to be entitled to hold trust units if they resign or are dismissed from their employment.

The awards to beneficiaries of these trusts are effected by the trustees. The beneficiaries hold trust units which entitle them to the economic benefits of a specified number of Netcare shares in tranches of 20% over five years commencing on the fifth anniversary of the commencement of their participation. Beneficiaries have the option of either converting trust units into Netcare shares or to request the trustees to sell their shares in the open market and to distribute the net value in cash to them.

Beneficiaries are entitled to Netcare shares calculated as being the difference between the market value of the units and the debt allocation. The debt allocation consists of the original cost of the Netcare shares on the allocation date, interest charged on the loan to purchase the Netcare shares and tax paid by Netcare and the trusts on account of the B-BEE transaction reduced by dividends received.

4. Our people continued

4.3 Share-based payments continued

4.3.2 Health Partners for Life (B-BBEE transaction) continued

The Physician Partnerships Trust

The Physician Partnerships Trust assists the Group in retaining quality medical professionals in SA and the awards are not linked in any way to where the medical professionals practise.

The Trust also established a Clinical Scholarship to support the development of academic specialists. To date, fourteen specialists have been selected to pursue doctoral degrees in SA and/or abroad under this scholarship.

Beneficiaries who are medical doctors cease to be entitled to hold trust units if they emigrate from SA or cease to be a practising doctor in good standing with the relevant professional board or council.

The awards to beneficiaries of these trusts are effected by the trustees. The beneficiaries hold trust units which entitle them to the economic benefits of a specified number of Netcare shares in tranches of 20% over five years commencing on the fifth anniversary of the commencement of their participation. Beneficiaries have the option of either converting trust units into Netcare shares or to request the trustees to sell their shares in the open market and to distribute the net value in cash to them.

Beneficiaries are entitled to Netcare shares calculated as being the difference between the market value of the units and the debt allocation. The debt allocation consists of the original cost of the Netcare shares on the allocation date, interest charged on the loan to purchase the Netcare shares and tax paid by Netcare and the trusts on account of the B-BEE transaction reduced by dividends received.

The Mother and Child Trust

The Mother and Child Trust funds the provision of assistance to women and children through selected women's groups and children's organisations.

The Healthy Lifestyle Trust

The Healthy Lifestyle Trust promotes a healthy lifestyle through the provision of financial assistance to wellness programmes and selected aligned initiatives.

Notes to the Group annual financial statements continued

4. Our people continued

4.3 Share-based payments continued

4.3.2 Health Partners for Life (B-BBEE transaction) continued

Details of the Trust units at 30 September 2019 are:

Trust	Shares allocated to trust 1 Oct 2018	Disposals during the year	Shares allocated to trusts 30 Sep 2019	Units in issue	Available
The Patient Care and Passionate People Trust	46 703 444	(282 203)	46 421 241	6 170 675	40 250 566
The Physician Partnerships Trust	34 395 479	(189 662)	34 205 817	12 188 000	22 017 817
The Mother and Child Trust	9 916 737	–	9 916 737	–	9 916 737
The Healthy Lifestyle Trust	5 253 177	(148 080)	5 105 097	–	5 105 097
	96 268 837	(619 945)	95 648 892	18 358 675	77 290 217

Movement in the number of units was as follows:

	The Patient Care and Passionate People Trust	The Physician Partnerships Trust	The Mother and Child Trust	The Healthy Lifestyle Trust	Total
Balance at 1 October 2018	7 899 524	12 709 800	–	284 808	20 894 132
Exercised	(1 430 447)	(521 800)	–	(284 808)	(2 237 055)
Forfeited	(298 402)	–	–	–	(298 402)
Balance at 30 September 2019	6 170 675	12 188 000	–	–	18 358 675

Refer to note 1.5 for details on the allocation of shares after reporting date

4.4 Key management personnel

Key management personnel are directors and those executives having authority and responsibility for planning, directing and controlling the activities of the Group. Directors of the Company and certain senior management personnel have been classified as key management personnel. These key management personnel consist of the Executive Committee.

The Group has many different operations, where Group personnel may be transacting. Transactions entered into during the year with key management personnel were on terms and conditions no more favourable than those available to other employees, customers or suppliers and include transactions in respect of the employee option plans, contracts of employment and reimbursement of expenses, as well as other transactions.

Remuneration of key management personnel

Remuneration paid to key management personnel is as follows:

R'000	2019	2018
Exco[1]		
Salaries and allowances	44 060	38 245
Short term benefits	269	245
Retirement fund contributions	3 751	3 260
Bonuses and termination payments	3 270	8 255
Fair value of options granted[2]	9 485	23 435
	60 835	73 440

1. 2019 – 12 posts on average (2018: 12 posts).
2. The fair value of options granted is the annual expense determined in accordance with IFRS 2.

Details relating to the remuneration of executive and non-executive directors and prescribed officers, as well as information pertaining to directors' and prescribed officers' interest in the share capital of the Company, share options outstanding and benefits in terms of share options exercised are disclosed in note 4.1.

5. Working capital

5.1 Trade and other receivables

Trade receivables are amounts due from customers for services rendered and goods sold in the ordinary course of business and are measured at amortised cost in terms of IFRS 9: Financial Instruments (2018: loans and receivables under IAS 39).

The accounting policy relating to the recognition of the allowance for doubtful debts was changed to comply with IFRS 9 in the current year by introducing an expected credit loss model. This replaces the provisions of IAS 39 which used an incurred loss model. The 2019 figures are presented on an IFRS 9 basis, while the 2018 figures are presented on an IAS 39 basis. Refer to note 11 for an explanation of the impact of this change.

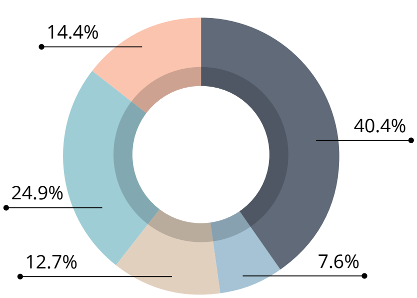
The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 6.3.4.2.

Rm	Note	2019	2018
Trade receivables		2 646	2 539
Loss allowance	6.3.4.2	(322)	(263)
Net trade receivables		2 324	2 276
Prepaid expenses		74	88
Joint venture receivables (refer to Annexure B)	9.1	27	34
Current portion of deferred lease assets		5	7
Other debtors		407	719
		2 837	3 124

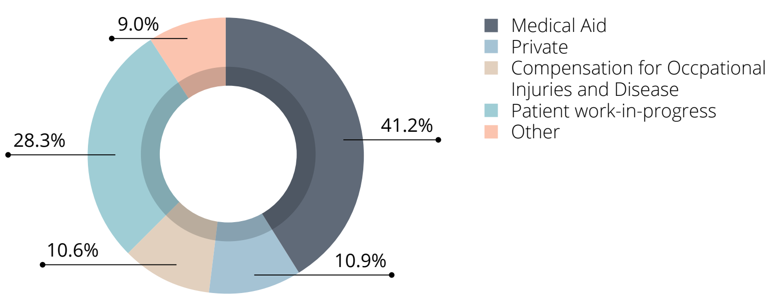
The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Rm	2019	2018
Net trade receivables, are categorised into the following types:	2 324	2 276
South Africa		
Medical aid	938	938
Private	177	248
Compensation for Occupational Injuries and Disease	294	241
Patient work-in-progress	580	644
Other	335	205
	2 324	2 276

South Africa 2019



South Africa 2018



Notes to the Group annual financial statements continued

5. Working capital continued

5.1 Trade and other receivables continued

Impairment

The Group applies the simplified approach as permitted by IFRS 9 when providing for loss allowances on trade receivables. Under the simplified approach, the loss allowance is calculated over the lifetime of the asset. Trade receivables is disaggregated into major categories and the credit risk is assessed for each category. This is known as the provision matrix approach. Credit risk per category is determined using past information and experience with the debtor as well as an expectation of the recoverability of amounts due from the debtor in the future. Factors which are considered when assessing the past and future risk associated with each category include an analysis of the debtor's current financial position, adjusted for factors that are specific to each debtor, general economic conditions in which the debtor operates and an assessment of both the current as well as the forecast direction of macro-economic conditions at the reporting date. Loss allowances are reviewed at the end of each reporting period.

The following table details the risk profile of trade receivables per category:

	Gross carrying amount	Loss allowance	Net carrying amount	Expected credit loss rate (%)[1]
Medical aid	**963**	(25)	938	0.01
Private	**178**	(1)	177	3.61
Compensation for Occupational Injuries and Disease	**305**	(11)	294	0.01
Patient work-in-progress	**580**	–	580	0.01
Other	**620**	(285)	335	0.01
	2 646	(322)	2 324	

1. *Expected credit loss rates are based on the factors below for each category of trade receivables. However, additional loss allowances are raised on specific debtors which the Group has determined have greater than normal credit risk.*

Medical aid – These funds are regulated by the Medical Schemes Act (MSA) and are monitored and controlled by the Registrar of Medical Schemes. The MSA stipulates minimum reserves for funders which mitigates the Group's credit risk. Medical aid debtors are generally low risk due to the pre-authorisations obtained on patient admissions. Cases which require a specific assessment are calculated using the factors of the particular case to determine the expected credit loss rate. In certain cases, the expected credit loss rate can be 100% depending on the factors present. For general cases with no specific credit risk factors present, the probability of default has been assessed as low (0.01%).

Private – Credit risk for private patients is mitigated by taking an appropriate deposit calculated with specific regard to the services expected to be provided. Credit risk is assessed as being higher for private patients who haven't paid a deposit, admissions due to an emergency, or balances transferred from medical aid debtors as not covered by medical insurance. In order to determine the probability of default that would approximate the risk of the private book balances, data analysis around the credit risk of these private individuals would need to be performed. The Group has determined that it would be of undue cost and effort to perform this analysis and as such significant judgement supported by observation of external reporting, as permitted by IFRS 9, has been applied in determining this rate. The Group has used the Experian Composite Index on defaults and has applied a probability of default of 3.61% to private patients. Cases which require a specific assessment are calculated using the factors of the particular case to determine the expected credit loss rate. In certain cases, the expected credit loss rate can be 100% depending on the factors present.

