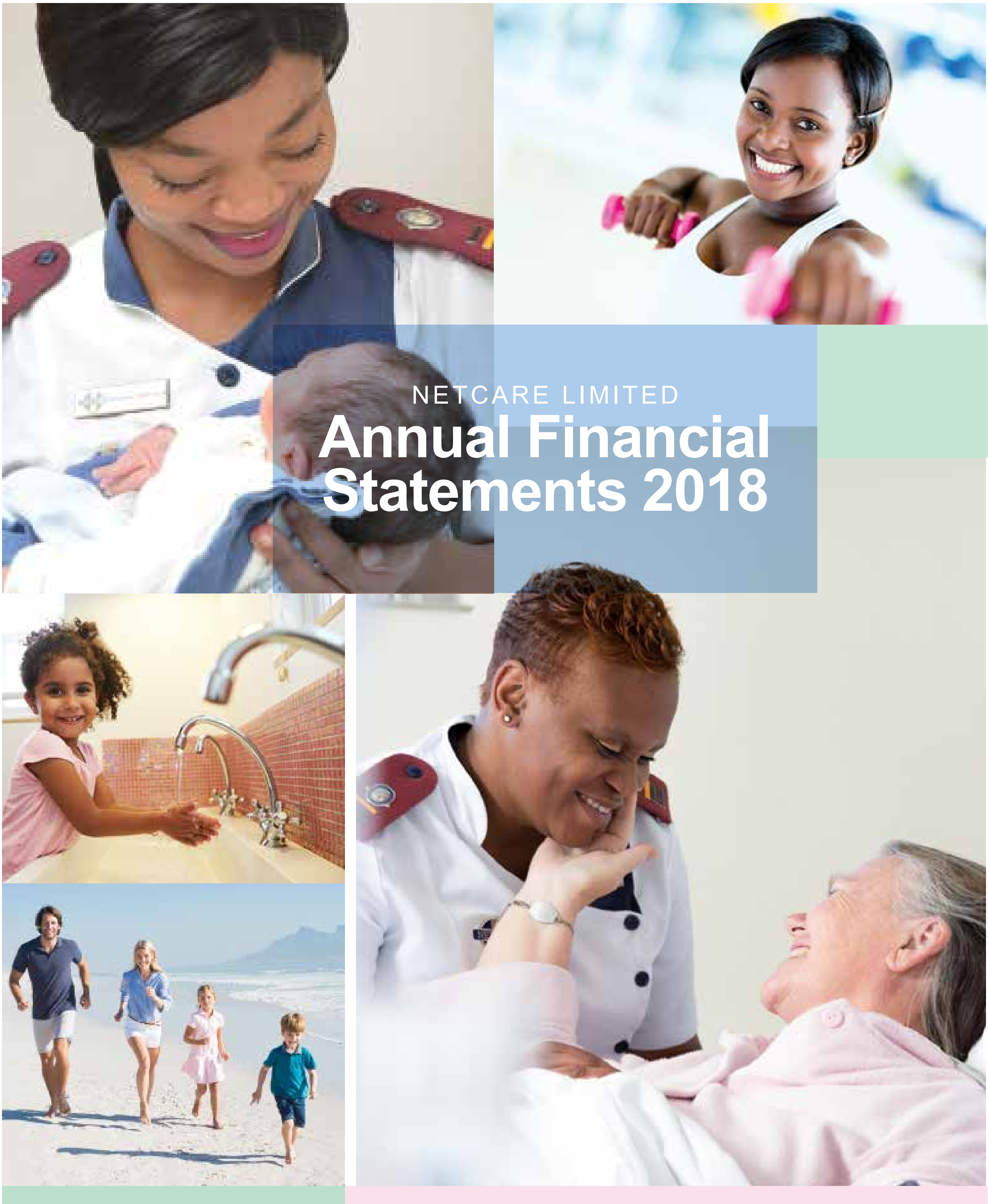

NETCARE LIMITED

# Annual Financial Statements 2018

*Providing you with the best and safest care*

NETCARE

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## Annual financial statements



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**NETCARE LIMITED**

Annual Financial Statements 30 September 2018

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 auditor, Grant Thornton Johannesburg (Grant Thornton), is engaged to express an independent opinion on these financial statements which has been presented on pages 11 to 14.

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 the going concern basis and in accordance with IFRS. These financial statements are audited by the external auditor in conformity with International Standards on Auditing.

The annual financial statements were approved by the Board of directors on 16 November 2018 and are signed on its behalf by:

**T Brewer**
Non-executive Chair

**RH Friedland**
Chief Executive Officer

**KN Gibson**
Chief Financial Officer

Sandton

16 November 2018

# 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

16 November 2018

# Directors' report

**for the year ended 30 September 2018**



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 2018.

## Nature of business

Netcare Limited is an investment holding company 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 occupational health services.

## Financial results and review

Netcare's 2018 financial year has been characterised by significant changes to the Group's operational profile.

In South Africa ("SA"), Netcare secured the approval of the Competition Tribunal for its acquisition of Akeso Clinics ("Akeso"), a national network of 12 dedicated mental healthcare facilities, currently comprising 834 beds, which has been consolidated into the Group's results from 31 March 2018. Refer to note 9.4.

With regard to the United Kingdom ("UK"), as noted in the SENS announcement of 28 March 2018, Netcare made a strategic decision to exit this market and to pursue the disposal of its interests in General Healthcare Group ("GHG"), comprising 56.9% of BMI Healthcare, and 56.9% of GHG PropCo 2, which owns six hospital properties leased by BMI Healthcare. Refer to note 11.

In addition, the following exceptional items relating purely to circumstances surrounding the UK operations have had a significant impact on the Group results:

- A non-cash profit of R4 205 million arose on the deconsolidation of BMI Healthcare. Refer to note 10;
- A non-cash impairment of R1 322 million (after tax) has been recognised against the carrying value of Netcare's contractual economic interest in the debt of BMI Healthcare. Refer to note 11.

The financial results of the Group are set out on pages 15 to 94 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 95 to 103.

## Subsidiaries, associates and joint ventures

Details of interests in subsidiaries, joint ventures and associates are shown on pages 104 to 107 respectively.

### Acquisitions, disposals and changes in holdings

#### *Acquisitions*

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

- Medicross Blaauwberg Day Theatre Proprietary Limited, effective 23 July 2018.
- Medicross Pinetown Day Theatre (RF) Proprietary Limited, effective 20 October 2017.
- Medicross Kuilsriver Day Theatre Proprietary Limited, effective 31 July 2018.
- Netcare Ceres Investment Company (RF) Proprietary Limited, effective 30 July 2018.
- Netcare Vaalpark Investment Company (RF) Proprietary Limited, effective 20 July 2018.
- Eliomate Proprietary Limited, effective 01 July 2018.
- Setedale Proprietary Limited, effective 21 November 2017.
- Dosimeter Proprietary Limited, effective 19 July 2018.
- Akeso Clinics Proprietary Limited, effective 27 March 2018.
- Oak Tree Services Proprietary Limited, effective 27 March 2018.
- Crimson Clover Trading 10 Proprietary Limited, effective 27 March 2018.

#### *Disposals*

No entities were disposed of during the year.

#### *Changes in holdings*

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

- With effect from 1 October 2017, the Group disposed of 4% of its shareholding in Netcare Clinton Oncology decreasing its shareholding to 51%. This did not result in a change in control, and the entity is still consolidated as a subsidiary.
- With effect from 1 December 2017, the Group acquired an additional 3% shareholding in Waterfall City Hospital Proprietary Limited. This did not result in a change in control, and the entity is still consolidated as a subsidiary.
- With effect from 1 December 2017, as a result of a share buyback by Cancare Proprietary Limited, the Group's interest increased to 70.4%. This did not result in change in control, and the entity is still consolidated as a subsidiary. With effect from 1 March 2018, Cancare Propriety Limited issued additional shares, the Group's interest decreased to 60.2%.
- With effect from 1 March 2018, as a result of a share buyback by Netcare Unitas Linac Venture Proprietary Limited, a 50% held joint venture, the Group increased its shareholding to 58.8%, resulting in a change of control and is now consolidated as a subsidiary. As a result of additional shares issued, effective 1 April 2018 Netcare's shareholding decreased to 52.6%.
- With effect from 1 March 2018, the Group acquired an additional 50% shareholding in Rand Clinic Oncology Proprietary Limited, resulting in a change of control and is now consolidated as a subsidiary.

There were no other material changes in the Group to holdings in subsidiaries, associates or joint ventures during the year ended 30 September 2018.

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 512 million (2017: R2 419 million).

Details of capital commitments are provided in note 7.3.1 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 8 200 000 shares during the year in terms of the Netcare Share Incentive Scheme and the Forfeitable Share Plan.

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 2018 was as follows:

| | Number of shareholders | Number of shares[1] | % of issued share capital |
|---|---|---|---|
| Public | 17 119 | 1 350 502 892 | 99.06 |
| Non-public | 3 | 12 828 525 | 0.94 |
| Directors | 2 | 10 745 759 | 0.79 |
| Retirement funds | 1 | 2 082 766 | 0.15 |
| **Total** | 17 122 | 1 363 331 417 | 100.00 |

*1. Number of shares are net of treasury shares.*

| | | |
|---|---|---|
| **Beneficial shareholders holding 5% or more** | | |
| Public Investment Corporation | 249 231 931 | 18.28 |
| Allan Gray Various Funds | 125 205 172 | 9.18 |
| **Total** | 374 437 103 | 27.46 |
| **Investment management shareholding greater than 5%** | | |
| Allan Gray Proprietary Limited | 221 502 811 | 16.24 |
| Public Investment Corporation Limited | 203 948 554 | 14.96 |
| Coronation Fund Managers Limited | 193 954 066 | 14.22 |
| Old Mutual PLC | 70 562 208 | 5.17 |
| **Total** | 689 967 639 | 50.59 |

# Share incentive schemes

Particulars relating to the Netcare Share Incentive Scheme and 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:

| Rm | 2018 | 2017 |
|---|---|---|
| **Final distribution paid** | | |
| Final dividend paid on 29 January 2018 of 57.0 cents per share (2017: 57.0 cents per share) | 839 | 829 |
| **Interim distribution paid** | | |
| Interim dividend paid on 09 July 2018 of 44.0 cents per share (2017: 38.0 cents per share) | 647 | 560 |
| | 1 486 | 1 389 |
| Dividends attributable to treasury shares | (98) | (93) |
| **Paid to Netcare Limited shareholders** | 1 388 | 1 296 |

Dividends paid are accounted for on the date of declaration. As a result, the final dividend of 60.0 cents per share and special dividend of 40.0 cents per share, declared on 15 November 2018, are not reflected in the financial statements for the year ended 30 September 2018.

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 22 January 2019 |
| Trading ex dividend commences | Wednesday 23 January 2019 |
| Record date | Friday 25 January 2019 |
| Payment date | Monday 28 January 2019 |

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

| Cents | 2018 | 2017 |
|---|---|---|
| Interim dividend | 44.0 | 38.0 |
| Final dividend | 60.0 | 57.0 |
| Special dividend | 40.0 | – |
| | 144.0 | 95.0 |

The estimated total cash flow of the final dividend of 60.0 cents per share and the special dividend of 40.0 cents per share payable on 28 January 2018, is R818 million and R545 million respectively.

This amount excludes R107 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 | 2018 | 2017 |
|---|---|---|
| Interim dividend | 28 | 28 |
| Final dividend | 27 | 28 |
| | 55 | 56 |

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 – Appointed Audit Committee Chair
T Brewer – Appointed Chair effective 1 April 2018
B Bulo
APH Jammine
JM Kahn – Retired as Chair and director effective 31 March 2018
MJ Kuscus
KD Moroka
N Weltman

The directors standing for re-election at the annual general meeting are:
MR Bower
B Bulo
APH Jammine

# Board diversity

| | |
|---|---|
| **Gender** | |
| Male | 6 |
| Female | 3 |
| **Nationality** | |
| Black South African | 4 |
| White South African | 5 |
| **Independence** | |
| Executive | 2 |
| Independent non-executive[1] | 7 |

*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 2018 review, the Board is satisfied that there are no relationships or circumstances likely to affect, or which appear to affect, the judgement of Messrs APH Jammine, and Adv KD Moroka as directors. The Board is also satisfied that the Chair 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.

# 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 109.

# Auditor

Grant Thornton Johannesburg continued in office as auditor 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, the Group has appointed Deloitte & Touche, with Mr Graeme Berry as the designated audit partner, as auditor of the Group.

The audit services of Grant Thornton will terminate on completion of their statutory commitments for Netcare's 2018 financial year, which is expected to be on or around 31 December 2018. Deloitte & Touche's appointment will commence thereafter.

# Events after the reporting period

As part of an increased focus on capital discipline, Netcare has embarked on a share repurchase program. In the period after year-end to the date of this report, and in terms of the authority granted by shareholders at the AGM held on 2 February 2018, Netcare, via its wholly-owned subsidiary Netcare Hospital Group Proprietary Limited, has repurchased 18 656 190 shares on the market at a weighted average price of R23.7834 per share. The repurchase follows from engagement with shareholders and a review of the Group's capital structure, capital requirements and cash flow generation.

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 2018 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 directors' remuneration, for the period 1 October 2018 to 30 September 2019.
  - 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 |
|---|---|---|
| Medicross Blaauwberg Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Bluff Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Boksburg Day Theatre (RF) Proprietary Limited | 25 May 2018 | Create new unclassified shares and ring fence the company |
| Medicross Constantia Park Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Germiston Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Malvern Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Pinetown Day Theatre (RF) Proprietary Limited | 14 June 2018 | Create new unclassified shares and ring fence the company |
| Medicross Potchefstroom Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Richards Bay Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Silverton Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross The Berg Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Tokai Day Theatre (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Medicross Parow Day Theatre (RF) Proprietary Limited | 14 June 2018 | Create new unclassified shares and ring fence the company |
| Netcare Ceres Investment Company (RF) Proprietary Limited | 23 March 2018 | Create new unclassified shares and ring fence the company |
| Netcare Education Proprietary Limited | 02 February 2018 | Name Change |
| Netcare Lakeview Hospital Proprietary Limited | 22 June 2018 | Name Change |
| Netcare Vaalpark Investment Company (RF) Proprietary Limited | 24 July 2018 | Create new unclassified shares and ring fence the company |

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 2018**





## 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 2018. 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 progress pertaining to the implementation of a combined assurance model and risk management framework.
- Reviewed and approved the proposed amendments to the combined assurance model to ensure its appropriate alignment to King IV™.
- 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.
- Reviewed developments in the Companies Act and corporate governance in relation to the Audit Committee's functions.
- Assessed the effectiveness of the external audit process following the end of the annual audit cycle.
- 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 report 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 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. Upon her appointment as Chair of the Board on 1 April 2018, Mrs T Brewer stood down as Audit Committee Chair and Mr MR Bower was appointed as Chair in her stead. Ms B Bulo was appointed to the Audit Committee on 06 February 2018 as tabled and approved at the Board Nomination Committee. Mrs Brewer still continues to attend Audit Committee meetings as an invitee and observer.

The fees paid to the Committee members for the year ended 30 September 2018 were approved by the shareholders at the annual general meeting held on 2 February 2018.