5. Working capital continued

5.1 Trade and other receivables continued

Compensation for Occupational Injuries and Disease (COID) – COID has been assessed as having a low risk of incidence of repudiation of accounts due to past default experience with COID and the financial position of COID. Therefore, the probability of default has been assessed as low (0.01%). Cases which require a specific assessment are calculated using the factors of the particular case to determine the expected credit loss rate. In certain cases, the expected credit loss rate can be 100% depending on the factors present.

Patient work-in progress (PIP) – This category refers to patients who have not been discharged and patients who have been discharged but not yet billed. No provision is raised against this category as the debtor is reallocated to the appropriate category once billed.

Other – This category includes occupational health debtors, deceased estate, arranged balances, pharmacy debtors, and foreign debtors. These debtors are assessed on an individual basis and are provided for based on the appropriate expected credit loss rate. In certain cases, the expected credit loss rate can be 100% depending on the factors present.

5.2 Inventories

Inventories, comprising pharmaceuticals and medical consumables, are valued at the lower of cost and net realisable value on a first-in-first-out basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Other consumables, including crockery, cutlery, linen and soft furnishings, are valued at average cost and written down with regard to their age and condition.

Rm	2019	2018
Medical and pharmaceutical merchandise	473	498
Crockery, cutlery, linen, soft furnishings and other consumables	91	91
	564	589

The cost of inventories recognised as an expense during the year was R6 007 million (2018: R5 614 million). Inventories carried at net realisable value amount to R2 million (2018: R2 million). There were no write-down of inventories during the year to net realisable value (2018: Rnil million).

5.3 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. They are classified as financial liabilities measured at amortised cost in accordance with IFRS 9: Financial Instruments (2018: financial liabilities measured at amortised cost under IAS 39).

The directors consider that the carrying amount of the trade and other payables approximate their fair value. Refer to note 6.3 for the Group's financial risk management policies.

Rm	Notes	2019	2018
Trade payables		1 328	1 191
Leave pay		353	339
Bonuses		369	296
Joint venture payables (Refer to Annexure B)	9.1	119	112
Accrued expenses		581	563
Claims incurred but not reported		15	18
Current portion of deferred lease liabilities		21	4
Other payables		676	765
		3 462	3 288

Notes to the Group annual financial statements continued

6. Financial management

Hedge accounting

The Group has taken out interest and inflation rate swaps in order to hedge its exposure to interest and inflation rate risk. These swaps are classified as derivative financial instruments and have been designated in their entirety as hedging instruments in accordance with IFRS 9 and are regarded as continuing hedging relationships.

The application of the hedge accounting requirements in IFRS 9 is optional. If certain eligibility and qualification criteria are met, hedge accounting can allow an entity to reflect its risk management activities in the financial statements by matching gains or losses on hedging instruments with losses or gains on the risk exposures they hedge. For a fair value hedge of interest rate risk of a portfolio of financial assets or liabilities an entity adopting IFRS 9 can apply the hedge accounting requirements in IAS 39 in combination with the general macro hedge account requirements in IFRS 9. When an entity first applies IFRS 9, it may choose as its accounting policy to continue to apply the hedge accounting requirements in IAS 39 instead of those of IFRS 9.

The swap instruments carried by the Group have followed a process of matching the risks. The Group applies the hedge accounting requirements in IAS 39 as permitted by IFRS 9. Therefore, there is no additional IFRS 9 adjustment to profit or loss or other comprehensive income.

Under IFRS 9, the effectiveness test applied under IAS 39 has been replaced with the principle of 'economic relationship'. At inception, the Group documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. The Group documents whether the hedging instrument is effective on an ongoing basis against changes in fair values and cash flows. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item.

The new standard and the consequential amendments to IFRS 7 also require enhanced disclosure about the Group's risk management activities. Retrospective assessment of hedge effectiveness is no longer required.

Derivative instruments are initially and subsequently recognised at fair value, with changes in fair value being included in profit or loss other than derivatives designated as cash flow hedges. In those cases the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion is recognised in profit or loss.

Hedge accounting is discontinued when the hedging relationship no longer meets the qualifying criteria for hedge accounting under IFRS 9. One of the criteria which must be satisfied to qualify for hedge accounting is that the forecast hedged transaction must be considered highly probable. In assessing whether the interest rate swap instruments qualify for hedge accounting, management must make a judgement on whether the hedged interest payments on the debt are considered highly probable for the duration of the swap instruments.

If the hedge is no longer considered effective, then consideration must be given as to whether movements in the fair value of the swap instruments previously taken to reserves through the statement of comprehensive income, must be reclassified to the profit or loss statement. To do this, management must make a judgement on whether the hedged interest payments on the debt are considered more likely than not to occur. To the extent that any of these underlying hedged cash flows are not considered more likely than not to occur, then a portion of the hedge reserve must be reclassified to the profit or loss statement.

6. Financial management continued

6.1 Financial assets

Rm	Notes	2019	2018
Derivative financial instruments			
Interest rate swaps		–	16
Non-derivative financial instrument			
Investment in Cell Captive		5	–
	6.3.2/6.3.3	5	16
Included in:			
Non-current assets		5	16
Current assets		–	–
		5	16

6.2 Financial liabilities

Derivative financial instruments	Notes	2019	2018
Interest rate swaps		31	5
Inflation rate swaps		29	26
Written put option over non-controlling interest		10	–
	6.3.2/6.3.3	70	31
Included in:			
Non-current liabilities		44	21
Current liabilities		26	10
		70	31

Notes to the Group annual financial statements continued

6. Financial management continued

6.3 Financial instruments and risk management

6.3.1 Fair value measurement

There is no material difference between the fair values of financial instruments measured at amortised cost and the amounts recognised in the statement of financial position.

The valuation of derivative financial instruments is based on the market values at the reporting date. The value of the derivative instruments fluctuates on a daily basis and the actual amounts realised may differ materially from their value at the reporting date. The fair value of the inflation and interest rate swap instruments is calculated based on a discounted cash flow model using a number of key assumptions.

The following methods are used by the Group to determine the fair value of financial instruments:

Financial assets

Cell captive

The cell captive is recognised at fair value through profit and loss. The fair value is derived from the net assets of the cell which mainly comprise financial assets and liabilities accounted for at fair value through profit loss.

Derivative financial assets

The fair values of the interest rate and inflation rate swap instruments are calculated based on a discounted cash flow model using a number of key assumptions. There are no enforceable master netting arrangements within the Group to allow for set-off.

Financial liabilities

Derivative financial liabilities

The fair values of the interest rate and inflation rate swap instruments are calculated based on a discounted cash flow model using a number of key assumptions. The fair value of the put-option instrument is calculated using a formula based on a fixed yield basis of annual rent of the entity whose shares will be purchased when the option is exercised. There are no enforceable master netting arrangements within the Group to allow for set-off.

Other financial liabilities

Other financial liabilities are recognised at amortised cost. The carrying amounts included in the statement of financial position approximate the fair values.

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.2 Fair value hierarchy

Financial instruments measured at fair value are grouped into the following levels based on the significance of the inputs used in determining fair value:

Level 1	Fair value is derived from quoted prices (unadjusted) in active markets for identical instruments.
Level 2	Fair value is derived through the use of valuation techniques based on observable inputs, either directly or indirectly.
Level 3	Fair value is derived through the use of valuation techniques using inputs not based on observable market data.

The table below categorises the Group's financial instruments measured at fair value into the applicable level:

Rm	Notes	Level 2	Level 3	Total
2019				
Non-derivative financial assets				
Investment in Cell Captive		5	–	5
	6.1	5	–	5
Derivative financial liabilities				
Interest rate swaps		31	–	31
Inflation rate swaps		29	–	29
Written put option over non-controlling interest		–	10	10
	6.2	60	–	70
2018				
Derivative financial assets				
Interest rate swaps		16	–	16
	6.1	16	–	16
Derivative financial liabilities				
Interest rate swaps		5	–	5
Inflation rate swaps		26	–	26
	6.2	31	–	31

The written put option was recognised during the current year. A reconciliation of the opening balance to the closing balance has therefore not been disclosed.

The Group has no financial instruments measured at fair value categorised as Level 1. There were no transfers between categories in the current year.

Notes to the Group annual financial statements continued

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.2 Fair value hierarchy continued

Cell Captive – Level 2

The valuation and assumptions are based on monthly unaudited management accounts received from the insurer. The investment portfolio includes unit trusts, call deposits, money market accounts and cash on hand held at year end along with outstanding claims and other liabilities.

All fair value gains and losses have been accounted for in the statement of profit or loss for the year.

Derivative financial assets and derivative financial liabilities – Level 2

The analysis of the values applicable to financial instruments measured at fair value is performed by qualified independent experts, with the exception of the put option which is valued internally (see below). The effectiveness test and valuations were performed as at 30 September 2019.

Ratio Offset and Regression Analysis methods were used and modelled the hedged items as interest rate or inflation-linked swap instruments, with the notional terms based on the terms of the underlying hedged item provided.

The valuation inputs and assumptions

Interest rate swaps

- Zero coupon perfect fit swap instrument curve as at 30 September 2019 was used to determine the relevant floating interest rates.
- Standard interest rate swap instrument valuation methodology was used.

The fair value results exclude the estimated impact of non-performance due to counterparty risk (Credit Valuation Adjustment CVA) and our own risk (Debit Valuation Adjustment DVA).

The probability of default was estimated for debt instruments issued by relevant parties, and the potential exposure of default was estimated by applying a swap valuation model.

Inflation rate swaps

- Forecast and historical Consumer Price Index (CPI) metrics were provided by independent sources.
- Zero coupon perfect fit swap instrument curve as at 30 September 2019 was used to discount the net cash flows.
- Standard CPI-linked rate swap instrument valuation methodology was used, incorporating the specific terms in the swap.

The fair value results exclude the estimated impact of non-performance due to counterparty risk (Credit Valuation Adjustment CVA) and our own risk (Debit Valuation Adjustment DVA).

Derivative financial liability – Level 3

Written put option instrument

The fair value of the put option is based on the following formula: annual rent of the entity in which shares will be purchased when the option is exercised, divided by 10% yield (before tax) divided by 100 to derive the value per percentage shareholding. As at 30 September 2019, the annual rental was obtained from the entity and the fair value of the put option was calculated using the formula above. The fair value of the put option is therefore directly impacted by fluctuations in the annual rent of the entity. An increase of 1% in rent will result in an increase of 1% in the fair value of the put option. A decrease of 1% in rent will result in a decrease of 1% in the fair value of the put option.

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.3 Financial instruments by category

The following table reflects the categories of financial instruments under IAS 39 and IFRS 9.

	Notes	Category under IAS 39	Category under IFRS 9	2019	2018
Financial assets					
Associate loans and receivables	9.2	Loan and receivables	Amortised cost	305	336
Loans and receivables	9.3	Loan and receivables	Amortised cost	411	297
Financial assets	6.1	Derivatives designated as hedging instruments	Fair value through other comprehensive income	–	16
		Non-derivative fair value through profit or loss	Non-derivative fair value through profit or loss	5	–
Trade and other receivables[1]		Loans and receivables	Amortised cost	2 759	2 875
Cash and cash equivalents	3.2	Loans and receivables	Amortised cost	1 732	1 371
Total				5 212	4 895
Financial liabilities					
Associates loans and payables	9.2	Amortised cost	Amortised cost	–	1
Long-term debt	3.1.1	Amortised cost	Amortised cost	5 061	5 114
Financial liabilities	6.2	Derivatives designated as hedging instruments	Fair value through other comprehensive income	70	31
Trade and other payables[2]		Amortised cost	Amortised cost	3 351	3 023
Short-term debt		Amortised cost	Amortised cost	1 780	1 056
Bank overdrafts	3.2	Amortised cost	Amortised cost	5	6
Total				10 267	9 231

1. *Prepaid expenses and Value Added Tax are not defined as financial instruments and have been excluded from trade and other receivables.*
2. *Value Added Tax is not a financial instrument as defined and has been excluded from trade and other payables.*

Notes to the Group annual financial statements continued

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management

The Group is exposed to a number of financial risks arising from the use of financial instruments in the ordinary course of business. These risks are monitored continuously and where appropriate derivative instruments are used by the Group for hedging purposes. The Group does not speculate in the trading of derivative instruments.

The Group has a central treasury function that manages the funding and financial risks relating to the Group's operations. The treasury function is also responsible for adding value by reducing costs without unduly increasing risk and providing specialist financing advice to the business. The treasury function is a subsection of the Finance and Investment Committee which meets at regular intervals to discuss treasury risks.

Risks to which the Group is exposed can be classified into the following major categories:

6.3.4.1 Interest rate risk

Borrowings issued at floating rates expose the Group to cash flow interest rate risk, while fixed rate borrowings expose the Group to fair value interest rate risk.

Cash flow interest rate risk arises from movements in market rates relative to the agreed lending rates on contractual debt instruments. The Group enters into derivative interest rate swap instruments in order to mitigate risk and applies hedge accounting where the effectiveness criteria are met.

The Group's interest rate policy is to target a 50/50 ratio between variable and fixed rate funding instruments.

Interest rate sensitivity

If interest rates had been 0.5% higher/lower and all other variables were held constant, the Group's profit or loss would decrease/increase by R16 million (2018: R18 million). This is attributable to the Group's exposure to interest rates on its variable rate borrowings which have not been fixed through the use of fixed-for-floating interest rate swap instruments. This analysis was prepared on the assumption that the amount outstanding at the end of the year was outstanding for the entire year.

Interest and inflation rate derivatives

Under interest rate swap instrument contracts, the Group agrees to exchange the differences between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held. As at 30 September 2019, the Group had 7 (2018: 6) fixed-for-floating interest rate swap instrument contracts and 2 (2018: 2) inflation rate swap instrument contracts. The inflation rate swap instruments hedge the inflationary increases in certain lease contracts. The fair value of the inflation rate swap instruments is determined at each reporting date.

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management continued

6.3.4.1 Interest rate risk continued

The effects of the interest rate swaps on the Group's financial position and financial performance are as follows:

	2019	2018
Interest rate swaps		
Carrying amount of interest rate swap assets	–	16
Carrying amount of interest rate swap liabilities	(31)	(5)
Notional amount	3 600	2 550
Rate (%) – fixed	8.3% – 9.9%	6.8% – 8.1%
Maturity date	2020 – 2022	2019 – 2022
Fair value gain in hedging instruments	1	–
Inflation rate swaps		
Carrying amount of inflation rate swap liabilities	(29)	(26)
Notional amount	32	5
Maturity date	2020 – 2022	2019
Fair value loss in hedging instruments	(5)	(4)

The fair value gain or loss recognised in the statement of profit or loss is reflected above.

In addition to the above, losses of R44 million (2018: gains of R42 million) resulting from the fair value movement in the interest rate swap instruments designated as cash flow hedges, as well as amortisation of a portion of the cash flow hedge reserve in the inflation rate swap instruments, were recognised in other comprehensive income and included in the cash flow hedge accounting reserve. The Group's ability to apply hedge accounting is determined on a year-by-year basis and is subject to developments in the financial markets.

The impact on the fair value of derivative financial liabilities resulting from a 1% change in the interest or inflation rate is presented below:

Derivative financial liabilities	Movement in the interest/ inflation rate (%)	Increase/ (decrease) in equity (Rm)
2019		
Interest rate swaps		
	Increase of 1%	41
	Decrease of 1%	(42)
Inflation rate swaps		
	Increase of 1%	3
	Decrease of 1%	(3)
2018		
Interest rate swaps		
	Increase of 1%	47
	Decrease of 1%	(47)
Inflation rate swaps		
	Increase of 1%	5
	Decrease of 1%	(5)

Notes to the Group annual financial statements continued

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management continued

6.3.4.2 Credit Risk

Credit risk arises from cash and cash equivalents, trade and other receivables, loans and receivables, loans to associates and joint ventures and derivative financial instruments as a result of non-performance or default. Credit risk arises predominantly from settlement risk which stems from transactions involving the non-simultaneous exchange of value where the Group honours its obligations to deliver value, and the counterparty does not. The Group's maximum exposure to credit risk is equal to the carrying amount of these assets. The Group is not exposed to concentration risk as a large proportion of debtor balances are with medical aid funds which have been determined to have low probabilities of default. Refer to 5.1 for further detail.

The Group has a comprehensive credit risk policy which is updated on a regular basis. Considerable resources, expertise and controls are in place to ensure efficient and effective management of credit risk. Information as to the creditworthiness of customers is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available information and its own trading records to rate its customers and counterparties. The Group assesses credit risk using historic information and past default experience as well as future expectations of the probability of default using predicted economic and market conditions and expected financial performance of the counterparty to the financial asset.

The carrying amount of the Group's financial assets held at fair value through profit or loss as disclosed in note 6.1 best represents their respective maximum exposure to credit risk. The Group holds no collateral over any of these financial assets held at fair value.

The Group's current credit risk grading framework comprises of the following categories:

Category	Description	Basis of recognising expected credit losses
Cash and cash equivalents	The Group only deposits short-term cash surpluses with major banks which are assessed as having low risk of default.	12 month ECL
Trade receivables	The Group applies the simplified approach as permitted by IFRS 9.	Lifetime ECL
Loans – Performing	The counterparty has a low risk of default and does not have any past-due amounts.	12 month ECL
Loans – Doubtful	There has been a significant increase in credit risk since initial recognition. This is determined by assessing the past and current financial performance as well as expected financial performance of the counterparty.	Lifetime ECL – not credit impaired
Loans – In default	There has been an actual default by the counterparty or there is evidence indicating the asset is credit-impaired. Evidence indicating an asset is credit-impaired includes a breach of contract or significant financial difficulty of the counterparty.	Lifetime ECL – credit impaired

The Group classifies a loan as performing if the counterparty has a strong capacity to meet its obligations, will not be affected by adverse business and economic conditions, and if the counterparty has not defaulted in the past.

The Group classifies a loan as doubtful if there has been a deterioration of credit risk which results in a change to the credit rating of the counterparty and if the counterparty does not have a strong capacity to meet its obligations.

Accounts which are past due for a long period of time are handed over to debt collectors. Historic trends have indicated that the majority of accounts handed over to external debt collectors are subsequently recovered. The account is written off in cases where debt collection procedures indicate that the account will not be recovered.

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management continued

6.3.4.2 Credit Risk continued

The table below details the credit quality of the Group's financial assets:

	Note	Internal credit rating	Loss allowance
Cash and cash equivalents	3.2	Performing	12 month ECL – the loss allowance is insignificant
Trade receivables	5.1	Refer to note 5.1 for details	Lifetime ECL (simplified approach)
Loans to associates and joint ventures	9.1/9.2	Assessed on an individual basis	Assessed on an individual basis
Loans and receivables	9.3	Assessed on an individual basis	Assessed on an individual basis

The Group deposits short-term cash surpluses with major banks of high quality credit standing. These banks are considered to have a low risk of default and therefore a twelve month loss allowance is calculated on cash balances. The loss allowance calculated has been determined to be insignificant.

Trade receivables consist mainly of medical aid funders acting as agents for their customers (patients). These funds are regulated by the Medical Schemes Act and are monitored and controlled by the Registrar of Medical Schemes. The Act stipulates minimum reserves for the funders which mitigates the Group's credit risk. Credit risk for customers who do not have medical insurance is mitigated by taking an appropriate deposit calculated with specific regard to the services being provided.

Loans to associates and joint ventures are assessed on an individual basis to determine the loss allowance. Credit risk is determined by assessing the past and current financial performance as well as expected financial performance of the associate or joint venture. For counterparties which have been determined to have low credit risk, a twelve month loss allowance has been raised. For counterparties with significant credit risk, a life time loss allowance has been raised.

Loans and receivables are assessed on an individual basis to determine the loss allowance. Credit risk is determined by assessing the past and current financial performance as well as expected financial performance of the counterparty. For counterparties which have been determined to have low credit risk, a twelve month loss allowance has been raised. For counterparties with significant credit risk, a life time loss allowance has been raised. The expected credit loss allowances raised are not material.