Committee members' attendance is detailed below.

| | | Committee attendance |
|---|---|---|
| MR Bower | Audit Committee Chair | 3/3 |
| T Brewer | | 1/3[1] |
| B Bulo | | 2/3 |
| APH Jammine | | 3/3 |
| N Weltman | | 2/3 |

1. *T Brewer is no longer a member of the Audit Committee but attended all Committee meetings held during the year – one as a commitee member and the balance as an invitee.*

The head of Netcare Group Internal Audit as well as Grant Thornton Johannesburg (Grant Thornton), in their capacity as external auditor to Netcare and its South African subsidiaries, 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, two members of the Committee are also members of the Risk Committee. Divisional Internal Audit Committee meetings are held twice a year and Grant Thornton, in their capacity as external auditor of Netcare, attend these meetings.

In the United Kingdom (UK) for the period prior to 28 March 2018, after Netcare made a strategic decision to exit from the UK and yielded control of the Board of BMI Healthcare, General Healthcare Group (GHG) operated an independent Audit Committee that reported through the Group Audit Committee. G Hughes is the GHG Audit Committee chair and its members are all non-executive directors of GHG.

## External auditor

Grant Thornton is the appointed auditor for the Group and Company, with the audit partner, GM Chaitowitz, 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 auditor 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 Grant Thornton is permitted to provide to Netcare. The Committee also pre-approved, where relevant, proposed contracts with Grant Thornton for the provision of non-audit services to the Group. The fees paid to Grant Thornton for the financial year ended 30 September 2018 amounted to R15.7 million for audit services and R0.5 million for other services.

Deloitte LLP is the appointed auditor for GHG in the UK. The fees paid to Deloitte for the period prior to 28 March 2018 amounted to £0.4 million for audit services and £nil for other services.

Grant Thornton has served as Netcare's auditor in excess of 22 years. Following completion of a formal tender process, Netcare has appointed Deloitte & Touche, with Mr Graeme Berry as the designated audit partner, to replace Grant Thornton Johannesburg as auditor of the Group and Company.

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 services of Grant Thornton will terminate on completion of their statutory commitments for Netcare's 2018 financial year, which is expected to be on or around 31 December 2018 after which Deloitte & Touche's appointment will commence.

## 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.

## 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.

## 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.

## Key Audit Matters

In reviewing the Key Audit Matters (KAMs) the Audit Committee engaged with the auditor through the relevant governance structures and also held additional meetings to debate and consider the KAMs:

### Impairment and valuation of goodwill:

The Audit Committee considered in detail the level of impairment testing performed. The Audit Committee also reviewed detailed papers on the issue, including that of expert technical advisors and the CFO and agreed with conclusions reached by both management and the auditor that no impairment of goodwill is required.

## Deconsolidation of BMI Healthcare:

IFRS 10 *Consolidated Financial Statements*, states that “an investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control”. The Audit Committee has assessed the adequacy of the Group's disclosure of the deconsolidation of BMI Healthcare, effective 28 March 2018, and are satisfied, following detailed reviews performed, that the deconsolidation of BMI Healthcare is appropriate and that the results of the UK operations have been correctly classified as a discontinued operation.

## Acquisition of the Akeso Clinics Group:

Netcare Hospital Group Proprietary Limited acquired various companies in the Akeso Clinics Group, effective 27 March 2018, after approval by the Competition Tribunal. The transaction has been recorded effective 31 March 2018. The Audit Committee has reviewed detailed papers on this transaction, including the value of the consideration transferred with reference to the purchase agreements being recomputed, and verifying the resulting goodwill recognised on acquisition.

## 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.

**MR Bower**
Audit Committee Chair
Sandton

12 November 2018

# 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 15 to 107, which comprise the consolidated and separate statements of financial position as at 30 September 2018, 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 Netcare Limited as at 30 September 2018, 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 Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B). 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. These matters were 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 these matters.

The following key audit matters relate to the consolidated financial statements. We have determined that there are no key audit matters in respect of the separate financial statements.

| KEY AUDIT MATTER (KAM) | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| **Impairment and Valuation of goodwill** | |
| IAS 36: *Impairment of Assets* requires the Group to annually test the carrying value of goodwill for impairment. This is performed using discounted cash flow models for the two cash-generating units (CGUs).<br><br>The annual impairment test was considered a KAM for the following reasons:<br>• The significance of the goodwill balance (R1 614 million).<br>• Goodwill in the hospital and emergency services operation CGU increased by R936 million, as a result of the acquisition of the Akeso Clinics Group.<br>• There are significant judgements involved in forecasting the future cash flows used in the value in use calculations. | We performed the following audit procedures:<br>• Obtained from management their five year forecasts and related discounted cash flow models (the models) which apply the weighted average cost of capital rates (WACC) for each CGU;<br>• Tested the mathematical accuracy of the models;<br>• Identified the key assumptions in the models;<br>• Held discussions with management to understand the key assumptions applied;<br>• Performed sensitivity analyses on the key assumptions;<br>• Considered the reasonableness of management's forecasts and WACC;<br>• Reviewed the historical budgeting accuracy of the Group;<br>• Independently evaluated (with the assistance of our valuation specialist) the discount and growth rates used in the models and reviewed the reasonableness of the other assumptions.<br><br>We assessed the adequacy of the Group's disclosure (refer note 2.10) about these assumptions to which the outcome of the annual impairment test is most sensitive. That is, those disclosures that have the most significant effect on the determinations of the recoverable amount of goodwill. |

| KEY AUDIT MATTER (KAM) | HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER |
|---|---|
| **Deconsolidation of BMI Healthcare** | |
| IFRS 10: *Consolidated Financial Statements,* states that "an investor shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control."<br><br>The Group no longer has the ability to exert control in order to direct the relevant activities of BMI Healthcare and therefore the business has been deconsolidated with effect from 28 March 2018.<br><br>The deconsolidation of BMI Healthcare was considered a KAM for the following reasons:<br>• The Group has recognised a significant non-cash accounting profit of R4 205 million as a result of the deconsolidation in terms of IFRS 10 Consolidated Financial Statements.<br>• There are significant judgements involved surrounding the loss of control.<br>• The significant effect on the disclosures in the consolidated financial statements relating to the deconsolidation and discontinued operations. | We performed the following audit procedures:<br>• Reviewed an opinion obtained by management supporting the judgement surrounding the loss of control.<br>• Verified that the deconsolidation workings provided by management were correctly applied;<br>• Assessed the appropriateness of the presentation in the Group statement of profit or loss and the Group statement of cash flows as a discontinued operation (refer note 10.1) is in accordance with IFRS 5 Non-Current Assets Held for Sale.<br><br>We assessed the adequacy of the Group's disclosure (refer note 11) of the deconsolidation of BMI Healthcare. |
| **Acquisition of the Akeso Clinics Group** | |
| IFRS 3 Business Combinations, requires management to evaluate critical accounting estimates and assumptions made in the allocation of a purchase price on a business combination acquired.<br><br>The Group acquired various companies in the Akeso Clinics Group (Akeso) effective 27 March 2018, following approval by the Competition Tribunal. The transaction has been recorded effective 31 March 2018.<br><br>The acquisition of Akeso was considered a KAM for the following reasons:<br>• The purchase consideration for this acquisition of R1 233 million is significant, resulting in the fair value of R297 million of net assets acquired and goodwill of R936 million being recognised.<br>• The accounting for this acquisition is governed by IFRS 3 Business Combinations requiring the exercise of judgement in determining certain estimates. The most significant of which is the determination of the Purchase Price Allocation (PPA) encompassing:<br>– Identifying the assets and liabilities acquired and determining their fair values;<br>– Recognising and valuing any intangible assets on consolidation;<br>– Determining goodwill to be recognised on acquisition;<br>– The allocating of the goodwill into the relevant cash generating unit of the Group; and<br>– Determining the value of the consideration transferred. | We performed the following audit procedures:<br>• Reviewed an opinion obtained by management supporting the PPA on acquisition of Akeso.<br>• Obtained the PPA from management including the valuation of the identifiable assets and assessed the adequacy of the valuation methods and appropriateness of key assumptions used;<br>• Our technical specialists reviewed the allocation of the goodwill into the relevant cash generating unit;<br>• Recomputed the value of the consideration transferred with reference to the purchase agreements and verified the resulting goodwill recognised on acquisition.<br><br>We assessed the adequacy of the Group's disclosure (refer note 9.4) of the acquisition of Akeso. |

## Other information

The directors are responsible for the other information. The other information comprises 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 Report, which is expected to be made available to us after that date. 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 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 directors 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 directors 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 directors, 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 Grant Thornton Johannesburg has been the auditor of Netcare Limited for 22 years.

Grant Thornton

**GRANT THORNTON**
Registered Auditors
Practice Number: 903485E

G M Chaitowitz
Partner
Registered Auditor

16 November 2018

@Grant Thornton
Wanderers Office Park
52 Corlett Drive
Illovo, 2196

# Group statement of profit or loss

**for the year ended 30 September**

| Rm | Notes | 2018 | 2017[1] |
|---|---|---|---|
| **Continuing operations** | | | |
| **Revenue** | 2.1 | 20 717 | 19 114 |
| Cost of sales | | (10 364) | (9 661) |
| **Gross profit** | | 10 353 | 9 453 |
| Other income | | 511 | 460 |
| Administrative and other expenses – excluding items below | | (7 378) | (6 582) |
| **Operating profit before items below** | | 3 486 | 3 331 |
| Profit on sale of old Netcare CBMH[2] land and buildings | | – | 203 |
| Impairment of contractual economic interest in the debt of BMI Healthcare | | (1 544) | – |
| **Operating profit** | 2.2 | 1 942 | 3 534 |
| Investment income | 3.3 | 271 | 343 |
| Financial expenses | 3.4 | (597) | (489) |
| Other financial (losses)/gains – net | 6.3 | (1) | 3 |
| Attributable earnings of associates | | 32 | 36 |
| Attributable earnings of joint ventures | | 41 | 53 |
| **Profit before taxation** | | 1 688 | 3 480 |
| Taxation | 2.4 | (682) | (942) |
| **Profit for the year from continuing operations** | | 1 006 | 2 538 |
| Loss from discontinued operations | 10.1 | (467) | (5 267) |
| Profit on loss of control | 11 | 4 205 | – |
| **Profit/(loss) for the year** | | 4 744 | (2 729) |
| *Attributable to:* | | | |
| Owners of the parent | | 4 885 | (549) |
| Preference shareholders | | 55 | 56 |
| Profit/(loss) attributable to shareholders | | 4 940 | (493) |
| Non-controlling interest | | (196) | (2 236) |
| | | 4 744 | (2 729) |
| Cents | | | |
| **Basic earnings/(loss) per share** | 2.3 | 357.7 | (40.9) |
| Continuing operations | 2.3 | 68.5 | 182.1 |
| Discontinued operations | 2.3 | 289.2 | (223.0) |
| **Diluted earnings/(loss) per share** | 2.3 | 353.6 | (40.9) |
| Continuing operations | 2.3 | 67.7 | 179.7 |
| Discontinued operations | 2.3 | 285.9 | (220.6) |

1. *Restated for discontinued operations.*
2. *Christiaan Barnard Memorial Hospital.*

# Group statement of other comprehensive income

**for the year ended 30 September**

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **Profit/(loss) for the year** | | **4 744** | (2 729) |
| **Items that may not subsequently be reclassified to profit or loss** | | **–** | (29) |
| Remeasurement of defined benefit obligation | | – | (40) |
| Taxation on items that may not subsequently be reclassified to profit or loss | 8.5 | – | 11 |
| **Items that may subsequently be reclassified to profit or loss** | | **(1 842)** | (38) |
| Effect of cash flow hedge accounting | | 42 | (43) |
| Amortisation of the cash flow hedge accounting reserve | | 4 | 2 |
| Change in the fair value of cash flow hedges | | 38 | (45) |
| Effect of translation of foreign entities | | 104 | (7) |
| Recycling of foreign currency translation reserve on loss of control | | (1 976) | – |
| Taxation on items that may subsequently be reclassified to profit or loss | 8.5 | (12) | 12 |
| **Other comprehensive loss for the year** | | **(1 842)** | (67) |
| **Total comprehensive profit/(loss) for the year** | | **2 902** | (2 796) |
| *Attributable to:* | | | |
| Owners of the parent | | 2 737 | (604) |
| Preference shareholders | | 55 | 56 |
| Non-controlling interest | | 110 | (2 248) |
| | | 2 902 | (2 796) |

# Group statement of financial position

**at 30 September**

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 2.8 | 12 098 | 13 908 |
| Goodwill | 2.10 | 1 614 | 1 705 |
| Intangible assets | 2.9 | 135 | 332 |
| Investment in joint ventures | 9.1 | 215 | 228 |
| Investment in associates | 9.2 | 501 | 817 |
| Loans and receivables | 9.3 | 249 | 1 831 |
| Financial assets | 6.1 | 16 | 17 |
| Deferred lease assets | | 25 | 23 |
| Deferred taxation | 2.5 | 447 | 1 092 |
| **Total non-current assets** | | 15 300 | 19 953 |
| **Current assets** | | | |
| Loans and receivables | 9.3 | 48 | 53 |
| Financial assets | 6.1 | – | 1 |
| Inventories | 5.2 | 589 | 984 |
| Trade and other receivables | 5.1 | 2 908 | 4 541 |
| Taxation receivable | | 35 | 6 |
| Cash and cash equivalents | 3.2 | 1 371 | 2 531 |
| | | 4 951 | 8 116 |
| Assets classified as held for sale | 10.2 | 297 | 43 |
| **Total current assets** | | 5 248 | 8 159 |
| **Total assets** | | 20 548 | 28 112 |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Ordinary share capital and premium | 8.1 | 4 391 | 4 205 |
| Treasury shares | 8.2 | (3 871) | (3 720) |
| Other reserves | | 635 | 2 481 |
| Retained earnings | | 8 566 | 5 316 |
| Equity attributable to owners of the parent | | 9 721 | 8 282 |
| Preference share capital and premium | 8.3 | 644 | 644 |
| Non-controlling interest | 8.4 | 50 | (64) |
| **Total shareholders' equity** | | 10 415 | 8 862 |
| **Non-current liabilities** | | | |
| Long-term debt | 3.1 | 5 114 | 7 232 |
| Financial liabilities | 6.2 | 21 | 1 187 |
| Post-retirement benefit obligations | 4.2 | 535 | 497 |
| Deferred lease liabilities | | 47 | 149 |
| Deferred taxation | 2.5 | 210 | 1 049 |
| Provisions | 7.1 | – | 1 470 |
| **Total non-current liabilities** | | 5 927 | 11 584 |
| **Current liabilities** | | | |
| Trade and other payables | 5.3 | 3 072 | 5 912 |
| Short-term debt | 3.1 | 1 056 | 1 678 |
| Financial liabilities | 6.2 | 10 | 9 |
| Taxation payable | | 62 | 56 |
| Bank overdrafts | 3.2 | 6 | 6 |
| | | 4 206 | 7 661 |
| Liabilities classified as held for sale | 10.2 | – | 5 |
| **Total current liabilities** | | 4 206 | 7 666 |
| **Total equity and liabilities** | | 20 548 | 28 112 |