Notes to the Group annual financial statements continued

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management continued

6.3.4.2 Credit Risk continued

The movement in loss allowances on financial assets is as follows:

Rm	2019	2018
Balance at beginning of year	(263)	(289)
Adjustment to opening retained earnings	(50)	–
Revised balance at 1 October	(313)	(289)
Impairment losses recognised	(179)	(156)
Impairment losses reversed	4	3
Amounts written off as uncollectible	116	84
Amounts recovered during the year	50	37
Translation of foreign entities	–	2
Deconsolidation of BMI Healthcare	–	56
Balance at end of year	(322)	(263)

Comparatives under IAS 39

In the prior year, the loss allowance on financial assets was measured using the incurred loss model. The loss allowance was based on the ageing of trade receivables. Trade receivables which were not past their due date were not previously considered for impairment.

	2018
Past due 0 – 30 days	147
Past due 31 – 60 days	74
Past due 60 – 120 days	51
More than 120 days	489

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management continued

6.3.4.3 Liquidity risk

Liquidity risk arises should the Group have insufficient funds or marketable assets available to fulfil its future cash flow obligations. The Group's liquidity risk management framework is designed to identify, measure and manage liquidity risk such that sufficient liquid resources are always available to fund operations and commitments.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained. Appropriate probability factors are applied to cash flow forecasts, when forecasts are not certain. Monthly, quarterly and five-year cash flows are updated on a regular basis.

The undiscounted cash flows of the Group's trade and other payables, borrowings and non-derivative financial liabilities fall into the following maturity profiles:

Rm	< 1 year	1 – 5 years	Total
2019			
Trade and other payables[1]	**3 351**	**–**	**3 351**
Bank overdrafts	**5**	**–**	**5**
Finance leases	**3**	**25**	**28**
	3 359	**25**	**3 384**
2018			
Trade and other payables[1]	3 023	–	3 023
Bank overdrafts	6	–	6
Finance leases	6	23	29
	3 035	23	3 058

The maturity analysis of long-term debt is disclosed in note 3.1.1

1. *Value Added Tax is not defined as a financial instrument and has been excluded from trade and other payables.*

Notes to the Group annual financial statements continued

6. Financial management continued

6.3 Financial instruments and risk management continued

6.3.4 Financial risk management continued

6.3.4.4 Capital management

The Group defines capital as equity, short term and long term debt, specifically promissory notes and bank loans. This remains unchanged from the prior year. The Group's policy is to maintain a strong balance sheet while reducing the cost of capital with a safe level of debt. An investment grade credit rating will be maintained. This approach increases the Group's capital flexibility and provides access to capital markets throughout the economic cycle.

The Group operates in a rapidly evolving and capital intensive industry. Accordingly, the Group seeks to retain adequate capital to maintain and upgrade its operations. Capital investments are made to maintain and enhance return on capital and comply with regulatory requirements.

Investments will be made to expand and digitise the business when the return exceeds the cost of capital and economic profit is positive. If attractive opportunities are unavailable, excess capital will be distributed to shareholders in the form of share buybacks or special dividends.

The Group's dividend policy is to pay a sustainable income to its investors. Within this investment framework the Group intends to distribute 50% to 70% of future earnings to shareholders while maintaining safe levels of debt and an investment grade credit rating.

The Group ensures that any share repurchases or payments to shareholders are duly authorised by the Board who are suitably advised and reasonably assured that the assets of the Group exceed its liabilities and the Group is able to pay its debts when they fall due, thereby complying with the solvency and liquidity requirements of the South African Companies Act. The Group is partially restricted by covenants in respect of certain borrowing obligations.

The Group has set medium term targets for net debt to EBITDA of less than 2.0x and an interest cover ratio (being EBITDA/net interest) of greater than 5.0x. The net debt to EBITDA and interest cover ratios for the year are as follows:

The net debt to EBITDA ratio for the year is as follows:

Rm	2019	2018
Debt	6 841	6 170
Cash and cash equivalents	(1 727)	(1 365)
Net debt	5 114	4 805
EBITDA[1]	4 388	4 209
Net debt to EBITDA (times)	1.2	1.1
Interest cover (times)	7.5	10.7

1 *EBITDA before realisation of foreign currency translation reserve in 2019, and before impairment of contractual economic interest in debt of BMI Healthcare in 2018. These translations are non-recurring and are not considered by management when monitoring capital.*

Capital discipline requires income statement and balance sheet measures and the Group will use return on invested capital (ROIC) and cash flow return on investment (CFROI) to measure performance of its businesses and to evaluate new projects. Medium term targets have been set for ROIC at greater than 20% and CFROI to exceed 10%. To ensure value creation and capital discipline within its businesses, economic profit will be monitored and grown. The intrinsic value of the Group is intimately tied to the ability to maintain an attractive return on capital and the growth of economic profit.

7. Contingent liabilities, commitments and operating leases

7.1 Contingent liabilities

Details regarding financial guarantees issued are disclosed below. The Group does not recognise contingent liabilities in the statement of financial position until it is probable that an outflow of resources will take place and a reliable estimate can be made, at which time a provision is raised.

7.1.1 Financial guarantees

Rm	2019	2018
Guarantee covering the obligation of an associate company	22	34

The expected credit losses on guarantees are not material.

7.1.2 Litigation

The Group is not aware of any current or pending legal cases that would have a material adverse effect on the Group.

7.2 Capital commitments

Rm	2019	2018
Authorised and contracted for		
Intangible assets	4	–
Land and buildings	73	463
Plant and equipment	5	10
Medical equipment	35	34
Other (including furniture and fittings)	15	9
Authorised but not yet contracted for		
Intangible assets	189	–
Land and buildings	858	1 102
Plant and equipment	117	29
Medical equipment	371	175
Other (including furniture and fittings)	323	306
	1 990	2 128
This expenditure will be financed from internally generated funds and existing banking facilities.		
To be expended:		
Within 1 year	1 455	837
Over 1 year	535	1 291
	1 990	2 128

Notes to the Group annual financial statements continued

7. Contingent liabilities, commitments and operating leases continued

7.3 Operating lease arrangements

7.3.1 Operating lease arrangements as lessee

The Group has entered into various operating lease agreements on properties, motor vehicles and equipment.

Leases on properties are contracted for periods between 1 and 15 years with renewal options of between 1 and 30 years. Rental escalations on properties vary between 1% and 8% per annum.

Motor vehicle leases are contracted for periods between 1 and 5 years with renewal options of between 1 and 5 years. Motor vehicle leases are linked to the prime interest rate.

Leases on plant and equipment are contracted for periods between 1 and 5 years with rentals linked to the prime interest rate.

At 30 September 2019 future non-cancellable minimum lease rentals are payable during the following financial years:

Rm	2019	2018
Property		
Within 1 year	155	155
1-5 years	939	1 074
5-10 years	914	1 416
> 10 years	772	752
Motor vehicles		
Within 1 year	6	8
1-5 years	21	11
5-10 years	8	–
> 10 years	2	–
Plant and equipment		
Within 1 year	2	5
1-5 years	2	6
Medical equipment		
Within 1 year	–	3
1-5 years	–	7
5-10 years	–	1
	2 821	3 438

7. Contingent liabilities, commitments and operating leases continued

7.3 Operating lease arrangements continued

7.3.2 Operating lease arrangements as lessor

The Group has entered into operating leases as the lessor for property and equipment. Rentals are payable by the lessees on a monthly basis. The minimum lease payments receivable are as follows. Equipment rentals are low in value and are not material to the Group:

Rm	2019	2018
Property		
Within 1 year	92	194
1-5 years	245	570
>5 years	84	209
	421	973

Notes to the Group annual financial statements continued

8. Shareholders' interest

8.1 Ordinary share capital

Number of shares (million)	2019	2018
Authorised		
Ordinary shares of 1.0 cent each	2 500	2 500
Issued		
Shares in issue at beginning of year	1 471	1 463
Shares issued during the year	–	8
Shares cancelled during the year	(19)	–
Shares in issue at end of year	1 452	1 471
Treasury shares		
Treasury shares at beginning of year	(108)	(102)
Purchase of treasury shares	(19)	(8)
Sale of treasury shares	20	2
Treasury shares at end of year	(107)	(108)
Total issued ordinary shares (net of treasury shares)	1 345	1 363
Treasury shares are held as follows:		
HPFL B-BBEE Trusts	97	97
Forfeitable Share Plan	10	11

Rm	2019	2018
Authorised		
Ordinary shares of 1.0 cent each	25	25
Issued ordinary share capital		
Balance at beginning of year	4 391	4 205
Share buy-back	(57)	–
Share premium arising on issue of shares	–	186
Balance at end of year	4 334	4 391

The Group purchased 19 million shares at an average price of R24.11 per share. The shares have subsequently been cancelled and now form part of authorised shares not issued.

8. Shareholders’ interest continued

8.1 Ordinary share capital continued

Ordinary dividends paid

Rm	2019	2018
Final distribution paid		
Final dividend paid on 28 January 2019 of 60.0 cents per share (2018: 57.0 cents per share)	883	839
Special dividend paid on 28 January 2019 of 40.0 cents per share	588	–
Total	1 471	839
Interim distribution paid		
Interim dividend paid on 08 July 2019 of 47.0 cents per share (2018: 44.0 cents per share)	685	647
Total distribution paid	2 156	1 486
Dividends attributable to treasury shares	(160)	(98)
Paid to Netcare Limited external shareholders	1 996	1 388

Dividends are accrued on the date of declaration. As a result, the final dividend of 64.0 cents per share, declared on 14 November 2019, is not reflected in the financial statements for the year ended 30 September 2019.

In accordance with the provisions of STRATE, the electronic settlement and custody system used by the JSE Limited, the relevant dates for the dividend are as follows:

Last day to trade cum dividend	Tuesday, 21 January 2020
Trading ex dividend commences	Wednesday, 22 January 2020
Record date	Friday, 24 January 2020
Payment date	Monday, 27 January 2020

Ordinary dividends declared in respect of the current year’s earnings are:

Cents	2019	2018
Interim dividend	47.0	44.0
Final dividend	64.0	60.0
	111.0	104.0
Special dividend	–	40.0
	111.0	144.0

The estimated total cash flow of the final dividend of 64.0 cents per share payable on 27 January 2020, is R861 million.

This amount excludes R68 million attributable to treasury shares.

Notes to the Group annual financial statements continued

8. Shareholders' interest continued

8.2 Treasury shares

Rm	2019	2018
Balance at beginning of year	(3 871)	(3 720)
Shares issued during the year	–	(183)
Purchase of treasury shares	–	(7)
Sale of treasury shares	18	39
Balance at end of year	**(3 853)**	(3 871)

The HPFL Trusts are consolidated in terms of IFRS 10: Consolidated Financial Statements. Treasury shares held by the HPFL B-BBEE Trusts carry voting rights. Treasury shares are deducted from the number of shares in issue for the purpose of calculating earnings per share.

During the year 619 945 (2018: 596 837) treasury shares held by the HPFL Trusts were sold on the open market.

The Forfeitable Share Plan is an incentive scheme which issues share awards. The scheme issued 987 565 shares (2018: 7 995 892 shares) during the year for allocation to employees of Netcare. Treasury shares held by the employees do not carry voting rights prior to vesting. Treasury shares are deducted from the number of shares in issue and the dividends paid to employees on these shares are deducted from the earnings used in the calculation of earnings per share.

Share-based payments

Details of trust units issued by the HPFL Trusts and share awards issued in terms of the Forfeitable Share Plan are disclosed in note 4.3.

8. Shareholders' interest continued

8.3 Preference share capital and premium

The preference shares earn dividends on the issue price at 82.5% of the prime rate. Although the rights to receive dividends are cumulative, declaration of such dividends is at the discretion of the directors.

Rm	2019	2018
Authorised		
10 million (2018: 10 million) variable rate, cumulative, non-redeemable, non-convertible preference shares of 50.0 cents each	5	5
Issued		
7 million (2018: 7 million) preference shares in issue at beginning and end of year	3	3
Share premium		
Balance at beginning and end of year	641	641
Total issued preference share capital and premium	644	644

Preference dividends

The preference dividends paid for the year are:

Rm	2019	2018
Interim dividend	27	28
Final dividend	27	27
	54	55

The Board has confirmed by resolution that the solvency and liquidity test as contemplated by the Companies Act has been duly considered, applied and satisfied.

8.4 Non-controlling interest

Rm	2019	2018
Balance at beginning of year	50	(64)
Dividends paid	(21)	(23)
Movements in equity interest in subsidiaries and acquisition of businesses	(8)	27
Total comprehensive income for the year	31	110
	52	50

Notes to the Group annual financial statements continued

8. Shareholders' interest continued

8.5 Other comprehensive income

Rm	Gross	Tax	Other comprehensive income	Non-controlling interest	Net attributable to owners of the parent
2019					
Remeasurement gain on defined benefit plans	**91**	**(25)**	**66**	**–**	**66**
Effect of cash flow hedge accounting	**(44)**	**12**	**(32)**	**–**	**(32)**
Effect of translation of foreign entities	**(1)**	**–**	**(1)**	**–**	**(1)**
Realisation of foreign currency translation reserve	**(128)**	**–**	**(128)**	**–**	**(128)**
	(82)	**(13)**	**(95)**	**–**	**(95)**
2018					
Effect of cash flow hedge accounting	42	(12)	30	–	30
Effect of translation of foreign entities	104	–	104	17	87
Realisation of foreign currency translation reserve	(1 976)	–	(1 976)	–	(1 976)
	(1 830)	(12)	(1 842)	17	(1 859)

9. Group structure

Investment in associates and joint ventures

Associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The Group's investment in associates and joint ventures include goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of post-acquisition accumulated profits or losses of associates and joint ventures in the carrying amount of the investments, which are generally determined from their latest audited annual financial statements or management accounts, and the annual profit attributable to the Group is recognised in profit or loss. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The carrying amount of the Group's investments in associates and joint ventures is reduced to recognise any potential impairment in the value of individual investments. The Group does not recognise further losses when the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate or joint venture, unless the Group has an obligation, issued guarantees or made payments on behalf of the associate or joint venture.

9.1 Investment in joint ventures

Rm	Notes	2019	2018
Investments at cost		39	39
Share of post-acquisition reserves		220	176
Carrying value of shares		259	215
Trade and other receivables	5.1	27	34
Trade and other payables	5.3	(119)	(112)

Details of the Group's principal joint ventures and summary financial information are set out in Annexure B.

9.2 Investment in associates

Rm	2019	2018
Investments at cost net of accumulated impairments	9	14
Share of post-acquisition reserves	162	152
Carrying value of shares	171	166
Loans	305	335
	476	501

The loans to/(from) associates are unsecured, bearing interest at between 0.0% – 12.0%, and are repayable on demand.

Rm	Notes	2019	2018
Non-current assets		305	299
Current assets		–	37
	6.3.3	305	336
Current liabilities	6.3.3	–	(1)
		305	335

The non-current portion of the loans forms part of the net investment in associates, and the current portion forms part of loans and receivables.

Details of the Group's principal associates and summary financial information are set out in Annexure C.

Notes to the Group annual financial statements continued

9. Group structure continued

9.3 Loans and receivables

Loans and other non-current receivables are accounted for as loans and receivables in accordance with the accounting policy disclosed in note 6.3.

Rm	Note	2019	2018
Included within:			
Non-current assets		289	249
Current assets		122	48
	6.3.3	411	297

Included in current loans and receivables are current associate loans of R58 million. The majority of loans and receivables are unsecured. These loans and receivables bear interest at between 0.0% and 12.0% and are repayable on demand or up to 8 years.

9.4 Related parties

Related party transactions constitute the transfer of resources, services or obligations between parties related to the Group on terms which are at arm's length. Details of transactions with related parties not disclosed elsewhere in the financial statements are set out below.

Netcare Medical Scheme

The Netcare Medical Scheme is managed for the benefit of certain past and current SA employees. The employer-subsidised portion of medical aid contributions payable by members has been included in employee costs.

Certain members of the Exco are also directors of certain wholly-owned Netcare subsidiaries which render healthcare services to members of the Netcare Medical Scheme.

The table below reflects the nature of revenue earned by Netcare subsidiaries as a result of services provided to the Netcare Medical Scheme.

Rm	Nature of revenue	2019	2018
Medicross Healthcare Group Proprietary Limited	Healthcare services	1	1
Netcare Hospitals Proprietary Limited	Healthcare services	307	267
Netcare Pharmacies Proprietary Limited	Dispensary services	74	67
Akeso Clinics (Pty) Ltd	Administration fee	5	1
Netcare 911 Propriety Limited	Capitation fee	6	–
		393	336

9. Group structure continued

9.4 Related parties continued

Transactions with joint ventures and associates

The Group entered into the following transactions with joint ventures and associates in the current year:

Joint ventures	National Renal Care Proprietary Limited	Netcare Parklands Linac Joint Venture Proprietary Limited	Olivedale Clinic Oncology Centre Proprietary Limited
Interest received	–	2	1
Interest paid	(7)	–	–
Asset rental	14	–	5
Admin fee income	1	–	–
Dividends received	–	2	–

Associates	Community Hospital Management Proprietary Limited	Kokstad Private Hospital Proprietary Limited	Gamma Knife Proprietary Limited	Botle Facilities Management Proprietary Limited	Tsepong Proprietary Limited	Elsitron Proprietary Limited
Interest received	–	–	–	–	–	1
Interest paid	–	–	(1)	–	–	–
Asset rental income	–	–	24	–	–	–
Admin fee income	3	–	1	1	10	–
Dividends received	2	1	–	3	1	–

Balances with joint ventures and associates

The Group has the following loan balances outstanding with joint ventures and associates as at 30 September 2019:

Joint ventures	National Renal Care Proprietary Limited	Netcare Parklands Linac Joint Venture Proprietary Limited	Olivedale Clinic Oncology Centre Proprietary Limited	Waterberg Lodge Proprietary Limited
Loans receivable	–	10	12	5
Loans payable	(119)	–	–	–

Associates	Botle Facilities Management Proprietary Limited	Community Hospital Management Proprietary Limited	Nalithemba Proprietary Limited	Kokstad Private Hospital Proprietary Limited	Tsepong Proprietary Limited	Gamma Knife Proprietary Limited	Elsitron Proprietary Limited
Loans receivable	7	58	316	1	40	–	12
Loans payable	–	(20)	(42)	(2)	–	(7)	–

Notes to the Group annual financial statements continued

10. Discontinued operations and assets classified as held for sale

10.1 Loss from discontinued operations

Included in discontinued operations in the current year are the results of the Mozambique emergency services business. The entity was deregistered prior to 30 September 2019.

Rm	Mozambique emergency services
30 September 2019	
Profit from discontinued operations is analysed as follows:	
Operating profit	**1**
Finance costs	**(1)**
Profit from discontinued operations[1]	**–**
Cash flows from discontinued operations	
Cash flows from operating activities	**–**
Cash flows from investing activities	**3**
Cash flows from financing activities	**(5)**
Net decrease in cash and cash equivalents	**(2)**

1. *Attributable to owners of parent.*

10. Discontinued operations and assets classified as held for sale continued

10.1 Loss from discontinued operations continued

In 2018, the Mozambique emergency services business, the BMI Healthcare business and the GHG PropCo 2 business were discontinued. The comparatives from the prior year for these operations have been disclosed below:

Rm	Mozambique emergency services	BMI Healthcare	GHG PropCo 2	Total
30 September 2018				
The (loss)/profit from discontinued operations is analysed as follows:				
Revenue	6	7 608	–	7 614
(Loss)/profit after taxation for the year is analysed as follows:				
Operating loss	(2)	(184)	–	(186)
Investment income	–	4		4
Finance costs	–	(226)	–	(226)
Other financial losses – net	–	(85)	–	(85)
Attributable earnings of associates	–	11	10	21
Attributable earnings of joint venture	–	7	–	7
(Loss)/profit before taxation	(2)	(473)	10	(465)
Taxation	(3)	1	–	(2)
(Loss)/profit from discontinued operations	(5)	(472)	10	(467)
Attributable to:				
Owners of the parent	(5)	(271)	10	(266)
Non-controlling interest	–	(201)	–	(201)
Cash flows from discontinued operations				
Cash flows from operating activities	(2)	(265)	–	(267)
Cash flows from investing activities	2	(310)	–	(308)
Cash flows from financing activities	(25)	386	–	361
Net decrease in cash and cash equivalents	(25)	(189)	–	(214)
Operating loss after charging:				
Depreciation of property, plant and equipment	–	239	–	239
Employee costs – salaries and wages	4	2 566	–	2 570
Operating lease charges	–	1 421	–	1 421

Notes to the Group annual financial statements continued

10. Discontinued operations and assets classified as held for sale continued

10.2 Assets classified as held for sale

Disposal is expected to occur within the next 12 months and these assets have therefore been classified as non-current assets held for sale. The proceeds from disposal are expected to exceed or equal the net carrying amount of the assets. The disposal of the investment in associate has been delayed by events or circumstances beyond management's control however, management remains committed to its plan to sell the investment in associate.