# Group statement of changes in equity

**for the year ended 30 September**

| Rm | Ordinary share capital | Ordinary share premium | Treasury shares | Cash flow hedge accounting reserve |
|---|---|---|---|---|
| **Balance at 30 September 2016** | 15 | 4 182 | (3 768) | (14) |
| Shares issued during the year | – | 8 | – | – |
| Sale of treasury shares | – | – | 48 | – |
| Share-based payment reserve movements | – | – | – | – |
| Tax recognised in equity | – | – | – | – |
| Preference dividends paid | – | – | – | – |
| Dividends paid[1] | – | – | – | – |
| Distributions to beneficiaries of the HPFL B-BBEE[2] trusts | – | – | – | – |
| Increase in equity interest in subsidiaries | – | – | – | – |
| Total comprehensive (loss)/income for the year | – | – | – | (31) |
| **Balance at 30 September 2017** | 15 | 4 190 | (3 720) | (45) |
| 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 | – | – | – | – |
| Tax recognised in equity | – | – | – | – |
| Preference dividends paid | – | – | – | – |
| Dividends paid[1] | – | – | – | – |
| Distributions to beneficiaries of the HPFL B-BBEE[2] trusts | – | – | – | – |
| Increase in equity interest in subsidiaries | – | – | – | – |
| Total comprehensive income/(loss) for the year | – | – | – | 30 |
| Ordinary movements | – | – | – | 30 |
| Deconsolidation of BMI Healthcare | – | – | – | – |
| **Balance at 30 September 2018** | 15 | 4 376 | (3 871) | (15) |
| Notes | 8.1 | 8.1 | 8.2 | |

*1. Refer to page 03 of the directors' report for detail of the ordinary dividends paid.*
*2. Health Partners for Life Broad-based Black Economic Empowerment.*

| Employee share trust reserve | Foreign currency translation reserve | 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 |
|---|---|---|---|---|---|---|---|---|
| 32 | 2 000 | 90 | 357 | 7 283 | 10 177 | 644 | 2 188 | 13 009 |
| – | – | – | – | – | 8 | – | – | 8 |
| – | – | – | – | – | 48 | – | – | 48 |
| – | – | – | 46 | – | 46 | – | – | 46 |
| – | – | – | – | (14) | (14) | – | – | (14) |
| – | – | – | – | – | – | (56) | – | (56) |
| – | – | – | – | (1 296) | (1 296) | – | (37) | (1 333) |
| – | – | – | – | (49) | (49) | – | – | (49) |
| – | – | – | – | (34) | (34) | – | 33 | (1) |
| – | 1 | – | – | (574) | (604) | 56 | (2 248) | (2 796) |
| 32 | 2 001 | 90 | 403 | 5 316 | 8 282 | 644 | (64) | 8 862 |
| – | – | – | – | – | 3 | – | – | 3 |
| – | – | – | – | 16 | 55 | – | – | 55 |
| – | – | – | – | – | (7) | – | – | (7) |
| – | – | – | – | – | – | – | 8 | 8 |
| – | – | – | 45 | 9 | 54 | – | – | 54 |
| – | – | – | – | 16 | 16 | – | – | 16 |
| – | – | – | – | – | – | (55) | – | (55) |
| – | – | – | – | (1 388) | (1 388) | – | (23) | (1 411) |
| – | – | – | – | (21) | (21) | – | – | (21) |
| – | – | – | – | (10) | (10) | – | 19 | 9 |
| (32) | (1 889) | – | – | 4 628 | 2 737 | 55 | 110 | 2 902 |
| – | 87 | – | – | 680 | 797 | 55 | (180) | 672 |
| (32) | (1 976) | – | – | 3 948 | 1 940 | – | 290 | 2 230 |
| – | 112 | 90 | 448 | 8 566 | 9 721 | 644 | 50 | 10 415 |
| | | | | | | | 8.3 | |

# Group statement of cash flows

**for the year ended 30 September**

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash received from customers | | 20 203 | 34 508 |
| Cash paid to suppliers and employees | | (15 976) | (30 239) |
| Cash generated from operations | 2.6 | 4 227 | 4 269 |
| Interest paid | | (729) | (732) |
| Taxation paid | 2.7 | (916) | (874) |
| Ordinary dividends paid by subsidiaries | | (23) | (37) |
| Ordinary dividends paid | | (1 388) | (1 296) |
| Preference dividends paid | | (55) | (56) |
| Distribution to beneficiaries of the HPFL B-BBEE[1] trusts | | (21) | (49) |
| **Net cash from operating activities** | | **1 095** | **1 225** |
| **Cash flows from investing activities** | | | |
| Acquisition of business | 9.4 | (1 233) | (139) |
| Acquisition of property, plant and equipment | 2.8 | (1 512) | (2 419) |
| Additions to intangible assets | | (2) | (28) |
| Proceeds on disposal of property, plant and equipment and intangible assets | | 44 | 338 |
| Proceeds on disposal of businesses | | – | 3 |
| Decrease in investments and loans | | 92 | 50 |
| Interest received | | 171 | 151 |
| Dividends received | | 27 | 15 |
| Net debt related to acquisition of business | 9.4 | (238) | – |
| Increase in equity from joint ventures to subsidiaries | | (1) | – |
| Cash and cash equivalents of businesses deconsolidated | 11 | (673) | – |
| **Net cash flow from investing activities** | | **(3 325)** | **(2 029)** |
| **Cash flows from financing activities** | | | |
| Proceeds on disposal of treasury shares | | 48 | 48 |
| Proceeds from issue of ordinary shares | | 3 | 8 |
| Long-term debt raised | 3.1.1 | 2 293 | 1 018 |
| Short-term debt (repaid)/raised | | (1 228) | 287 |
| Acquisition of non-controlling interests | | (3) | (1) |
| Issue of shares to non-controlling interests | | 11 | – |
| Settlement of derivatives | | (2) | – |
| **Net cash from financing activities** | | **1 122** | **1 360** |
| **Net (decrease)/increase in cash and cash equivalents** | | **(1 108)** | **556** |
| Translation effects on cash and cash equivalents of foreign entities | | (81) | 21 |
| Cash and cash equivalents at the beginning of the year | | 2 525 | 1 979 |
| Cash and cash equivalents related to assets held for sale | 10.2 | 29 | (31) |
| **Cash and cash equivalents at the end of the year** | 3.2 | **1 365** | **2 525** |

*1. Health Partners for Life Broad-based Black Economic Empowerment.*

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## Notes to the Group annual financial statements

# 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:

| | 31 March 2018 | 31 March 2018 | 30 September 2018 | 30 September 2018 | 30 September 2017 | 30 September 2017 |
|---|---|---|---|---|---|---|
| | Closing rate | Average rate | Closing rate | Average rate | Closing rate | Average rate |
| GBP British Pounds | 16.58 | 17.34 | 18.42 | 17.55 | 18.15 | 16.94 |
| MZN Mozambique Meticals | n/a | n/a | 4.28 | 4.59 | 4.47 | 4.99 |

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; and
- Post-retirement 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:

#### *South Africa (SA)*

The SA segment includes the following operations:

- **Hospital and emergency services**

  This segment includes the operation of the private hospital network and emergency medical services and additional services in SA.

- **Primary Care**

  This segment offers comprehensive primary healthcare and employee health and wellness services.

#### *United Kingdom (UK)*

The UK segment includes the following operation:

- **BMI Healthcare**

  This segment includes the operation of private acute care hospitals in the UK. During the current year, a number of factors led to the loss of control of BMI Healthcare and its subsequent deconsolidation. The results for this segment have been classified as discontinued, with the comparatives restated. Refer to note 11 for further detail.

# 1. Accounting framework and critical judgements continued

## 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.

## 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 2017.

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.

Netcare has adopted the Disclosure Initiative (Amendments to IAS 7 Statement of Cash Flows) which requires disclosure of changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendment is effective for annual periods beginning on or after 1 January 2017. The reconciliation can be found in note 3.1.

No other new, revised or amended standards were implemented during the financial reporting period ended 30 September 2018.

## 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. The following are the critical judgements that have been made in the process of applying the Group's accounting policies, and that have the most significant effect on the amounts recognised in the financial statements:

### Deconsolidation of BMI Healthcare

The UK private healthcare market landscape has been challenging for a number of years. BMI Healthcare's ability to adapt sufficiently to the changing market has historically been severely hampered by its onerous long-term leases and limited capital. Earlier in the 2018 financial year, BMI Healthcare secured a short-term funding arrangement with its lenders which expired on 31 March 2018. BMI Healthcare's lenders conditioned any further extension of the short-term funding on GHG's shareholders relinquishing effective control of BMI Healthcare through the resignation of shareholder-nominated directors from the boards of all BMI Healthcare-related entities, other than one directorship retained by each of the three GHG shareholders in an intermediary holding entity (giving Netcare a representation of one out of seven directors). Netcare agreed, in the interests of the business, to accede to this demand. Although Netcare has retained its shareholding and contractual economic interest in the debt of BMI Healthcare, which exposes it to variable returns, it is the board of BMI Healthcare that is the decision-making body directing the relevant activities of the company. The removal of Netcare's right to appoint a majority of directors to the board, along with other powers vested in the company and its committees, has removed Netcare's power over these entities. Netcare no longer has the ability to exert control in order to direct the relevant activities of BMI Healthcare and therefore the business has been deconsolidated with effect from 28 March 2018.

Following the changes described above, Netcare does not have significant influence over the affairs of BMI Healthcare, as it does not have power to participate in the financial and operating policy decisions of the business. Accordingly, BMI Healthcare is not an associate or joint venture, and it does not meet the qualifying criteria for Netcare to equity account its investment in the business.

# 1. Accounting framework and critical judgements continued

## 1.4 Critical accounting judgements, estimates and assumptions continued

### Deconsolidation of BMI Healthcare continued

The investment in BMI Healthcare is therefore accounted for as an available-for-sale financial instrument and is carried at Rnil on the statement of financial position. Netcare does not have any funding obligations or commitments towards BMI Healthcare.

With regard to the contractual economic interest held in the debt of BMI Healthcare, the economic and contractual rights with regard to this debt interest remain intact (including BMI Healthcare's obligation to repay the debt). However, in line with accounting standards, in its interim reporting at 31 March 2018, based on factors in existence at this time, Netcare elected to impair its contractual economic interest in the debt of BMI Healthcare in full. There have been no changes in the relevant circumstances during the remainder of the 2018 financial year and accordingly this contractual economic interest is carried at Rnil on the statement of financial position.

### GHG PropCo 2

GHG PropCo 2 owns six hospital properties which are leased to BMI Healthcare. Netcare holds a 56.9% interest in these entities, which are classified as investments in associate entities. Netcare is unable to govern the financial and operating policies of GHG PropCo 2, taking into consideration the rights of the lender and the statutory, contractual and legal rights of GHG PropCo 2's other shareholders. However, Netcare has representation on the GHG PropCo 2 board of directors, and is therefore considered to have significant influence over these entities.

Following Netcare's decision to exit from the UK, effective 28 March 2018, Netcare's 56.9% interest in GHG PropCo 2 has been classified as an asset held for sale and its results are no longer equity accounted. Refer to note 10 for further information around the deconsolidation of BMI Healthcare. Refer to note 11 for disclosure around discontinued operations and assets classified as held for sale.

#### *Impairment of assets*

Goodwill is considered for impairment at least annually. Property, plant and equipment, and other intangible assets are considered for impairment if there is any reason to believe that impairment may be necessary.

#### *Inclusion of Akeso Clinics Group (Akeso) in the Hospital and emergency services segment*

Akeso is included in the Hospital and emergency services segment in note 2.11. The goodwill arising on acquisition has been tested under this operating segment's cash-generating unit (CGU). The acquisition of Akeso was motivated by Netcare's diversification strategy and to make possible expansion in the Netcare facilities which would otherwise have been highly unlikely. Netcare therefore views the addition of the 12 Akeso clinics as an expansion of the core hospital division and the number of hospitals ascribed to our footprint has been increased accordingly. It is therefore considered appropriate to add the Akeso goodwill to that carried by the Hospital and emergency services segment and to include the Akeso cash flows with the Hospital and emergency services segment cash flows in the determination of value in use to test for goodwill impairment.

### Key sources of estimation uncertainty

#### *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 contracts and leases under consideration. The resulting impairment calculations are highly sensitive to changes in the timing or quantum of future cash flows, the discount rates used and the assumed long-term growth rate. In particular, 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

As part of an increased focus on capital discipline, Netcare has embarked on a share repurchase program. In the period after year-end to the date of this report, and in terms of the authority granted by shareholders at the AGM held on 2 February 2018, Netcare via its wholly-owned subsidiary Netcare Hospital Group Proprietary Limited, Netcare has repurchased 18 656 190 shares on the market at a weighted average price of R23.7834 per share. The repurchase follows from engagement with shareholders and a review of the Group's capital structure, capital requirements and cash flow generation.

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 2018 or the results of its operations or cash flows for the year then ended.

# 2. Investments and returns

## 2.1 Revenue

Revenue is measured at the fair value of the consideration received or receivable for the services rendered and sale of pharmaceutical consumables in the ordinary course of the Group's activities, and is presented net of indirect taxes and trade discounts.

Revenue comprises the amount charged for institutional and retail pharmacy sales, theatre and ward fees, equipment rental and other revenue.

Revenue from accommodation, theatre and ward fees charged to patients is recognised when the service giving rise to this revenue is rendered.

Revenue from pharmaceuticals charged to patients is recognised when they are dispensed.

| Rm | 2018 | 2017[1] |
|---|---|---|
| **South Africa** | 20 717 | 19 114 |
| Hospital and emergency services | 20 000 | 18 403 |
| Primary Care | 717 | 711 |
| | 20 717 | 19 114 |

1. *Restated for discontinued operations.*

## 2.2 Operating profit

| Rm | Notes | 2018 | 2017[1] |
|---|---|---|---|
| **Operating profit after charging:** | | | |
| Amortisation of intangible assets | | 13 | 7 |
| Auditor's remuneration | | 18 | 11 |
| Audit fees – current year | | 15 | 9 |
| Audit fees – prior year | | 3 | 2 |
| Depreciation of property, plant and equipment | | 710 | 637 |
| Directors' emoluments | 4.1 | 28 | 31 |
| Executive directors paid by subsidiaries | | | |
| Basic remuneration, bonuses, retirement and medical benefits | | 18 | 21 |
| Non-executive directors | | | |
| Consulting fees and fees for services as directors | | 10 | 10 |
| Employee costs (excluding directors' emoluments) | | 7 330 | 7 110 |
| Salaries and wages | | 6 921 | 6 711 |
| Group retirement benefit contributions | | 354 | 353 |
| Share-based payment expenses | | 54 | 46 |
| Impairment of goodwill[2] | 2.10 | 1 | – |
| Impairment of investment | | – | 8 |
| Impairment of property, plant and equipment[3] | 2.8 | 8 | 1 |
| Loss on disposal of investments | | – | 1 |
| Loss on disposal of property, plant and equipment | | 7 | 8 |
| Operating lease charges | | 617 | 560 |
| Land and buildings and other | | 585 | 523 |
| Motor vehicles | | 32 | 37 |
| Technical, managerial and secretarial services | | 5 | 35 |
| **After crediting:** | | | |
| Fair value gain on investments on acquisition of control | | 3 | – |
| Profit on disposal of property, plant and equipment | | 12 | 205 |
| Profit on disposal of investments | | 4 | 8 |

1. *Restated for discontinued operations.*
2. *Headline earnings includes an amount of R6 million for impairment of goodwill. That figure is inclusive of a R5 million impairment on goodwill by a joint venture that is equity accounted and is reported therein as it is a headline earnings adjustment.*
3. *Headline earnings includes an amount of R11 million for impairment of property, plant and equipment. That figure is inclusive of a R3m impairment on property held by a joint venture that is equity accounted and is reported therein as it is a headline earnings adjustment.*

### Short-term employee benefits

Remuneration to employees is recognised in profit as services are rendered, employees become entitled to the remuneration and the Group has an unavoidable obligation to make payment.