Rm	2019	2018
Major classes of assets comprising the assets held for sale		
Property, plant and equipment	–	69
Investment in associate	226	226
Cash and cash equivalents	–	2
	226	297

11. Adoption of new and revised accounting standards

The Group adopted IFRS 9: *Financial Instruments* and IFRS 15: *Revenue from Contracts with Customers*, effective 1 October 2018. As permitted by these standards, the Group has elected not to restate comparatives. Accordingly, the impact of adopting the revised requirements has been applied retrospectively with an adjustment to retained earnings as at 1 October 2018. Reported information in the prior financial year to 30 September 2018 was unaffected by the application of IFRS 9 and IFRS 15.

11.1 Impact of initial application of IFRS 9: *Financial Instruments*

IFRS 9: *Financial Instruments* (IFRS 9) was issued in July 2014 and has replaced IAS 39: *Financial Instruments – Recognition and Measurement*.

Classification and Measurement

IFRS 9 incorporates amendments to the classification and measurement of financial instruments, hedge accounting guidance and the accounting requirements for the impairment of financial assets measured at amortised cost and fair value through other comprehensive income. Accordingly, the Group has applied the requirements of IFRS 9 to financial instruments that continue to be recognised as at 1 October 2018 and has not applied the requirements of IFRS 9 to financial instruments that have already been derecognised as at 1 October 2018. The Group also adopted the consequential changes to IFRS 7 as a result of IFRS 9 on 1 October 2018.

All derivative financial instruments that are either financial assets or financial liabilities will continue to be classified as held for trading and measured at fair value through profit or loss (FVTPL). The Group has elected to adopt IFRS 9 – Hedge Accounting.

The following table illustrates the impact on opening retained earnings on transition to IFRS 9.

Impact of adopting IFRS 9 at 1 October 2018	Rm
Recognition of additional expected credit losses under IFRS 9	50
Related tax	(10)
Decrease in retained earnings	**40**

The adoption of IFRS 9 had no impact on non-controlling interest.

11. Adoption of new and revised accounting standards continued

11.1 Impact of initial application of IFRS 9: *Financial Instruments* continued

Impairment

IFRS 9 requires an expected credit loss model to calculate impairment as opposed to an incurred loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses as a result of changes in credit risk since initial recognition of financial assets. Under IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. The table below illustrates the credit risk attributes of the financial assets considered for impairment, as well as their related probability of default, resulting in the adjustment to retained earnings:

	IAS 39	IFRS 9	Credit risk attributes	Probability of default (%)	Actual 30 September 2018 under IAS 39	Impairment under IFRS 9 upon adoption on 1 October 2018	Carrying value under IFRS 9 on 1 October 2018
Loans to associates and joint ventures	Tested under IAS 36	Amortised cost	For associate and joint venture loans in stage 1, the probability of default in the next 12 months has been assessed as low. For those loans in stage 2 or 3, an expected loss has been calculated on an individual basis.	0.01 – 100	336	(14)	322
Loans and receivables	Loans and receivables	Amortised cost	For loans and receivables in stage 1, the probability of default in the next 12 months has been assessed as low. For those loans in stage 2 or 3, an expected loss has been calculated based on an individual basis.	0.01 – 100	297	(1)	296
Trade and other receivables	Loans and receivables	Amortised cost	The Group applies the simplified approach and recognises lifetime expected credit losses for these assets.	0.01 – 3.61	2 875	(35)	2 840
Cash and cash equivalents	Loans and receivables	Amortised cost	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable and major South African banking institutions of high quality.	–	1 371	–	1 371

The loss allowances increased by R9 million in the year to 30 September 2019.

The additional loss allowance recognised upon the initial application of IFRS 9 as disclosed above resulted entirely from a change in the measurement attribute of the loss allowance relating to each financial asset. The adoption of IFRS 9 has had no impact on the consolidated cash flows of the Group.

Notes to the Group annual financial statements continued

11. Adoption of new and revised accounting standards continued

11.2 Impact of initial application of IFRS 15: *Revenue from Contracts with Customers*

IFRS 15: *Revenue from Contracts with Customers* (IFRS 15) establishes a five-step model for recognising and measuring revenue from contracts with customers. Under IFRS 15, revenue is measured at the consideration the Group expects to be entitled to in exchange for goods and services. The Group has applied the five step model as follows:

Identify the contract with a customer – the Group enters into a contract with the counterparty with consent from both parties. Each party's rights and obligations regarding the goods or services under the contract are easily identifiable, as are the payment terms. The Group follows strict processes to obtain pre-authorisations from medical aids when required, performing credit checks on debtors and requesting deposits when engaging with private patients. These contracts are therefore considered to have commercial substance, with a high probability of collection of the consideration.

Identify the performance obligations in the contract – the Group provides distinct goods and services in the form of hospital, emergency and primary care services. The performance obligations of the contract are easily identifiable.

Determine the transaction price – pricing is set based on regulatory requirements (Single Exit Pricing for pharmaceutical goods) or through negotiation with various funders and other parties (medical aid tariffs). These are revised on an annual basis, and the relevant pricing is clearly identifiable in all contracts. The Group is not entitled to variable consideration, and contracts, even those that extend beyond twelve months, require payments on a monthly basis for the performance of services rendered within that month. Therefore, there are no significant financing components.

Allocate the transaction price to the performance obligations in the contract – patients receive various services during their stay as per the contract. Each service rendered is clearly distinct and is able to be billed at its relative stand-alone selling price.

Recognise revenue as and when the entity satisfies a performance obligation – a performance obligation is satisfied when control of the underlying goods or services for the particular performance obligation is transferred to the patient. Control is defined as the ability to direct the use of, and obtain substantially all of the remaining benefits from the underlying goods or services. For hospital, emergency and primary care services, revenue is recognised as and when each performance obligation as per the contract is satisfied.

Upon application of the five step model above, the Group has determined that the adoption of IFRS 15 has not had a significant impact on the recognition and measurement of revenue, as the methodology for the Group, followed under IAS 18, remains the same under IFRS 15 and does not require changes. Accordingly, no adjustment was made to opening retained earnings.

IFRS 15 expands the current disclosure requirements about revenue recognition and specifically requires disaggregation of revenue to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Refer to note 2.1 for revenue disclosure in line with the requirements of IFRS 15.

12. Restatement of comparative information

During the 2018 financial year, Netcare made an acquisition of a business, being the Akeso Clinics Group (the Akeso Acquisition). Following the Akeso Acquisition, and directly as a result of this transaction (refer to note 9.4 of the Group's 2018 annual financial statements), Netcare settled the debt of the Akeso business (Acquisition-related Refinancing). Given the direct relationship of the Acquisition-related Refinancing to the Akeso Acquisition, both transactions were separately disclosed within the cash flows from investing activities section of the statement of cash flows. This disclosure was considered appropriate by the Group's auditors at the time. During the 2019 financial year, following due investigation and consultation with technical accounting experts, it became evident that, notwithstanding its direct relationship to the Akeso Acquisition, the Acquisition-related Refinancing should have been disclosed within the cash flows from financing activities section of the cash flow statement.

In line with the JSE's recommendation in the guidance published by the JSE proactive monitoring panel, management has restated the comparative 2018 statement of cash flows to reflect the Acquisition-related Refinancing under cash flows from financing activities. In addition, in line with IAS 7.21, the disclosure relating to debt raised or repaid within cash flows from financing activities has been amended to disclose the gross amounts of debt raised and debt repaid on the face of the cash flow statement. This disclosure was previously included in note 3.1.1.

A restatement has also been made for credit balances previously incorrectly included in other receivables, resulting in an increase in other receivables and other payables of R216 million.

Group Statement of Cash Flows
for the year ended 30 September 2018

Rm	As reported 2018	Adjustment	Restated 2018
Cash flows from investing activities			
Net debt related to acquisition of business	(238)	238	–
Net cash flow from investing activities	**(3 325)**	238	**(3 087)**
Cash flows from financing activities			
Settlement of debt related to acquisition of business	–	(238)	**(238)**
Net cash flow from financing activities	**1 122**	(238)	**884**

Group Statement of Financial Position
as at 30 September 2018

Trade and other receivables	2 908	216	3 124
Total current assets	5 248	216	5 464
Total assets	**20 548**	216	**20 764**
Trade and other payables	3 072	216	3 288
Total current liabilities	4 206	216	4 422
Total equity and liabilities	**20 548**	216	**20 764**
Total equity	**10 415**	–	**10 415**

Notes to the Group annual financial statements continued

13. New issued standards not yet effective

Certain applicable new, amended and revised IFRS have been issued but are not yet effective for the Group's 2019 financial year. The Group has not early adopted the undermentioned new, amended and revised IFRS that are not yet effective.

IFRS 16: Leases

IFRS 16 was issued in January 2016 and introduced a new accounting treatment for leases. The new standard replaces IAS 17 and there is no longer a distinction between finance and operating leases, resulting in almost all leases being recognised on the balance sheet. IFRS 16 is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019. During the current financial year, the Group reviewed all leasing arrangements and assessed the impact of the new requirements for lease accounting under IFRS 16. The new standard will primarily impact the accounting for the Group's operating leases.

As at the reporting date, the group has non-cancellable operating lease commitments of R2.8 billion. Of these commitments, an insignificant amount relates to short-term leases and low value leases, which will be recognised as an expense in profit or loss.

Financial statement caption	Estimated Financial impact
Right of use assets	Increase between R4.1bn – R4.5bn
Lease liabilities	Increase between R4.1bn – R4.5bn
Profit after tax	Decrease between R200m – R250m
EBITDA	Increase between R450m – R500m

In addition, operating cash flows will increase whereas financing cash flows will decrease by the same amount as repayment of the principal portion of the lease liability will be classified as cash flows from financing activities.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, additional disclosures will be required upon adoption of IFRS 16.

IFRIC 23: Uncertainty over Income Tax Treatments

IFRIC 23 is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019. IFRIC 23 provides new guidance on how to account for uncertain tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group. The interpretation also requires an entity to assess whether it is probable that a tax authority will accept the tax treatment used or proposed by the entity in its income tax filings. If it is probable that the tax treatment will be accepted, the accounting tax position is to be determined consistently with the tax treatment used or proposed in the income tax filings. If it is not probable that the tax treatment will be accepted, the entity is required to reflect the effect of uncertainty in determining its accounting tax position. During the current financial year, the Group has assessed the impact of the new interpretation and has determined that the impact of adopting IFRIC 23 will not be significant.

Company statement of profit or loss

for the year ended 30 September 2019

Rm	Notes	2019	2018
Revenue	2.2	**2 632**	1 300
Administrative and other expenses		**(3)**	–
Operating profit		**2 629**	1 300
Profit before taxation		**2 629**	1 300
Taxation	2.3	**–**	(1)
Profit for the year		**2 629**	1 299
Total comprehensive income for the year		**2 629**	1 299
Attributable to:			
Ordinary shareholders		**2 575**	1 244
Preference shareholders		**54**	55
		2 629	1 299

Company statement of financial position

as at 30 September 2019

Rm	Notes	2019	2018
ASSETS			
Non-current assets			
Investment in subsidiaries	2.1	837	837
Total non-current assets		**837**	**837**
Current assets			
Amounts owing by subsidiaries	2.1	4 367	4 410
Cash and cash equivalents	3.1	15	16
Total current assets		**4 382**	**4 426**
Total assets		**5 219**	**5 263**
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	5.1	4 291	4 347
Other reserves		231	231
Retained earnings		42	20
Equity attributable to ordinary shareholders		4 564	4 598
Preference share capital and premium	5.2	644	644
Total shareholders' equity		**5 208**	**5 242**
Current liabilities			
Amounts owing to subsidiaries	2.1	4	3
Other payables	4.1	7	18
Total current liabilities		**11**	**21**
Total equity and liabilities		**5 219**	**5 263**

Company statement of cash flows

for the year ended 30 September 2019

Rm	Notes	2019	2018
Cash flows from operating activities			
Cash generated from operations	2.4	**2 618**	1 301
Taxation paid	2.5	**–**	(1)
Dividends paid – ordinary dividend		**(1 565)**	(1 486)
Dividends paid – special dividend		**(588)**	–
Preference dividends paid		**(54)**	(55)
Net cash flow from operating activities		**411**	**(241)**
Cash flows from investing activities			
Increase in loans		**44**	56
Net cash flow from investing activities		**44**	**56**
Cash flows from financing activities			
Payments for ordinary shares purchased		**(456)**	–
Proceeds from issue of ordinary shares		**–**	189
Net cash flow from financing activities		**(456)**	**189**
Net (decrease)/increase in cash and cash equivalents		**(1)**	4
Cash and cash equivalents at the beginning of the year		**16**	12
Cash and cash equivalents at the end of the year	3.1	**15**	**16**

Company statement of changes in equity

for the year ended 30 September 2019

Rm	Ordinary share capital	Share-based payment reserve
Balance at 1 October 2017	4 158	233
Shares issued during the year	189	–
Dividends paid	–	–
Preference dividends paid	–	–
Total comprehensive income for the year	–	–
Balance at 30 September 2018	4 347	233
Share buyback during the year	(56)	–
Dividends paid – ordinary	–	–
Dividends paid – special	–	–
Preference dividends paid	–	–
Total comprehensive income for the year	–	(2)
Balance at 30 September 2019	**4 291**	**231**

Retained earnings	Equity attributable to ordinary shareholders	Preference share capital and premium	Total shareholders' equity
262	4 653	644	5 297
–	189	–	189
(1 486)	(1 486)	–	(1 486)
–	–	(55)	(55)
1 244	1 244	55	1 299
20	4 600	644	5 244
(400)	**(456)**	**–**	**(456)**
(1 565)	**(1 565)**	**–**	**(1 565)**
(588)	**(588)**	**–**	**(588)**
–	**–**	**(54)**	**(54)**
2 575	**2 575**	**54**	**2 629**
42	**4 564**	**644**	**5 208**

Notes to the Company annual financial statements

for the year ended 30 September

1. Accounting framework and critical judgements and impact of new issued standards not yet effective

Refer to the Group annual financial statements.

2. Investments and returns

2.1 Interest in subsidiaries

Rm	2019	2018
Investment in subsidiaries		
Investments at cost	663	663
Share-based payments arising from the Group's share incentive schemes	174	174
	837	837
Amounts owing by/(to) subsidiaries		
Included in:		
Current assets	4 367	4 410
Current liabilities	(4)	(3)
Net interest in subsidiaries	5 200	5 244

Subsidiaries are funded by way of equity from the holding company as well as long-term interest-free loans which form part of the investment in subsidiaries. These long-term loans are unsecured and there are no fixed terms of repayment. Management have assessed and concluded that expected credit losses on these loans are not significant.

The amounts owing by subsidiaries are unsecured, interest-free and are repayable on demand.

Details of the Company's principal subsidiaries are reflected in Annexure A.

2.2 Revenue

Dividends received	2 632	1 300

Dividends received are accounted for on the date of declaration.

2.3 Taxation

South African normal taxation		
Current year	–	(1)
Income tax	–	(1)
Total taxation per the statement of profit or loss	–	(1)
Reconciliation of effective taxation rate (%)		
South African normal tax rate	28.0	28.0
Adjusted for:		
Exempt income – dividends	(28.0)	(28.0)
Capital gains tax	–	0.1
Effective taxation rate	–	0.1

2. Investments and returns continued

2.4 Cash generated by operations

Rm	2019	2018
Operating profit	2 629	1 300
Cash generated by operations before working capital changes	2 629	1 300
(Decrease)/increase in accounts payable	(11)	1
	2 618	1 301

2.5 Taxation paid

Amounts payable at beginning of year	–	–
Charge per the statement of profit or loss	–	1
Amounts payable at end of year	–	–
	–	1

3. Funding

3.1 Cash and cash equivalents

Cash on hand and balances with banks	15	16

4. Working capital

4.1 Other payables	7	18

Notes to the Company annual financial statements continued

5. Shareholders' Interest

5.1 Ordinary share capital

Number of shares (million)	2019	2018
Authorised		
Ordinary shares of no par value	2 500	2 500
Issued		
Shares in issue at beginning of year	1 471	1 463
Shares issued during the year	–	8
Share buyback[1]	(19)	–
Shares in issue at end of year	1 452	1 471

Rm	2019	2018
Authorised		
Ordinary shares of no par value	25	25
Issued ordinary share capital		
Balance at beginning of year	4 347	4 158
Shares issued during the year	–	189
Share buyback[1]	(56)	–
Balance at end of year	4 291	4 347

1. The company purchased 19 million shares at an average price of R24.11 per share.

Refer to note 8.1 of the notes to the Group annual financial statements for further details.

5.2 Preference share capital

	2019	2018
Authorised		
10 million (2017: 10 million) variable rate, cumulative, non-redeemable, non-convertible preference shares of 50.0 cents each	5	5
Issued		
7 million (2017: 7 million) preference shares in issue at beginning and end of year	3	3
Share premium		
Balance at beginning and end of year	641	641
Total issued preference share capital and premium	644	644

6. Contingent liabilities

Financial guarantees

Rm	2019	2018
▪ The Company has provided a cross deed of suretyship in favour of various other beneficiaries which cover the unutilised facilities granted to various subsidiaries	300	300
▪ The Company has provided unlimited suretyship in favour of various financial institutions which covers the unutilised facilities granted to a subsidiary institution.	653	653

The expected credit losses on guarantees are not material

7. Group structure

7.1 Related parties

Related party transactions

Various transactions were entered into by the Company during the year with related parties.

Details of loan balances with subsidiaries are disclosed in Annexure A.

The following is a summary of transactions with related parties during the year:

	2019	2018
Dividends received:		
▪ Netcare Holdings Proprietary Limited	2 632	1 300
Management fees received:		
▪ Netcare Hospitals Proprietary Limited	10	10
Non-executive directors fees	(10)	(10)

7.2 Key management personnel

Refer to note 4.1 of the Group annual financial statements.

8. Events after reporting period

On 15 October 2019, Netcare approved a further allocation of 61 050 000 previously unallocated Netcare shares (the Allocation), at a strike price of R13.94 per share, to 20 350 Netcare employees (excluding executives), of which 80% are black and 65% are black women (the Beneficiaries). These shares were available under the Health Partners for Life (HPFL) Broad-based Black Economic Empowerment (B-BBEE) scheme, which was concluded in 2005.

The Allocation reflects Netcare's commitment to the imperative of building a transformed South Africa characterised by values of social and economic equality and inclusion for all and achieves this objective in a manner that enables Netcare to further strengthen the ownership component of its empowerment rating. As a result, Netcare has been able to increase its B-BBEE ownership and has improved its overall B-BBEE rating to Level 4 (from Level 5 in 2018 and Level 8 in 2017).

The Allocation, as contemplated in the HPFL B-BBEE scheme, will result in an upfront once off non-cash IFRS2 charge of approximately R347 million to be recognised in the 2020 financial year. The dividend payable to Beneficiaries will have a negligible annual impact on Netcare's future earnings per share.

The directors are not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Group's annual financial statements, which significantly affect the financial position at 30 September 2019 or the results of its operations or cash flows for the year then ended.