# 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 Netcare Share Incentive Scheme, 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.

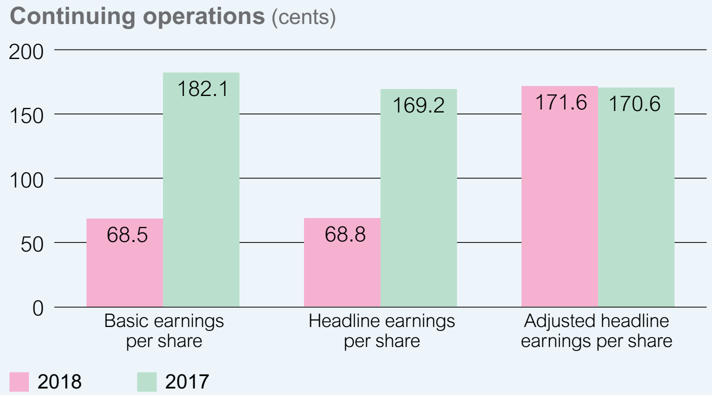
No adjustments were made to reported earnings attributable to shareholders in the computation of diluted earnings per share.

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 calculated using the weighted average number of ordinary shares in issue during the year and is based on the headline earnings attributable to ordinary shareholders, after excluding those items of a non-recurring nature.

| Cents | 2018 | 2017[1] |
|---|---|---|
| **Basic earnings/(loss) per share** | **357.7** | (40.9) |
| Continuing operations | 68.5 | 182.1 |
| Discontinued operations | 289.2 | (223.0) |
| **Diluted earnings/(loss) per share** | **353.6** | (40.9) |
| Continuing operations | 67.7 | 179.7 |
| Discontinued operations | 285.9 | (220.6) |
| **Headline earnings/(loss) per share** | **49.3** | 109.9 |
| Continuing operations | 68.8 | 169.2 |
| Discontinued operations | (19.5) | (59.3) |
| **Diluted headline earnings/(loss) per share** | **48.8** | 108.6 |
| Continuing operations | 68.0 | 167.3 |
| Discontinued operations | (19.2) | (58.7) |
| **Adjusted headline earnings/(loss) per share** | **152.1** | 146.2 |
| Continuing operations | 171.6 | 170.6 |
| Discontinued operations | (19.5) | (24.4) |

*1. Restated for discontinued operations*



# 2. Investments and returns continued

## 2.3 Earnings per share continued

| Million | 2018 | 2017[1] |
|---|---|---|
| **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 | 1 362 | 1 359 |
| Potential dilutive effect of employee share options and HPFL B-BBEE Trust units | 16 | 15 |
| **Diluted weighted average number of shares** | 1 378 | 1 374 |
| **Potential dilutive effect of employee share options and HPFL B-BBEE Trust units** | | |
| The dilutive effect is arrived at as follows: | | |
| Forfeitable Share Plan | 6 | 5 |
| HPFL B-BBEE Trust units | 10 | 10 |
| | 16 | 15 |

| Rm | 2018 | 2017[1] |
|---|---|---|
| **Basic earnings per share** | | |
| The profit/(loss) used in the calculation of basic earnings per share is as follows: | | |
| Profit/(loss) for the year | 4 744 | (2 729) |
| *Adjusted for:* | | |
| Dividends paid on shares attributable to the Forfeitable Share Plan | (13) | (7) |
| Preference shareholders | (55) | (56) |
| Non-controlling interest | 196 | 2 236 |
| **Profit/(loss) attributable to owners of the parent** | 4 872 | (556) |
| *Adjusted for discontinued operations:* | | |
| (Profit)/loss from discontinued operations | (3 939) | 3 031 |
| **Profit for the purposes of basic and diluted earnings per share from continuing operations** | 933 | 2 475 |

1. *Restated for discontinued operations.*

# 2. Investments and returns continued

## 2.3 Earnings per share continued

| Rm | Gross pre tax and non-controlling interests 2018 | Net 2018 | Gross pre tax and non-controlling interests 2017[1] | Net 2017[1] |
|---|---|---|---|---|
| **Headline earnings** | | | | |
| Headline earnings are determined as follows: | | | | |
| **Earnings/(loss) used in the calculation of basic earnings per share** | 5 428 | 4 872 | (1 796) | (556) |
| *Adjusted for:* | | | | |
| Fair value gains on investments on acquisition of control | (5) | (5) | (16) | (16) |
| Impairment of goodwill | 6 | 6 | 2 354 | 1 346 |
| Recognition of impairment of investments | – | – | 8 | 8 |
| Recognition of impairment of property, plant and equipment | 11 | 10 | 1 543 | 879 |
| Profit on loss of control | (4 205) | (4 205) | – | – |
| Loss on disposal of property, plant and equipment | 9 | 6 | 12 | 8 |
| Profit on disposal of property, plant and equipment and intangibles | (12) | (9) | (205) | (170) |
| Loss on disposal of investments | – | – | 1 | 1 |
| Profit on disposal of investments | (4) | (3) | (8) | (7) |
| **Headline earnings** | 1 228 | 672 | 1 893 | 1 493 |
| **Adjustments for discontinued operations:** | | | | |
| Loss from discontinued operations | 467 | 266 | 5 276 | 3 031 |
| Impairment of goodwill | – | – | (2 354) | (1 346) |
| Recognition of impairment of property, plant and equipment | – | – | (1 540) | (877) |
| Net profit on disposal of property, plant and equipment | (2) | (1) | (4) | (2) |
| **Headline earnings from continuing operations** | 1 693 | 937 | 3 271 | 2 299 |

1. *Restated for discontinued operations.*

# 2. Investments and returns continued

## 2.3 Earnings per share continued

| Rm | Gross pre tax and non-controlling interests 2018 | Net 2018 | Gross pre tax and non-controlling interests 2017[1] | Net 2017[1] |
|---|---|---|---|---|
| **Adjusted headline earnings** | | | | |
| Adjusted headline earnings are determined as follows: | | | | |
| Headline earnings | 1 228 | 672 | 1 893 | 1 493 |
| *Adjusted for:* | | | | |
| Settlement loss on FEC option | 2 | 2 | – | – |
| Amortisation of the cash flow hedge accounting reserve | 3 | 3 | 2 | 1 |
| Fair value losses/(gains) on derivative financial instruments | 85 | 49 | (937) | (533) |
| Ineffectiveness gains on cash flow hedges | (4) | (3) | (5) | (4) |
| Competition Commission costs | 36 | 26 | 14 | 10 |
| Akeso related transaction costs | 18 | 13 | – | – |
| (Reversal)/recognition of onerous lease provision | (168) | (68) | 1 668 | 949 |
| Recognition of impairment of contractual economic interest in debt of BMI Healthcare | 1 544 | 1 322 | – | – |
| Recognition of loan impairment | 6 | 6 | 7 | 7 |
| Restructure costs incurred by BMI Healthcare | 212 | 101 | 124 | 58 |
| Restructure costs incurred by Netcare in respect of BMI Healthcare | 45 | 32 | 8 | 6 |
| **Adjusted headline earnings** | 3 007 | 2 154 | 2 774 | 1 987 |
| **Adjustments for discontinued operations:** | | | | |
| Loss from discontinued operations | 471 | 266 | 5 276 | 3 031 |
| Headline earnings adjustments relating to discontinued operations | (2) | (1) | (3 898) | (2 225) |
| Fair value losses/(gains) on derivative financial instruments | (85) | (49) | 937 | 533 |
| Reversal/(recognition) of onerous lease provisions | 168 | 68 | (1 668) | (949) |
| Restructure costs incurred by BMI Healthcare | (212) | (101) | (124) | (58) |
| **Adjusted headline earnings from continuing operations** | 3 347 | 2 337 | 3 297 | 2 319 |

1. *Restated for discontinued operations.*

# 2. Investments and returns continued

## 2.4 Taxation

| Rm | 2018 | 2017[1] |
|---|---|---|
| **South African normal taxation** | | |
| Current year | **(862)** | (843) |
| Prior years | **2** | 27 |
| Capital gains tax | **(3)** | (32) |
| | **(863)** | (848) |
| **Foreign taxation** | | |
| Current year | **(16)** | (14) |
| **Income tax** | **(879)** | (862) |
| **South African deferred taxation** | | |
| Current year | **197** | (80) |
| Prior years | **–** | (1) |
| | **197** | (81) |
| **Foreign deferred taxation** | | |
| Current year | **–** | 1 |
| | **–** | 1 |
| **Deferred taxation** | **197** | (80) |
| **Total taxation per statement of profit or loss** | **(682)** | (942) |
| **Reconciliation of effective taxation rate (%)** | | |
| South African normal tax rate | **28.0** | 28.0 |
| **Adjusted for:** | | |
| Assessed losses created | **1.1** | 0.4 |
| Capital gains tax[2] | **0.2** | 0.9 |
| Different foreign tax rate | **(0.1)** | – |
| Net non-taxable income and allowances | **(0.8)** | (1.3) |
| Contractual economic interest in the debt of BMI Healthcare | **13.1** | – |
| Prior years' taxation | **(0.1)** | (0.8) |
| Other | **(1.0)** | (0.1) |
| **Effective taxation rate** | **40.4** | 27.1 |

*1. Restated for discontinued operations.*
*2. Includes capital gains tax impact on disposal of Christiaan Barnard Memorial Hospital's land and buildings in the prior year.*

| Rm | 2018 | 2017 |
|---|---|---|
| **Estimated taxation losses** | | |
| Unused tax losses available for set-off against future taxable income | | |
| South Africa | **458** | 386 |
| United Kingdom | **–** | 7 513 |
| | **458** | 7 899 |
| Utilised against the deferred tax balance | | |
| South Africa | **(255)** | (280) |
| United Kingdom | **–** | (3 079) |
| | **(255)** | (3 359) |
| Not recognised as a deferred tax asset | | |
| South Africa | **203** | 106 |
| United Kingdom | **–** | 4 434 |
| | **203** | 4 540 |

*1. Restated for discontinued operations.*

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused credits can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation rates, taxation rates and competitive forces. The deferred tax asset is reviewed at the end of the reporting period and adjusted taking into consideration the existing and forecast future results of the business.

# 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 relate to taxes levied by the same revenue authority and legal entity.

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| **Reconciliation of movement** | | | |
| Balance at beginning of year | | 43 | 111 |
| Current year charge | | | |
| Per the statement of profit or loss – continuing operations | 2.4 | 197 | (80) |
| Per the statement of profit or loss – discontinued operations | | 1 | 2 |
| Amounts recognised in other comprehensive income – continuing operations | | (12) | 23 |
| Amounts recognised in other comprehensive income – discontinued operations | | (1) | (2) |
| Amounts recognised directly in equity | | 21 | (10) |
| Acquisition of businesses | 9.4 | (12) | – |
| Translation of foreign entities | | – | (1) |
| **Balance at end of year** | | 237 | 43 |
| Comprising: | | | |
| Deferred tax assets | | 447 | 1 092 |
| Deferred tax liabilities | | (210) | (1 049) |
| | | 237 | 43 |

# 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) |
|---|---|---|---|
| **2018** | | | |
| Property, plant and equipment | **(79)** | **(30)** | **–** |
| Cash-settled share-based payments of subsidiaries | **(2)** | **–** | **–** |
| Prepayments | **(10)** | **(5)** | **–** |
| Allowance for doubtful debts | **42** | **7** | **–** |
| Post-retirement 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 | **(183)** | **195** | **(1)** |
| | **43** | **197** | **1** |

| Rm | Balance at beginning of year | Recognised in profit or loss (continuing operations) | Recognised in profit or loss (discontinued operations) |
|---|---|---|---|
| **2017** | | | |
| Property, plant and equipment | (337) | (34) | 375 |
| Cash-settled share-based payments of subsidiaries | 1 | – | – |
| Prepayments | (9) | (1) | – |
| Allowance for doubtful debts | 33 | 9 | – |
| Post-retirement benefit obligations | 123 | 8 | – |
| Payroll accruals and provisions | 171 | (7) | – |
| Deferred lease liabilities/derivatives | (725) | 1 | 114 |
| Calculated tax losses | 960 | (5) | (469) |
| Financial instruments | 5 | (1) | – |
| Other temporary differences | (111) | (50) | (18) |
| | 111 | (80) | 2 |

| 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)** |
| **–** | **–** | **–** | **–** | **–** | **–** | **(2)** |
| **–** | **–** | **–** | **(1)** | **–** | **–** | **(16)** |
| **–** | **–** | **–** | **1** | **–** | **–** | **50** |
| **–** | **(1)** | **–** | **–** | **(1)** | **–** | **150** |
| **–** | **–** | **–** | **1** | **–** | **–** | **189** |
| **–** | **–** | **–** | **–** | **562** | **70** | **15** |
| **–** | **–** | **–** | **2** | **(441)** | **(57)** | **72** |
| **(12)** | **–** | **–** | **–** | **–** | **–** | **4** |
| **–** | **–** | **21** | **(5)** | **–** | **(2)** | **25** |
| **(12)** | **(1)** | **21** | **(12)** | **–** | **–** | **237** |

| 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 |
|---|---|---|---|---|---|---|
| – | – | – | – | – | (83) | (79) |
| – | – | (3) | – | – | – | (2) |
| – | – | – | – | – | – | (10) |
| – | – | – | – | – | – | 42 |
| 11 | (2) | – | – | – | 1 | 141 |
| – | – | – | – | – | – | 164 |
| – | – | – | – | – | (39) | (649) |
| – | – | – | – | – | 117 | 603 |
| 12 | – | – | – | – | – | 16 |
| – | – | (7) | – | – | 3 | (183) |
| 23 | (2) | (10) | – | – | (1) | 43 |

# 2. Investments and returns continued

## 2.6 Cash generated from operations

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| Operating profit from continuing operations[1] | | 1 942 | 3 534 |
| Operating loss from discontinued operations[1] | 10.1 | (186) | (5 976) |
| Adjustments for: | | | |
| Amortisation of intangible assets | 2.9 | 46 | 83 |
| Depreciation of property, plant and equipment | 2.8 | 916 | 1 216 |
| Profit on disposal of property, plant and equipment and intangible assets | 2.2 | (12) | (205) |
| Loss on disposal of property, plant and equipment and intangible assets | 2.2 | 9 | 12 |
| Impairment of property, plant and equipment | 2.8 | 8 | 1 541 |
| Impairment of goodwill | 2.2 | 1 | 2 354 |
| Impairment of investment | 2.2 | – | 8 |
| Impairment of receivables | | 60 | 111 |
| Recognition of loan impairments | | 6 | 7 |
| Recognition of impairment of investments and loans | | 1 544 | – |
| Profit on disposal of investments (net) | 2.2 | (4) | (7) |
| Increase in deferred lease liabilities | | 3 | 21 |
| Share-based payment expense | 4.3 | 54 | 46 |
| Provisions raised | | 161 | 1 650 |
| Fair value gains on investments on acquisition of control | 2.2 | (3) | (16) |
| Other non-cash flow items | | 25 | 16 |
| **Cash generated from operations before working capital changes** | | 4 570 | 4 395 |
| (Increase)/decrease in trade and other receivables | | (514) | 359 |
| (Increase)/decrease in inventories | | (10) | 44 |
| Increase/(decrease) in trade and other payables | | 181 | (529) |
| | | 4 227 | 4 269 |

1. *Restated for discontinued operations.*

## 2.7 Taxation paid

| Rm | 2018 | 2017 |
|---|---|---|
| Amounts payable at beginning of year (net) | 50 | 65 |
| Charge per the statement of profit or loss (excluding deferred taxation) | 882 | 855 |
| Other taxation movements through equity | 3 | 2 |
| Acquisition of subsidiaries | 8 | – |
| Translation of foreign entities | – | 2 |
| Amounts payable at end of year (net) | (27) | (50) |
| | 916 | 874 |

# 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. During the prior 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 2018 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 |
| Aircraft | Useful life based on: |
| – Engine components | – the number of hours used |
| – Auxiliary power unit and undercarriage gear | – the number of cycles used |
| 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.

# 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 30 September 2016 | 9 392 | 1 063 | 326 |
| Additions | 398 | 849 | 107 |
| Disposals | (129) | (4) | (3) |
| Depreciation | (209) | – | (119) |
| Recognition of impairment | (1 160) | (29) | (22) |
| Acquisition of businesses | – | – | – |
| Transfer (to)/from other group companies | – | (14) | – |
| Transfers between categories | 1 191 | (1 304) | 63 |
| Transfers to intangible assets | – | (73) | – |
| Transfer to non-current assets held for sale[1] | – | – | (1) |
| Translation of foreign entities | 16 | 4 | 2 |
| Carrying value at 30 September 2017 | 9 499 | 492 | 353 |
| Additions | **119** | **748** | **66** |
| Disposals | **(9)** | **(7)** | **(2)** |
| Depreciation | **(163)** | **–** | **(113)** |
| Recognition of impairment | **(5)** | **–** | **–** |
| Acquisition of business | **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** |

1. *Transfer of assets of Netcare Rand Hospital, Netcare Bell Street Hospital and aircraft (2017: Mozambique emergency services business).*

| Furniture and equipment | Medical equipment | Motor vehicles and aircraft | Plant and machinery | Total |
|---|---|---|---|---|
| 202 | 3 403 | 24 | 11 | 14 421 |
| 76 | 974 | 12 | 3 | 2 419 |
| (2) | (4) | – | – | (142) |
| (84) | (799) | (4) | (3) | (1 218) |
| (29) | (301) | – | – | (1 541) |
| – | 5 | – | – | 5 |
| – | 14 | – | – | – |
| 1 | 49 | – | – | – |
| – | – | – | – | (73) |
| (3) | – | (1) | – | (5) |
| (2) | 20 | 1 | 1 | 42 |
| 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** |

# 2. Investments and returns continued

## 2.8 Property, plant and equipment continued

| Rm | Cost | Accumulated depreciation and impairments | Carrying value |
|---|---|---|---|
| **Net carrying value** | | | |
| **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 and aircraft | 35 | (7) | 28 |
| Plant and machinery | 29 | (14) | 15 |
| **Net carrying value** | 16 628 | (4 530) | 12 098 |
| **2017** | | | |
| Freehold and leasehold land and buildings | 13 103 | (3 604) | 9 499 |
| Assets under construction | 521 | (29) | 492 |
| Computer equipment | 1 156 | (803) | 353 |
| Furniture and equipment | 619 | (460) | 159 |
| Medical equipment | 8 924 | (5 563) | 3 361 |
| Motor vehicles and aircraft | 44 | (12) | 32 |
| Plant and machinery | 28 | (16) | 12 |
| **Net carrying value** | 24 395 | (10 487) | 13 908 |

### 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 R9.0 billion as at 30 September 2018. 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 8.5% and 10.75%.
- The valuation exercise has assumed "fair value in continuation of existing use".
- 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.

# 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 2018 to 30 September 2019, using key assumptions concerning caseload volume, payor and case mix, tariff changes, general inflation and staffing cost movements.

Capitalisation rates range between 8.5% – 11.0% per annum.

Based on the calculations performed, the recoverable amount for land held and a non-hospital property investment were lower than the carrying value, and an impairment loss of R8 million (2017: R1 million) was recognised in administrative and other expenses.

### Borrowing costs

Borrowing costs of R15 million (2017: R40 million) were capitalised during the year and are included in the "Additions" disclosed.

### Security

Property, plant and equipment with a carrying value of R34 million (2017: R337 million) has been encumbered as security for debt. Refer to note 3.1.1 for more details.

# 2. Investments and returns continued

## 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 30 September 2018 financial year were as follows:

| | |
|---|---|
| Management contracts | Over contract period |
| Brand | Indefinite useful life |
| Clinical intellectual property | 5 years |
| 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.

Development expenditure comprises the capitalisation of bid costs incurred in mobilising management contracts which have gained preferred bidder status. All costs incurred in the preparation of bids are expensed in the statement of profit or loss up to the point where the contract is virtually certain and the contract has then gained preferred bidder status. Bid costs incurred after this point are capitalised to the intangible asset.

# 2. Investments and returns continued

## 2.9 Intangible assets continued

| Rm | Management contracts and other | Software | Development expenditure | Total |
|---|---|---|---|---|
| **2018** | | | | |
| **Net carrying value** | | | | |
| Cost | 19 | 183 | 56 | 258 |
| Accumulated amortisation and impairment losses | – | (104) | (19) | (123) |
| | 19 | 79 | 37 | 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 | (1) | (33) | (12) | (46) |
| Transfers from property, plant and equipment | – | 6 | – | 6 |
| Translation of foreign entities | (4) | (12) | – | (16) |
| UK deconsolidation | (48) | (114) | – | (162) |
| **Carrying value at 30 September 2018** | 30 | 80 | 25 | 135 |
| **2017** | | | | |
| **Net carrying value** | | | | |
| Cost | 119 | 626 | 38 | 783 |
| Accumulated amortisation and impairment losses | (47) | (395) | (9) | (451) |
| | 72 | 231 | 29 | 332 |
| **Movement in the carrying value** | | | | |
| Carrying value at 1 October 2016 | 70 | 215 | 29 | 314 |
| Additions | 8 | 19 | 1 | 28 |
| Disposals | (2) | – | (1) | (3) |
| Amortisation | (3) | (79) | (1) | (83) |
| Transfers from property, plant and equipment | – | 73 | – | 73 |
| Translation of foreign entities | (1) | 3 | 1 | 3 |
| **Carrying value at 30 September 2017** | 72 | 231 | 29 | 332 |

The remaining amortisation periods for intangible assets at 30 September 2018 are:

| | |
|---|---|
| Management contracts and other | 2 – 18 years |
| Software | 2 – 20 years |
| Development expenditure | 1 – 8 years |

No borrowing costs were capitalised during the 2018 and 2017 years.

# 2. Investments and returns continued

## 2.10 Goodwill

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| **Net carrying value** | | | |
| Cost | | 1 647 | 4 157 |
| Accumulated impairment losses | | (33) | (2 452) |
| | | 1 614 | 1 705 |
| The movement in the carrying value of goodwill is as follows: | | | |
| Balance at beginning of year | | 1 705 | 3 942 |
| Acquisition of business | 9.4 | 936 | 133 |
| Impairment | | (1) | (2 354) |
| Change from joint venture to subsidiary | | 2 | – |
| Translation of foreign entities | | (88) | (16) |
| UK deconsolidation | | (940) | |
| **Balance at end of year** | | 1 614 | 1 705 |

### 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 | 2018 | 2017 |
|---|---|---|
| **South Africa** | | |
| Hospital operations | 1 429 | 492 |
| Primary Care operations | 185 | 185 |
| **United Kingdom** | | |
| BMI Healthcare | – | 1 028 |
| | 1 614 | 1 705 |

### SA Hospital and Primary Care operations

The recoverable amounts of the SA Hospital and Primary Care 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 2018 to 30 September 2023. 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 SA Hospital operations of 14.0% (2017: 14.5%) and for Primary Care operations of 12.2% (2017: 12.9%) has been calculated.
- The pre-tax WACC has been informed by the post-tax WACC of 11.4% (2017: 11.5%). 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% (2017: 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.

# 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 segments are reviewed by the Executive Committee to the operating profit level.

Net interest expenses, other net financial losses, attributable earnings of associates and joint ventures and taxation are only allocated to the segment as a whole.

Similarly, total assets, total liabilities, additions to property, plant and equipment and debt net of cash are reviewed for the total segment.

# 2. Investments and returns continued

## 2.11 Segment report continued

### 2.11.2 Segment report – 2018

| Rm | South Africa: Hospital and emergency services[1] | South Africa: Primary Care | South Africa: Total | United Kingdom: BMI Healthcare | Group |
|---|---|---|---|---|---|
| **Statement of profit or loss** | | | | | |
| **Revenue** | 20 000 | 717 | 20 717 | * | 20 717 |
| **EBITDA[2] – before items below** | 4 100 | 109 | 4 209 | * | 4 209 |
| Depreciation and amortisation | (673) | (50) | (723) | * | (723) |
| Depreciation of property, plant and equipment | (661) | (49) | (710) | * | (710) |
| Amortisation of intangible assets | (12) | (1) | (13) | * | (13) |
| **Operating profit – before items below** | 3 427 | 59 | 3 486 | * | 3 486 |
| Impairment of contractual economic interest in debt of BMI Healthcare | (1 544) | – | (1 544) | * | (1 544) |
| **Operating profit** | 1 883 | 59 | 1 942 | * | 1 942 |
| Investment income | | | 271 | * | 271 |
| Financial expenses | | | (597) | * | (597) |
| Other financial losses – net | | | (1) | * | (1) |
| Attributable earnings of joint ventures and associates | | | 73 | * | 73 |
| **Profit before taxation** | | | 1 688 | * | 1 688 |
| Taxation | | | (682) | * | (682) |
| **Profit for the year from continuing operations** | | | 1 006 | * | 1 006 |
| Loss from discontinued operations | | | (5) | (462) | (467) |
| (Loss)/profit on loss of control | | | (5) | 4 210 | 4 205 |
| **Profit for the year** | | | 996 | 3 748 | 4 744 |
| **Segment assets and liabilities** | | | | | |
| Total assets | | | 20 322 | 226 | 20 548 |
| Total liabilities | | | (10 133) | – | (10 133) |
| Debt net of cash | | | 4 805 | – | 4 805 |
| **Other segment information** | | | | | |
| Additions to property, plant and equipment: | | | | | |
| Continuing operations | 1 140 | 93 | 1 233 | – | 1 233 |
| Discontinued operations | – | – | – | 279 | 279 |
| EBITDA margin % | 20.5 | 15.2 | 20.3 | * | 20.3 |
| Operating margin % | 17.1 | 8.2 | 16.8 | * | 16.8 |
| Capex additions % of revenue | 5.7 | 13.0 | 6.0 | * | 6.0 |

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.*
* *Results now included under discontinued operations.*

# 2. Investments and returns continued

## 2.11 Segment report continued

### 2.11.2 Segment report – 2017

| Rm | South Africa | | | United Kingdom | |
|---|---|---|---|---|---|
| | Hospital and emergency services[1] | Primary Care | Total | BMI Healthcare[2] | Group |
| **Statement of profit or loss** | | | | | |
| **Revenue** | 18 403 | 711 | 19 114 | * | 19 114 |
| **EBITDA[3] – before items below** | 3 867 | 108 | 3 975 | * | 3 975 |
| Depreciation and amortisation | (599) | (45) | (644) | * | (644) |
| Depreciation of property, plant and equipment | (592) | (45) | (637) | * | (637) |
| Amortisation of intangible assets | (7) | – | (7) | * | (7) |
| Operating profit – before items below | 3 268 | 63 | 3 331 | * | 3 331 |
| Profit on sale of old Netcare CBMH[4] land and buildings | 203 | – | 203 | * | 203 |
| **Operating profit** | 3 471 | 63 | 3 534 | * | 3 534 |
| Investment income | | | 343 | * | 343 |
| Financial expenses | | | (489) | * | (489) |
| Other financial gains – net | | | 3 | * | 3 |
| Attributable earnings of joint ventures and associates | | | 89 | * | 89 |
| **Profit before taxation** | | | 3 480 | * | 3 480 |
| Taxation | | | (942) | * | (942) |
| **Profit for the year from continuing operations** | | | 2 538 | * | 2 538 |
| Loss from discontinued operations | | | (46) | (5 221) | (5 267) |
| **Profit/(loss) for the year** | | | 2 492 | (5 221) | (2 729) |
| **Segment assets and liabilities** | | | | | |
| Total assets | | | 19 864 | 8 248 | 28 112 |
| Total liabilities | | | (9 215) | (10 035) | (19 250) |
| Debt net of cash | | | (3 908) | (2 477) | (6 385) |
| **Other segment information** | | | | | |
| Additions to property, plant and equipment: | | | | | |
| Continuing operations | 1 419 | 120 | 1 539 | – | 1 539 |
| Discontinued operations | 1 | – | 1 | 879 | 880 |
| EBITDA margin % | 21.0 | 15.2 | 20.8 | * | 20.8 |
| Operating margin % | 17.8 | 8.9 | 17.4 | * | 17.4 |
| Capex additions % of revenue | 7.7 | 16.9 | 8.1 | * | 8.1 |

*1. EBITDA and operating profit are inclusive of an R8 million impairment of a joint venture.*
*2. Restated for discontinued operations.*
*3. Earnings before interest, tax, depreciation and amortisation.*
*4. Christiaan Barnard Memorial Hospital.*
** Results now included under discontinued operations.*

# 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 6.4.

### 3.1.1 Long-term debt

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| Total debt | | 6 170 | 8 910 |
| Short-term portion | 3.1.2 | (1 056) | (1 678) |
| **Non-current portion** | 6.4.3 | 5 114 | 7 232 |
| Comprising: | | | |
| **Debt in South African Rand** | | | |
| Secured liabilities | | | |
| Finance leases | | 29 | 25 |
| Unsecured liabilities | | | |
| Promissory notes and commercial paper in issue | | 4 411 | 2 750 |
| Bank loans | | 1 700 | 2 700 |
| Other | | 30 | 15 |
| | | 6 170 | 5 490 |
| **Debt in foreign currency** | | | |
| Secured liabilities | | | |
| Finance leases | | – | 326 |
| Bank loans | | – | 3 109 |
| Arrangement fees | | – | (89) |
| Unsecured liabilities | | | |
| Accrued interest | | – | 74 |
| | | – | 3 420 |
| | | 6 170 | 8 910 |