Annexure A – Interest in subsidiaries

Principal subsidiaries	Nature of business	Place of incorporation
Direct		
Netcare Holdings Proprietary Limited	Holding Company	South Africa
Indirect		
Clindeb Investments Limited	Financing	South Africa
Medicross Healthcare Group Proprietary Limited	Primary healthcare services	South Africa
Netcare Hospitals Proprietary Limited	Hospital/healthcare services	South Africa
Other		South Africa

Loans to subsidiaries disclosed in:
Current assets in the Company statement of financial position
Current liabilities in the Company statement of financial position

Notes:
The above details are provided in respect of material subsidiaries of the Group. A full list of subsidiaries is available to shareholders at the Company's registered office.

The directors have determined that no subsidiary has a significant non-controlling interest.

Acquisition of subsidiaries during the year

During the current year, the Group acquired 100% shareholding in the following subsidiaries:

- Medicross Foreshore Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Kimberley Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Langeberg Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Monte Vista Day Theatre Proprietary Limited, effective 23 October 2018.
- Medicross Upington Day Theatre Proprietary Limited, effective 23 October 2018
- Netcare Lakeview Day Hospital Proprietary Limited,effective 15 March 2019.
- Netcare Moot Day Hospital Proprietary Limited, effective 15 March 2019.
- Netcare N17 Day Hospital Proprietary Limited, effective 15 March 2019
- Saintpoint Proprietary Limited, effective 01 May 2019.
- Setegenus Proprietary Limited, effective 01 May 2019.

Disposal of subsidiaries during the year

During the current year, the Group disposed the following subsidiaries:

- Netcare Raslouw Propco Proprietary Limited, effective 01 November 2018.
- Proudafrique Trading 362 Proprietary Limited, effective 01 November 2018.
- Raslow Private Hospital Proprietary Limited, effective 01 November 2018.

Change in the Group's ownership interest in subsidiaries

- As a result of a share buy back by Netcare Unitas Linac Joint Venture Proprietary Limited, the Group's shareholding increased to 60.2% from 52.6%, effective 30 October 2018.
- As a result of the acquisition of additional shares in Netcare Pinehaven Hospital Proprietary Limited, the Group's shareholding increased to 82.5% from 75.0%, effective November 2018.
- As a result of the issue of additional shares in Akeso Alberton Proprietary Limited, the Group's shareholding decreased from 96.0% to 86.0%, effective 01 May 2019.
- As a result of a share buy back by Cancare Proprietary Limited, the Group's shareholding increased to 83.3% from 60.0%, effective 01 August 2019.
- External shareholders exercised a call option on shares in Elsitron Proprietary Limited and as result the Group's shareholding decreased to 30.0% from 70.0%, and the entity is now equity accounted as an associate.

	Effective Group holding %		Investment (Rm)		Amounts owing by/(to) subsidiaries	
Issued ordinary share capital (thousands)	**2019**	2018	**2019**	2018	**2019**	2018
R120	**100**	100	**663**	663	**4 286**	4 246
R1	**100**	100	**–**	–	**81**	159
R2	**100**	100	**13**	13	**–**	–
	100	100	**151**	151	**(2)**	–
			10	10	**(2)**	2
			837	837	**4 363**	4 407
					4 367	4 410
					(4)	(3)

Annexure B – Interest in joint ventures

Company	Place of incorporation and principal place of business	Proportion of ownership interests and voting power held by the Group 2019	2018	Carrying value (Rm) 2019	2018
National Renal Care Proprietary Limited	South Africa	**50**	50	**245**	202
Netcare Parklands Linac Joint Venture Proprietary Limited	South Africa	**50**	50	**9**	8
Olivedale Clinic Oncology Centre Proprietary Limited	South Africa	**45**	45	**5**	5
Waterberg Lodge Proprietary Limited	South Africa	**50**	50	*****	*
Total interest in joint ventures	Note 9.1			**259**	215
Loans included in:					
Trade and other receivables (note 5.1/9.1)				**27**	34
Trade and other payables (note 5.3/9.1)				**(119)**	(112)
				(92)	(78)

* *Amount below R1 million.*

No joint ventures were considered to be material by management, based on both quantitative and qualitative factors.

Rm	30 September	
Aggregate information of joint ventures that are not individually material	**2019**	2018
The Group's share of profit and total comprehensive income for the year	**46**	41
Aggregate carrying amount of the Group's interests in these joint ventures	**259**	215

There were no unrecognised losses relating to joint ventures in the current or prior year.

Annexure C – Investment in associates

Company	Place of incorporation and principal place of business	Portion of ownership interests and voting power held by the Group		Carrying value (Rm)	
		2019	2018	**2019**	2018
Community Hospital Management Proprietary Limited	South Africa	**25**	25	**50**	52
Nalithemba Proprietary Limited	South Africa	**50**	50	**227**	253
Kokstad Private Hospital Proprietary Limited	South Africa	**30**	30	**17**	14
Gamma Knife Proprietary Limited	South Africa	**27**	27	**8**	(2)
Ismatype Proprietary Limited	South Africa	**30**	30	**2**	2
Botle Facilities Management Proprietary Limited	Lesotho	**40**	40	**43**	37
Tsepong Proprietary Limited	Lesotho	**40**	40	**130**	145
Elsitron Proprietary Limited	South Africa	**30**	–	**(1)**	–
Total investment in associates				**476**	501

Refer to note 9.2 in the Group annual financial statements for further details of the carrying value of the investment in associates.

No associates were considered to be material by management, based on both quantitative and qualitative factors.

Rm	30 September	
Aggregate information of associates that are not individually material	**2019**	2018
The Group's share of profit and total comprehensive income for the year	**29**	32
Aggregate carrying amount of the Group's interests in these associates	**476**	501

Annexure D – Analysis of shareholders

	Number of shareholders	Percentage of shareholders	Number of shares in issue[1]	Percentage of issued share capital
Shareholder Spread				
1 – 1 000	8 170	51.53	2 295 395	0.17
1 001 – 50 000	6 368	40.16	46 837 547	3.48
50 001 – 100 000	329	2.07	24 403 229	1.81
100 001 – 10 000 000	969	6.11	701 781 199	52.15
10 000 001 and above	20	0.13	570 517 635	42.39
Total	15 856	100.00	1 345 835 005	100.00
Distribution of shareholders per category				
Individuals	13 281	83.76	57 475 221	4.27
Private Companies	184	1.16	5 429 689	0.40
Nominees and Trusts	710	4.47	15 285 840	1.14
Banks and Brokerage Firms	77	0.49	77 773 839	5.78
Insurance Companies	82	0.52	50 069 216	3.72
Pension Funds and Medical Aid Schemes	560	3.53	443 027 222	32.92
Collective Investment Schemes and Mutual Funds	962	6.07	696 773 978	51.77
Total	15 856	100.00	1 345 835 005	100.00
Public and non-public shareholdings				
Public	15 854	99.99	1 345 427 623	99.97
Non-public	2	0.01	407 382	0.03
Total	15 856	100.00	1 345 835 005	100.00

1. Number of shares in issue net of treasury shares.

	Number of shares in issue[1]	Percentage of issued share capital
Beneficial shareholders holding 5% or more		
Public Investment Corporation Limited	256 610 274	19.07
Allan Gray various funds	109 392 635	8.13
Coronation various funds	85 053 681	6.32
Total	451 056 590	33.52
Investment Manager Top 10		
Public Investment Corporation Group	211 798 741	15.74
Allan Gray Proprietary Limited	199 576 409	14.83
Coronation Fund Managers Limited	177 314 977	13.18
Blackrock Inc	64 425 379	4.79
The Vanguard Group, Inc.	55 730 747	4.14
Visio Capital Management (Pty) Ltd	39 597 813	2.94
GIC Private Limited	34 288 678	2.55
Strate Street Corporation	32 830 503	2.44
Sanlam Ltd.	25 610 416	1.90
Nordea AB	23 909 837	1.78
Total	865 083 500	64.29
Beneficial Owner Top 10		
Public Investment Corporation Limited	256 610 274	19.07
Allan Gray Balanced Fund	56 073 153	4.17
Coronation Top 20 Fund	36 283 477	2.70
GIC Private Limited	35 062 178	2.61
Coronation Balanced Plus Fund	27 000 027	2.01
Government of Norway	26 609 670	1.98
Allan Gray Equity Fund	24 538 668	1.82
Vanguard Total International Stock Index Fund	23 577 537	1.75
Vanguard Emerging Markets Stock Index Fund (US)	23 553 774	1.75
Eskom Pension and Provident Fund	22 486 945	1.67
Total	531 795 703	39.53
Geographic Ownership		
South Africa	895 808 155	66.56
International	450 026 850	33.44
Total	1 345 835 005	100.00

1. Number of shares in issue net of treasury shares.

Corporate information

Company registration number

(Registration number)
1996/008242/06)

Business address and registered office

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JSE information

JSE share code: NTC (Ordinary shares)
ISIN code: ZAE000011953
JSE share code: NTCP (Preference shares)
ISIN code: ZAE000081121

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Auditors

Deloitte & Touche

Principal bankers

Nedbank Limited

Selected websites

www.netcare.co.za
www.netcare911.co.za
www.medicross.co.za
www.nrc.co.za
www.akeso.co.za

Shareholders' diary

Annual general meeting	31 January 2020

Reports

Interim results announcement	May
Final results announcement	November

Dividends

Ordinary dividend	Declared	Paid
Interim	May	June
Final	November	January

Preference dividend

Interim	April	May
Final	October	November

Disclaimer

Certain statements in this document constitute 'forward-looking statements'. Forward-looking statements may be identified by words such as 'believe', 'anticipate', 'expect', 'plan', 'estimate', 'intend', 'project', 'target', 'predict' and 'hope'. By their nature, forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future, involve known and unknown risks, uncertainties and other facts or factors which may cause the actual results, performance or achievements of the Group, or the healthcare sector to be materially different from any results, performance or achievement expressed or implied by such forward-looking statements. Forward-looking statements are not guarantees of future performance and are based on assumptions regarding the Group's present and future business strategies and the environments in which it operates now and in the future. No assurance can be given that forward-looking statements will prove to be correct and undue reliance should not be placed on such statements.

Any forward-looking information contained in these annual financial statements has not been reviewed or reported on by the company's external auditors.

Forward-looking statements apply only as of the date on which they are made, and Netcare does not undertake other than in terms of the Listings Requirements of the JSE Limited, to update or revise any statement, whether as a result of new information, future events or otherwise.

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