# 3. Funding continued

## 3.1 Debt continued

### 3.1.1 Long-term debt continued

| Rm<br>Terms of repayment | Security | Effective interest rate at 30 September 2018 | 2018 | 2017 |
|---|---|---|---|---|
| **Debt in South African Rand** | | | | |
| **Finance leases**<br>Repayable in monthly instalments ending in 2023 | Secured by medical equipment and motor vehicles with a book value of R34 million (2017: R30 million) | 7.8% – 8.25% | 29 | 25 |
| **Promissory notes and commercial paper in issue**<br>Repayable on maturity on 16 November 2018, 27 February 2019, 26 July 2020, 27 July 2020, 15 February 2021, 29 March 2021, 24 March 2022 and 15 February 2023 | | 8.0% – 9.9% | 4 411 | 2 750 |
| **Bank and Other**<br>Repayable on maturity on 23 June 2020, 20 November 2021 and 24 August 2022 | | 8.0% – 8.8% | 1 730 | 2 715 |
| | | | 6 170 | 5 490 |
| *Debt in foreign currency* | | | | |
| **BMI Healthcare**[1] | | | | |
| Finance leases | | | – | 326 |
| Bank loans | | | – | 3 109 |
| Less: Arrangement fees | | | – | (89) |
| Accrued interest | | | – | 74 |
| | | | – | 3 420 |

1. *This balance is a part of the deconsolidation of BMI Healthcare – refer to note 11 for further details.*

# 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 | 2018 | 2017 | 2018 | 2017 |
| Less than 1 year | 8 | 118 | 8 | 77 |
| Later than 1 year but not later than 5 years | 21 | 257 | 21 | 220 |
| Later than 5 years | – | 58 | – | 54 |
| | 29 | 433 | 29 | 351 |
| Less: Future finance charges | (1) | (82) | – | – |
| | 28 | 351 | 29 | 351 |

*Maturity profile*[1]

| Rm | Total | < 1 year | 1 – 2 years | 2 – 3 years | 3 – 4 years | > 4 years |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| Debt in South African Rand | 7 519 | 1 525 | 1 717 | 1 471 | 2 188 | 618 |
| **2017** | | | | | | |
| Debt in South African Rand | 6 758 | 2 005 | 868 | 1 550 | 183 | 2 152 |
| Debt in foreign currency | 5 591 | 183 | 178 | 150 | 120 | 4 960 |
| | 12 349 | 2 188 | 1 046 | 1 700 | 303 | 7 112 |

1. *In terms of IFRS 7: Financial Instruments: Disclosures, 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 | 2018 | 2017 |
|---|---|---|
| Facilities expire: | | |
| Within 1 year | 1 600 | 2 600 |
| After 2 years or more | 4 089 | 6 657 |
| | 5 689 | 9 257 |

*Debt reconciliation*

| 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. **Funding** continued

## 3.1 Debt continued

### 3.1.2 Short-term debt

| Rm | 2018 | 2017 |
|---|---|---|
| Comprising: | | |
| **South African Rand** | | |
| Short-term portion of long-term debt | 1 056 | 1 605 |
| | 1 056 | 1 605 |
| **Foreign currency** | | |
| Short-term portion of long-term debt | – | 74 |
| Accrued interest | – | 20 |
| Less: | | |
| Arrangement fees | – | (21) |
| | – | 73 |
| | 1 056 | 1 678 |

## 3.2 Cash and cash equivalents and bank overdrafts

Cash and cash equivalents are categorised as loans and receivables and bank overdrafts are categorised as financial liabilities at amortised cost. Refer to note 6.4.

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| Cash on hand and balances with banks | 6.4.3 | 1 371 | 2 531 |
| Bank overdrafts | 6.4.3 | (6) | (6) |
| | | 1 365 | 2 525 |
| **Cash on hand and balances with banks** | | | |
| South African Rand | | 1 371 | 1 588 |
| Foreign currency | | – | 943 |
| | | 1 371 | 2 531 |
| **Bank overdrafts** | | | |
| South African Rand | | (6) | (6) |
| | | 1 365 | 2 525 |

Refer to note 6.4 for discussion on credit risk and capital management.

## 3.3 Investment income

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

| Rm | 2018 | 2017[1] |
|---|---|---|
| Interest on bank accounts and other | 167 | 148 |
| Interest income on contractual economic interest in the debt of BMI Healthcare[2] | 104 | 195 |
| | 271 | 343 |

1. *Restated for discontinued operations.*
2. *2018 balance is inclusive of 6 months of interest up until the deconsolidation of BMI Healthcare (2017 balance includes 12 months of interest). Refer to note 11 for more information.*

# 3. Funding continued

## 3.4 Financial expenses

Finance expenses comprise interest expenses on borrowings and retirement 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, which are then capitalised into property, plant and equipment.

| Rm | Notes | 2018 | 2017[1] |
|---|---|---|---|
| Interest on bank loans and other | | 215 | 243 |
| Interest on promissory notes | | 333 | 207 |
| Total funding financial expense | | 548 | 450 |
| Retirement benefit plan financial expenses | 4.2.1 | 49 | 39 |
| | | 597 | 489 |

*1. Restated for discontinued operations.*

# 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 2017[1] | Acquired | Disposed | 30 Sep 2018 | Directly[4] | Indirectly[5] |
|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | |
| RH Friedland[2] | 10 303 511 | 83 933 | – | 10 387 444 | 10 387 444 | – |
| KN Gibson[3] | 324 723 | 33 592 | – | 358 315 | 358 315 | – |
| **Non-executive directors** | | | | | | |
| N Weltman | 10 000 | – | – | 10 000 | – | 10 000 |
| **Prescribed officers** | | | | | | |
| J Du Plessis | 74 949 | 26 586 | (65 800) | 35 735 | 35 735 | – |
| | 10 713 183 | 144 111 | (65 800) | 10 791 494 | 10 781 494 | 10 000 |

1. *The information in this column is consistent with 30 September 2017.*
2. *RH Friedland retained 10 387 444 (2017: 10 303 511) shares directly and beneficially.*
3. *KN Gibson retained 358 315 (2017: 324 723) shares directly and beneficially.*
4. *The direct shares held are beneficial.*
5. *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 2018:

| Number of options | Grant date | 1 Oct 2017 | Exercised | 30 Sep 2018 |
|---|---|---|---|---|
| **Executive directors** | | | | |
| KN Gibson | 2 Oct 2006 | 1 041 | – | 1 041 |
| **Prescribed officers** | | | | |
| CE Grindell | 2 Oct 2006 | 1 200 | – | 1 200 |
| | | 2 241 | – | 2 241 |

No share options were granted in 2018 (2017: Nil).

2 241 Health Partners for Life share options had vested as at 30 September 2018 (2017: 2 241).

# 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 2018:

| Number of options | Grant date | 1 Oct 2017 | Granted | Shares forfeited during the year | Exercised (sold/ retained) | 30 Sep 2018 | Market price at exercise date (cents) | Gain arising on exercise (R'000) |
|---|---|---|---|---|---|---|---|---|
| **Executive directors** | | | | | | | | |
| RH Friedland[1] | FSP 1: 13-Dec-12 | 762 816 | 889 736 | (109 265) | (154 622) | 1 388 665 | 2 659 | 1 879 268 |
| KN Gibson[2] | | 316 194 | 380 428 | (42 650) | (61 892) | 592 080 | 2 662 | 753 356 |
| **Prescribed officers** | FSP 2: 20-Jan-16 | | | | | | | |
| J Du Plessis | | 245 255 | 304 907 | (34 250) | (48 980) | 466 932 | 2 646 | 592 516 |
| C Grindell | FSP 3: 20-Jan-18 | 66 266 | 173 265 | (6 945) | (15 675) | 216 911 | 2 711 | 424 956 |
| N Phillipson | | 159 027 | 179 288 | (19 031) | (29 112) | 290 172 | 2 624 | 764 000 |
| WN van der Merwe[3] | | 82 890 | 217 848 | (8 087) | (19 206) | 273 445 | 2 625 | 504 124 |
| | | 1 632 448 | 2 145 472 | (220 228) | (329 487) | 3 228 205 | | 4 918 220 |

1. *RH Friedland exercised 154 622 (2017: 291 371) share options during the year in terms of the Forfeitable Share Plan.*
2. *KN Gibson exercised 61 892 (2017: 113 735) share options during the year in terms of the Forfeitable Share Plan.*
3. *Appointed as Managing Director – Primary Care on 1 October 2017.*

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 2018, are set out below:

**Executive directors**

| R'000 | Salary | Company contributions | Guaranteed package | Bonuses[1] | Total | Fair value of options granted[2] |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| RH Friedland | 8 628 | 758 | 9 386 | 2 750 | 12 136 | 6 753 |
| KN Gibson | 4 459 | 416 | 4 875 | 875 | 5 750 | 2 872 |
| | 13 087 | 1 174 | 14 261 | 3 625 | 17 886 | 9 625 |
| **2017** | | | | | | |
| RH Friedland | 8 212 | 723 | 8 935 | 5 500 | 14 435 | 1 462 |
| KN Gibson | 4 247 | 397 | 4 644 | 1 750 | 6 394 | 602 |
| | 12 459 | 1 120 | 13 579 | 7 250 | 20 829 | 2 064 |

| £'000 | Salary | Company contributions | Guaranteed package | Bonuses[1] | Contribution towards long-term incentive | Total |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| J Watts[3] | 568 | 59 | 627 | – | – | 627 |

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. *Resigned effective 30 September 2017.*

# 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 | 2018 | 2017 |
|---|---|---|
| MR Bower | 1 196 | 1 042 |
| T Brewer[1] | 1 810 | 1 526 |
| B Bulo | 1 100 | 890 |
| APH Jammine | 1 225 | 1 203 |
| JM Kahn[2] | 1 020 | 1 855 |
| MJ Kuscus | 1 177 | 1 043 |
| KD Moroka | 996 | 929 |
| N Weltman | 1 314 | 1 213 |
| | 9 838 | 9 701 |

1. *Appointed Chair effective 1 April 2018.*
2. *Retired as Chair and director effective 31 March 2018.*

**Prescribed officers**

| R'000 | Salary | Company contri-butions | Guaranteed package | Bonuses[1] | Total | Fair value of options granted[2] |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| J Du Plessis | 4 081 | 352 | 4 433 | 1 100 | 5 533 | 2 230 |
| C Grindell | 2 445 | 239 | 2 684 | 350 | 3 034 | 917 |
| N Phillipson | 2 526 | 232 | 2 758 | 350 | 3 108 | 1 458 |
| NW van der Merwe[3] | 3 404 | 311 | 3 715 | 500 | 4 215 | 1 138 |
| | 12 456 | 1 134 | 13 590 | 2 300 | 15 890 | 5 743 |
| **2017** | | | | | | |
| C Pailman[4] | 3 234 | 303 | 3 537 | 850 | 4 387 | 279 |
| J Du Plessis | 3 816 | 328 | 4 144 | 1 500 | 5 644 | 469 |
| C Grindell | 892 | 90 | 982 | – | 982 | 57 |
| N Phillipson | 1 694 | 155 | 1 849 | 1 000 | 2 849 | 186 |
| | 9 636 | 876 | 10 512 | 3 350 | 13 862 | 991 |

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 – Primary Care on 1 October 2017.*
4. *Resigned directorship with effect from 31 July 2017, 3 months' notice served and employment ended 30 September 2017.*

| £'000 | Salary | Company contri-butions | Guaranteed package | Bonuses[1] | Contribution towards long-term incentive | Total |
|---|---|---|---|---|---|---|
| **2018** | | | | | | |
| K Prins[2] | 235 | 8 | 243 | – | – | 243 |

1. *Incentive bonuses paid in respect of the previous financial year.*
2. *Appointed as Managing Director – BMI Healthcare effective 1 October 2017 up until date of deconsolidation. Refer to note 11.*

# 4. Our people continued

## 4.2 Post-retirement benefit obligations

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include employee turnover, mortality rates, the discount rate, the expected long-term rate of return on retirement plan assets, healthcare inflation cost and rates of increase in compensation costs. Additional details of the valuation method and assumptions used are provided below.

Remeasurement losses are recognised in other comprehensive income.

| Rm | 2018 | 2017 |
|---|---|---|
| Post-retirement healthcare benefits | 535 | 497 |

### 4.2.1 Post-retirement healthcare benefits

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

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

Details of the defined benefit obligations are set out below.

*Valuation*

| | |
|---|---|
| Last actuarial valuation performed by PwC | 30 September 2017 |
| Valuation method adopted | Project unit credit method |

| % | Note | 2018 | 2017 |
|---|---|---|---|
| **Principal actuarial assumptions** | | | |
| Net discount rate | | 2.4 | 2.4 |
| Subsidy inflation | | 7.3 | 7.3 |
| Rm | | | |
| **Actuarial obligation of amounts recognised in the statement of financial position** | | | |
| Unfunded obligation | | 535 | 497 |
| **Reconciliation of net defined benefit obligation to amounts recognised in the statement of financial position** | | | |
| Net liability at beginning of year | | 497 | 427 |
| Current service cost | | 13 | 11 |
| Net interest cost | 3.4 | 49 | 39 |
| Benefits paid | | (22) | (20) |
| Transfer of employees | | (2) | – |
| Remeasurement losses | | – | 40 |
| **Net liability at end of year** | | 535 | 497 |
| **Net post-retirement healthcare costs recognised in the statement of profit or loss** | | | |
| Service cost | | 13 | 11 |
| Interest cost | | 49 | 39 |
| **Total cost recognised in profit or loss** | | 62 | 50 |
| **Net amount recognised in other comprehensive income** | | | |
| Remeasurement on the net defined benefit liability | | – | 40 |
| Taxation | | – | (11) |
| **Net actuarial loss recognised in other comprehensive income** | | – | 29 |

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 R76 million to the post retirement subsidy in 2019 (2018: R76 million).

# 4. Our people continued

## 4.2 Post-retirement benefit obligations continued

### 4.2.1 Post-retirement healthcare benefits 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 | 34 |
| 1% decrease in inflation | (1) | (2) | (23) |
| The results of the valuation are sensitive to changes in the assumptions used. The effect of adjusting the assumptions is shown below: | | | |
| Net discount rate decrease of 1.0% | | | (7) |
| Net discount rate increase of 1.0% | | | 18 |

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.

### 4.2.2 Post-retirement pension benefits

The below disclosure relates to the UK operations. Refer to note 11 for more information relating to the deconsolidation of BMI Healthcare. Certain information relevant to the comparative balances is no longer relevant to the users of the financial statements and as such has not been included herein. This information can be found in the 2017 annual financial statements.

| Rm | 2018 | 2017 |
|---|---|---|
| **Present value of obligation** | | |
| Balance at beginning of year | 2 040 | 2 228 |
| Interest cost | – | 50 |
| Benefit payments | – | (86) |
| Remeasurement gains | – | (184) |
| Translation of foreign entities | (182) | 32 |
| Deconsolidation of BMI Healthcare | (1 858) | – |
| **Benefit obligation at end of year** | – | 2 040 |
| **Fair value of plan assets** | | |
| Balance at beginning of year | 2 840 | 3 029 |
| Interest income | – | 50 |
| Employer contributions | 4 | 14 |
| Benefit payments | – | (86) |
| Other | (3) | (6) |
| Remeasurement gains | – | (211) |
| Translation of foreign entities | (254) | 50 |
| Deconsolidation of BMI Healthcare | (2 587) | – |
| **Fair value of plan assets at end of year** | – | 2 840 |
| **Represented by investments in:** | | |
| Cash and cash equivalents | – | 6 |
| Equity instruments | – | 2 687 |
| Debt instruments | – | 147 |
| | – | 2 840 |

# 4. Our people continued

## 4.2 Post-retirement benefit obligations continued

### 4.2.2 Post-retirement pension benefits continued

| Rm | 2018 | 2017 |
|---|---|---|
| **Reconciliation to the statement of financial position** | | |
| Present value of obligation | – | (2 040) |
| Fair value of plan assets | – | 2 840 |
| Net surplus | – | 800 |
| Unrecognised portion of net defined benefit asset | – | (800) |
| Opening balance | (800) | (801) |
| Current year movement | (1) | 18 |
| Translation of foreign entities | 72 | (17) |
| Deconsolidation of BMI Healthcare | 729 | – |
| **Net post-retirement pension amounts recognised in the statement of profit or loss** | | |
| Interest income on return on plan assets | – | 50 |
| Actual expenses paid | (3) | (6) |
| Interest cost on obligation | – | (50) |
| **Total expense recognised in profit or loss** | (3) | (6) |
| **Net amount recognised in other comprehensive income** | | |
| Remeasurement on net defined benefit liability | – | 27 |
| Actuarial gains relating to the defined benefit obligation | – | (184) |
| Actuarial gains relating to plan assets | – | 211 |
| Movement in the unrecognised portion of plan assets | – | (18) |
| Future defined benefit pension scheme provision (Refer to note 7.1 for details) | – | (9) |

There were no actuarial (gains)/losses recognised during the year (2017: Rnil).

# 4. **Our people** continued

## 4.3 Share-based payments

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

The fair value of options granted in terms of the Netcare Share Incentive Scheme and 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 | 2018 | 2017 |
|---|---|---|---|
| **Equity-settled** | | | |
| **Netcare Share Incentive Scheme**[1] | 4.3.1 | – | – |
| In the past the Group granted share options to certain employees under the Netcare Share Incentive Scheme. Since 2017 no further awards have been made under this scheme. The fair value of the employee services received in exchange for the grant of options is recognised as an expense with a corresponding increase in equity. The total amount to be expensed over the vesting period is determined with reference to the fair value of the options granted on 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 4.3.1. | | | |
| **Netcare Limited Forfeitable Share Plan** | 4.3.2 | 53 | 44 |
| 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 4.3.2. | | | |
| **Health Partners for Life (B-BBEE transaction)** | 4.3.3 | 1 | 2 |
| 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 4.3.3. | | | |
| | | 54 | 46 |

*1. No further awards are being made under this scheme.*

# 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 | 2018 | 2017 |
|---|---|---|
| Shares allotted | 209 628 092 | 208 333 536 |
| Share options granted | 11 004 262 | 5 263 174 |
| Unallocated share options | 2 178 923 | 9 214 567 |
| | 222 811 277 | 222 811 277 |

### 4.3.1 Netcare Share Incentive Scheme

The Netcare Share Incentive Scheme was adopted on 7 November 1996. Amendments to the scheme were made on 26 September 2005. As at 30 September 2018 there are no outstanding options and no further awards are being made.

Participants in the scheme were executives or other employees of the Group, including, but not limited to, executive directors selected by the Board. Participants were offered the opportunity to acquire share options in terms of the scheme.

*Vesting periods of options granted*

| Number of share options | 2018 | 2017 |
|---|---|---|
| Already vested | – | 200 000 |
| Within 1 year | – | – |
| | – | 200 000 |

The scheme did not hold any shares in the Company at 30 September 2018.

*Share options*

Movement in the number of share options outstanding was as follows:

| | Number of share options | Weighted average exercise price (cents) |
|---|---|---|
| Balance at 1 October 2016 | 700 000 | 1 470 |
| Exercised | (500 000) | 1 451 |
| Balance at 1 October 2017 | 200 000 | 1 517 |
| Exercised | (200 000) | (1 517) |
| **Balance at 30 September 2018** | – | – |

*Analysis of exercise dates and prices of outstanding share options*

| Grant date | Expiry date | Exercise price (cents) | Outstanding at 1 Oct 2017 | Exercised | Outstanding at 30 Sep 2018 | Vested at 30 Sep 2018 |
|---|---|---|---|---|---|---|
| 3 Jan 2011 | 2 Jan 2018 | 1 517 | 200 000 | (200 000) | – | – |

The share option cost expensed during the year amounted to Rnil million (2017: Rnil million).

The following assumptions were used to value the share options granted:

| Assumptions | % |
|---|---|
| Volatility | 24.0 – 28.0 |
| Forfeiture rate | 15.0 |
| Risk-free interest rate | 7.7 – 9.8 |
| Dividend yield | 3.3 – 3.5 |

# 4. Our people continued

## 4.3 Share-based payments continued

### 4.3.2 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 | 2018 | 2017 |
|---|---|---|
| Within 1 year | **1 183 434** | 1 114 946 |
| Within 1 – 2 years | **2 259 346** | 1 316 076 |
| Within 2 – 3 years | **3 354 668** | 1 316 076 |
| Within 3 – 4 years | **2 641 363** | 1 316 076 |
| Within 4 – 5 years | **1 565 451** | – |
| | **11 004 262** | 5 063 174 |

# 4. Our people continued

## 4.3 Share-based payments continued

### 4.3.2 Netcare Limited Forfeitable Share Plan continued

*Analysis of award dates and prices of shares*

| Grant date | Outstanding at 1 Oct 2017 | Granted | Forfeited | Exercised | Outstanding at 30 Sep 2018 |
|---|---|---|---|---|---|
| Retention shares | | | | | |
| 20 January 2016 | 1 453 411 | – | (47 912) | (529 762) | 875 737 |
| 24 February 2016 | 21 578 | – | – | (7 192) | 14 386 |
| 30 March 2017 | 52 500 | – | – | (17 497) | 35 003 |
| 1 June 2017 | 20 200 | – | – | (6 733) | 13 467 |
| 16 April 2018 | – | 2 500 | – | (833) | 1 667 |
| 20 January 2018 | – | 3 181 579 | (55 901) | – | 3 125 678 |
| 29 June 2018 | – | 82 057 | – | – | 82 057 |
| 21 September 2018 | – | 20 000 | – | – | 20 000 |
| | 1 547 689 | 3 286 136 | (103 813) | (562 017) | 4 167 995 |
| Performance shares | | | | | |
| 13 December 2012 | 970 333 | – | (510 104) | (460 229) | – |
| 16 April 2013 | 10 208 | – | (5 104) | (5 104) | – |
| 7 June 2013 | 9 400 | – | (4 700) | (4 700) | – |
| 15 August 2013 | 4 750 | – | (2 375) | (2 375) | – |
| 12 July 2014 | 76 874 | – | (38 435) | (38 439) | – |
| 16 March 2015 | 30 297 | – | (15 148) | (15 149) | – |
| 19 May 2015 | 13 084 | – | (6 541) | (6 543) | – |
| 20 January 2016 | 2 306 262 | – | (263 127) | – | 2 043 135 |
| 24 February 2016 | 21 578 | – | – | – | 21 578 |
| 30 March 2017 | 52 500 | – | – | – | 52 500 |
| 1 June 2017 | 20 200 | – | – | – | 20 200 |
| 16 April 2018 | – | 2 500 | – | – | 2 500 |
| 20 January 2018 | – | 4 650 201 | (55 902) | – | 4 594 299 |
| 29 June 2018 | – | 82 055 | – | – | 82 055 |
| 21 September 2018 | – | 20 000 | – | – | 20 000 |
| | 3 515 486 | 4 754 756 | (901 436) | (532 539) | 6 836 267 |
| | 5 063 175 | 8 040 892 | (1 005 249) | (1 094 556) | 11 004 262 |

1 094 556 forfeitable shares had vested at 30 September 2018 and were exercised during the 2018 financial year (2017: 2 019 122).

Refer to note 4.1 for details on shares issued to the 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 were applied to determine the expense for the reporting period. 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 R53 million (2017: R44 million). The expected unrecognised share-based payment expense relating to non-vested share issues amounts to R105 million (2017: R21 million).

# 4. Our people continued

## 4.3 Share-based payments continued

### 4.3.2 Netcare Limited Forfeitable Share Plan continued

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

| 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.

### 4.3.3 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 4 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 or the cash equivalent 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 BEE transaction reduced with dividends received.

# 4. Our people continued

## 4.3 Share-based payments continued

### 4.3.3 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 their profession.

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 or the cash equivalent 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 BEE transaction reduced with 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.

# 4. Our people continued

## 4.3 Share-based payments continued

### 4.3.3 Health Partners for Life (B-BBEE transaction) continued

Details of the Trust units at 30 September 2018 are:

| Trust | Shares allocated to trust 1 Oct 2017 | Disposals during the year | Shares allocated to trust 30 Sep 2018 | Units in issue | Available |
|---|---|---|---|---|---|
| The Patient Care and Passionate People Trust | 47 206 078 | (502 634) | 46 703 444 | 7 899 524 | 38 803 920 |
| The Physician Partnerships Trust | 34 482 482 | (87 003) | 34 395 479 | 12 709 800 | 21 685 679 |
| The Mother and Child Trust | 9 916 737 | – | 9 916 737 | – | 9 916 737 |
| The Healthy Lifestyle Trust | 5 260 377 | (7 200) | 5 253 177 | 284 808 | 4 968 369 |
| | 96 865 674 | (596 837) | 96 268 837 | 20 894 132 | 75 374 705 |

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 2017 | 9 940 345 | 13 029 200 | – | 556 944 | 23 526 489 |
| Exercised | (1 842 482) | (319 400) | – | (272 136) | (2 434 018) |
| Forfeited | (198 339) | – | – | – | (198 339) |
| **Balance at 30 September 2018** | 7 899 524 | 12 709 800 | – | 284 808 | 20 894 132 |

The fair value of the units issued was calculated using the Trinomial model. The fair value of units expensed during 2018 was R1 million (2017: R2 million). The expected unrecognised share-based payment expense relating to non-vested share options amounts to Rnil million (2017: R1 million).

The following assumptions were used to value the units issued:

| Assumptions | % |
|---|---|
| Volatility | 30.0 |
| Forfeiture rate | 15.0 |
| Risk-free interest rate | 7.1 – 8.7 |
| Dividend yield | 2.0 – 4.0 |

# 4. Our people continued

## 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. In SA, key management personnel consist of the South African Executive Committee. Included below for disclosure purposes is remuneration paid to the UK Executive Committee for the 6 months prior to deconsolidation.

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:

| Rm | 2018 | 2017 |
|---|---|---|
| **SA Exco[1]** | | |
| Salaries and allowances | 38 | 37 |
| Company contributions | 4 | 3 |
| Bonuses and termination payments | 8 | 16 |
| Fair value of options granted[2] | 23 | 5 |
| | 73 | 61 |
| **UK Exco[3]** | | |
| Salaries and allowances | 18 | 33 |
| Company contributions | 1 | 3 |
| Short-term incentives and termination payments | – | 3 |
| | 19 | 39 |

1. *2018 – 12 posts on average (2017: 13 posts).*
2. *The fair value of options granted is the annual expense determined in accordance with IFRS 2.*
3. *Remuneration for the 6 months prior to deconsolidation.*

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.

### *Directors*

As part of arm's length business operations, certain subsidiaries of the Netcare Group enter into contracts with Medscheme Holdings Proprietary Limited, a multi-medical scheme administrator operating in SA. Medscheme Limited is owned by ACT Healthcare Assets Proprietary Limited which is in turn owned by AfroCentric Investment Corporation Limited. JM Kahn, who was a non-executive director of Netcare Limited until he retired from the Board effective 31 March 2018, is also a director of AfroCentric Investment Corporation Limited.

# 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 classified as loans and receivables in terms of IAS 39: *Financial Instruments: Recognition and Measurement*.

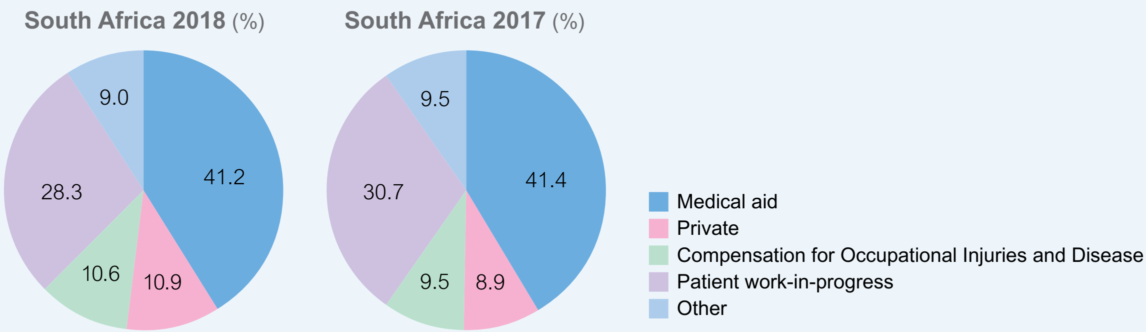
The Group's exposure to credit and currency risk relating to trade and other receivables is disclosed in note 6.4.

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| Trade receivables | | **2 539** | 3 691 |
| Allowance for doubtful debts | | **(263)** | (289) |
| Trade receivables – net | | **2 276** | 3 402 |
| Prepaid expenses | | **88** | 500 |
| Joint venture receivables (refer to Annexure B) | 9.1 | **34** | 43 |
| Current portion of deferred lease assets | | **7** | 3 |
| Current portion of deferred lease liabilities | | **–** | 12 |
| Other debtors | | **503** | 581 |
| | | **2 908** | 4 541 |
| The carrying amount of trade and other receivables is denominated in the following currencies: | | | |
| South African Rand | | **2 908** | 2 579 |
| Foreign currency | | **–** | 1 962 |
| | | **2 908** | 4 541 |

Trade receivables include R29 million (2017: R20 million) for accounts with renegotiated credit terms.

The directors consider that the carrying amount of the trade and other receivables approximates their fair value, as the carrying amount is based on contractual rights and obligations.

| Rm | 2018 | 2017 |
|---|---|---|
| Trade receivables – net, can be categorised into the following types: | **2 276** | 3 402 |
| **South Africa** | | |
| Medical aid | **938** | 862 |
| Private | **248** | 186 |
| Road Accident Fund | **1** | 1 |
| Compensation for Occupational Injuries and Disease | **241** | 196 |
| Patient work-in-progress | **644** | 640 |
| Other | **204** | 197 |
| | **2 276** | 2 082 |
| **United Kingdom** | | |
| Insured | **–** | 522 |
| Self-pay | **–** | 42 |
| National Health Service (NHS) | **–** | 412 |
| Patient work-in-progress | **–** | 166 |
| Other | **–** | 178 |
| | **–** | 1 320 |



# 5. Working capital continued

## 5.2 Inventories

Inventories, comprising 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 | 2018 | 2017 |
|---|---|---|
| Medical and pharmaceutical merchandise | 498 | 902 |
| Crockery, cutlery, linen, soft furnishings and other consumables | 91 | 82 |
| | 589 | 984 |

The cost of inventories recognised as an expense during the year was R5 614 million (2017: R5 070 million). Inventories carried at net realisable value amount to R2 million (2017: R6 million). There were no write-down of inventories during the year to net realisable value (2017: R1 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 IAS 39: Financial Instruments: *Recognition and Measurement*.

The directors consider that the carrying amount of the trade and other payables approximate their fair value, as the carrying amount is based on contractual rights and obligations.

Refer to note 6.4 for the Group's financial risk management policies.

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| Trade payables | | 1 191 | 1 789 |
| Leave pay | | 339 | 316 |
| Bonuses | | 296 | 233 |
| Joint venture payables (Refer to Annexure B) | 9.1 | 112 | 65 |
| Accrued expenses | | 563 | 1 903 |
| Claims incurred but not reported | | 18 | 14 |
| Deferred rent[1] | | – | 508 |
| Current portion of onerous lease provision[2] | 7.1 | – | 353 |
| Current portion of deferred lease liabilities | | 4 | – |
| Other payables | | 549 | 731 |
| | | 3 072 | 5 912 |

1. *Deferred rent in the prior year related to rental on certain hospital properties payable to GHG PropCo 1 by BMI Healthcare. BMI Healthcare has been deconsolidated effective 28 March 2018, refer note 11 for further details.*
2. *The current portion of the onerous lease provision relates to the UK property leases. BMI Healthcare has been deconsolidated effective 28 March 2018, refer to note 11 for further details.*

# 6. Financial management

In order to hedge its interest and inflation rate risk, the Group has taken out interest and inflation rate swaps that are classified as derivative financial instruments. They 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 qualifies for hedge accounting. 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.

## 6.1 Financial assets

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **Derivative financial instruments** | | | |
| Interest rate swaps | | | |
| South African Rand | | 16 | 6 |
| **Non-derivative financial instrument** | | | |
| Investment in Cell Captive | | – | 12 |
| | 6.4.2/6.4.3 | 16 | 18 |
| Included in: | | | |
| Non-current assets | | 16 | 17 |
| Current assets | | – | 1 |
| | | 16 | 18 |

## 6.2 Financial liabilities

| | | 2018 | 2017 |
|---|---|---|---|
| **Derivative financial instruments** | | | |
| Interest rate swaps | | | |
| South African Rand | | 5 | 34 |
| Inflation rate swaps | | | |
| South African Rand | | 26 | 29 |
| Foreign currency | | – | 1 133 |
| | 6.4.2/6.4.3 | 31 | 1 196 |
| Included in Non-current liabilities | | 21 | 1 187 |
| Current liabilities | | 10 | 9 |
| | | 31 | 1 196 |

## 6.3 Other financial (losses)/gains – net

Other financial (losses)/gains – net comprise fair value losses and gains arising from interest and inflation rate swap instruments and are recognised in profit and loss.

| Rm | 2018 | 2017[1] |
|---|---|---|
| Settlement loss on FEC option | (2) | – |
| Amortisation of the cash flow hedge accounting reserve | (3) | (2) |
| Ineffectiveness gains on cash flow hedges | 4 | 5 |
| | (1) | 3 |

*1. Restated for discontinued operations.*

# 6. Financial management continued

## 6.4 Financial instruments and risk management

### 6.4.1 Fair value measurement

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

The valuation of derivative financial instruments is based on the market situation 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**

Cell captive is recognised at fair value through profit and 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 off arrangements existing 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. There are no enforceable master netting off arrangements existing 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

## 6.4 Financial instruments and risk management continued

### 6.4.2 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 analyses the level applicable to financial instruments measured at fair value:

| Rm | Notes | Level 2 | Total |
|---|---|---|---|
| **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) |
| **2017** | | | |
| **Non-derivative financial asset** | | | |
| Cell Captive | | 12 | 12 |
| **Derivative financial assets** | | | |
| Interest rate swaps | | 6 | 6 |
| | 6.1 | 18 | 18 |
| **Derivative financial liabilities** | | | |
| Interest rate swaps | | (34) | (34) |
| Inflation rate swaps | | (1 162) | (1 162) |
| | 6.2 | (1 196) | (1 196) |

The Group has no financial instruments measured at fair value categorised as Level 1 or Level 3. There were no transfers between categories in the current year.

# 6. Financial management continued

## 6.4 Financial instruments and risk management continued

### 6.4.2 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 analyses of the values applicable to financial instruments measured at fair value are presented and performed by qualified independent experts. The effectiveness test and valuations were performed as at 30 September 2018.

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*

**South Africa**

**Interest rate swaps**

- Zero coupon perfect fit swap curve as at 30 September 2018 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 risk 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 instruments curve as at 30 September 2018 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 risk due to counterparty risk (Credit Valuation Adjustment CVA) and our own risk (Debit Valuation Adjustment DVA).

**Foreign**

**Inflation rate swaps**

- Discounting future fixed and floating cashflows, applying relevant risk free rates until the valuation date.
- The variability of the swap instruments forecast was generated using Monte Carlo simulation within the prime series analysis which suited the Auto Regressive Moving Average model. The approach is consistent with Cliff Speed: Inflation Modelling.

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

All gains and losses for the ineffective portion for the period have been accounted for in profit and loss, and in other comprehensive income for the effective portion.

As a result of the deconsolidation of BMI healthcare the Group does not have any foreign inflation rate swaps at year end.

# 6. **Financial management** continued

## 6.4 Financial instruments and risk management continued

### 6.4.3 Financial instruments by category

The carrying amounts recognised in the statement of financial position relate to the following categories of assets and liabilities:

| Rm | Notes | Loans and receivables | Amortised cost | Derivatives designated as hedging instruments | Total |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Financial assets** | | | | | |
| Associate loans and receivables | 9.2 | **336** | **–** | **–** | **336** |
| Loans and receivables | 9.3 | **297** | **–** | **–** | **297** |
| Financial assets | 6.1 | **–** | **–** | **16** | **16** |
| Trade and other receivables[1] | | **2 659** | **–** | **–** | **2 659** |
| Cash and cash equivalents | 3.2 | **1 371** | **–** | **–** | **1 371** |
| **Total** | | **4 663** | **–** | **16** | **4 679** |
| **Financial liabilities** | | | | | |
| Associate loans and payables | 9.2 | **–** | **1** | **–** | **1** |
| Long-term debt | 3.1.1 | **–** | **5 114** | **–** | **5 114** |
| Financial liabilities | 6.2 | **–** | **–** | **31** | **31** |
| Trade and other payables[2] | | **–** | **2 807** | **–** | **2 807** |
| Short-term debt | 3.1.2 | **–** | **1 056** | **–** | **1 056** |
| Bank overdrafts | 3.2 | **–** | **6** | **–** | **6** |
| **Total** | | **–** | **8 984** | **31** | **9 015** |

| Rm | Notes | Loans and receivables | Amortised cost | Fair value through profit or loss | Derivatives designated as hedging instruments | Total |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| **Financial assets** | | | | | | |
| Associate loans and receivables | 9.2 | 450 | – | – | – | 450 |
| Loans and receivables | 9.3 | 1 884 | – | – | – | 1 884 |
| Financial assets | 6.1 | – | – | 12 | 6 | 18 |
| Trade and other receivables[1] | | 3 908 | – | – | – | 3 908 |
| Cash and cash equivalents | 3.2 | 2 531 | – | – | – | 2 531 |
| **Total** | | 8 773 | – | 12 | 6 | 8 791 |
| **Financial liabilities** | | | | | | |
| Associate loans and payables | 9.2 | – | 1 | – | – | 1 |
| Long-term debt | 3.1.1 | – | 7 232 | – | – | 7 232 |
| Financial liabilities | 6.2 | – | – | 1 133 | 63 | 1 196 |
| Trade and other payables[2] | | – | 5 323 | – | – | 5 323 |
| Short-term debt | 3.1.2 | – | 1 678 | – | – | 1 678 |
| Bank overdrafts | 3.2 | – | 6 | – | – | 6 |
| **Total** | | – | 14 240 | 1 133 | 63 | 15 436 |

*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 defined as a financial instrument and has been excluded from trade and other payables.*

# 6. Financial management continued

## 6.4 Financial instruments and risk management continued

### 6.4.4 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:

#### *6.4.4.1 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.

Local interest rate swap instruments have been entered into on a funds pool approach as the Group seeks to fix the interest on 50% of debt at any given time.

**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 R18 million (2017: R25 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. The fair value of interest rate swap instruments at the reporting date is determined by regression analysis and by dynamic hedging strategy, with the change in the hedged item being based on the hypothetical derivative approach. As at 30 September 2018, the Group had 6 (2017: 10) fixed-for-floating interest rate swap instrument contracts and 2 (2017: 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

## 6.4 Financial instruments and risk management continued

### 6.4.4 Financial risk management

#### *6.4.4.1 Interest rate risk continued*

| Rm | Notional amount | Rate (%) | Maturity date | Fair value (loss)/gain |
|---|---|---|---|---|
| **2018** | | | | |
| **Interest rate swaps** | | | | |
| | **2 550** | **6.8 – 8.1** | **2019 – 2022** | **–** |
| | | | | **–** |
| **Inflation rate swaps** | | | | |
| | **5** | **0.0** | **2019** | **(4)** |
| | | | | **(4)** |
| **2017** | | | | |
| **Interest rate swaps** | | | | |
| South Africa | 3 550 | 7.6 | 2018 – 2022 | 1 |
| | | | | – |
| **Inflation rate swaps** | | | | |
| South Africa | 3 | – | 2017 | 1 |
| BMI Healthcare | 2 101 | 2.5 | 2031[1] | 937 |
| | | | | 938 |

*1. The valuation of these instruments is sensitive to future RPI expectations. The future RPI rates used in the valuation of the RPI swap instruments have been based on future forecasts available in the market.*

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

In addition to the above, gains of R42 million (2017: R43 million losses) 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) |
|---|---|---|
| **2018** | | |
| **Interest rate swaps** | | |
| | Increase of 1% | **47** |
| South Africa | Decrease of 1% | **(47)** |
| **Inflation rate swaps** | | |
| | Increase of 1% | **5** |
| South Africa | Decrease of 1% | **(5)** |
| **2017** | | |
| **Interest rate swaps** | | |
| | Increase of 1% | 71 |
| South Africa | Decrease of 1% | (73) |
| **Interest rate swaps** | | |
| | Increase of 1% | 7 |
| South Africa | Decrease of 1% | (6) |
| | Increase of 0.25% | 403 |
| United Kingdom | Decrease of 0.25% | (404) |

# 6. Financial management continued

## 6.4 Financial instruments and risk management continued

### 6.4.4 Financial risk management continued

#### *6.4.4.2 Foreign exchange risk*

Exchange rate risk arises from adverse movements in the exchange rate with reference to major currencies.

The SA operations have limited trading with foreign markets, and are not particularly susceptible to either an appreciation or depreciation of the Rand. SA based capital expenditure is rarely, if ever, denominated in foreign currency.

#### *6.4.4.3 Credit Risk*

Credit risk arises from cash and cash equivalents, trade and other receivables and derivative financial instruments as a result of non-performance or default. The Group's maximum exposure to credit risk is equal to the carrying amount of these assets. Considerable resources, expertise and controls are in place to ensure efficient and effective management of credit risk. The Group has a comprehensive credit risk policy which is updated on a regular basis. Our 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 only deposits short-term cash surpluses and enters into derivative contracts with major banks of high quality credit standing. 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.

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.

The Group also experiences concentration risk in that a significant proportion of trade and other receivables relate to a small number of debtors. The Group is exposed to concentration risk in the Compensation for Occupational Injuries and Diseases Fund. The amount due by the Commissioner as at 30 September 2018 was R241 million (2017: R196 million). The level of risk associated with this funder is low due to its strong financial position and low risk or incidence of repudiation of accounts.

# 6. Financial management continued

## 6.4 Financial instruments and risk management continued

### 6.4.4 Financial risk management continued

*6.4.4.3 Credit Risk continued*

| Rm | 2018 | 2017 |
|---|---|---|
| At 30 September 2018 trade receivables of R761 million (2017: R1 037 million) were past due but not impaired. There has not been a significant change in credit quality of these receivables and the amounts are still considered recoverable. The ageing of the past due but not impaired trade receivables is shown below: | | |
| Past due 0 – 30 days | 147 | 213 |
| Past due 31 – 60 days | 74 | 125 |
| Past due 60 – 120 days | 51 | 123 |
| More than 120 days* | 489 | 576 |

* *The majority is made up of outstanding Compensation for Occupational Injuries and Disease Fund balances. Refer the previous page for the evaluation of their credit risk.*

Trade receivables that are not past their due date are not considered for impairment, except in situations where they are part of individually impaired trade receivables. Individually significant receivables are considered for impairment when objective evidence is received that a specific counterparty will default. Receivables that are not considered for individual impairment are reviewed for impairment in groups, which are determined by reference to the type and region of counterparty and other available features of shared credit risk characteristics. The estimated irrecoverable amounts are determined by reference to past default experience. The allowance for doubtful debts is used to reduce the carrying amount of the asset.

Movement in the allowance for doubtful debts is as follows:

| Rm | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | (289) | (247) |
| Impairment losses recognised | (156) | (166) |
| Impairment losses reversed | 3 | – |
| Amounts written off as uncollectible | 84 | 108 |
| Amounts recovered during the year | 37 | 7 |
| Translation of foreign entities | 2 | 9 |
| Deconsolidation of BMI Healthcare | 56 | – |
| **Balance at end of year** | (263) | (289) |

# 6. Financial management continued

## 6.4 Financial instruments and risk management continued

### 6.4.4 Financial risk management continued

#### *6.4.4.4 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 payables, borrowings and non-derivative financial liabilities fall into the following maturity profiles:

| Rm | < 1 year | 1 – 5 years | > 5 years | Total |
|---|---|---|---|---|
| **2018** | | | | |
| Trade and other payables[1] | 2 807 | – | – | 2 807 |
| Bank overdrafts | 6 | – | – | 6 |
| Finance leases | 6 | 23 | – | 29 |
| | 2 819 | 23 | – | 2 842 |
| **2017** | | | | |
| Trade and other payables[1] | 5 323 | – | – | 5 323 |
| Bank overdrafts | 6 | – | – | 6 |
| Secured debt | (21) | (69) | 3 110 | 3 020 |
| Finance leases | 77 | 220 | 54 | 351 |
| | 5 385 | 151 | 3 164 | 8 700 |

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

# 6. Financial management continued

## 6.4 Financial instruments and risk management continued

### 6.4.4 Financial risk management continued

#### *6.4.4.5 Capital management*

The Group's policy is to maintain a strong balance sheet with a safe level of debt while reducing the cost of capital. 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/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 | 2018 | 2017 |
|---|---|---|
| Debt | 6 170 | 5 490 |
| Cash and cash equivalents | (1 365) | (1 582) |
| Net debt | 4 805 | 3 908 |
| EBITDA[1] | 4 209 | 3 975 |
| Net debt to EBITDA (times) | 1.1 | 1.0 |
| Interest cover (times) | 10.7 | 22.8* |

1. *EBITDA before impairment of contractual economic interest in debt of BMI Healthcare, restructure costs incurred by Netcare in respect of BMI Healthcare and Akeso related transaction costs in 2018. These transactions are non-recurring and are not considered by management when monitoring our capital.*

* *SA interest cover (times).*

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. Provisions and commitments

## 7.1 Provisions

The balances in the prior period relate to BMI Healthcare and are part of the deconsolidation – refer to note 11 for further details.

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| Legal claims | | – | 58 |
| Onerous lease | | – | 1 750 |
| Future defined benefit pension scheme commitment | | – | 15 |
| **Total provisions** | | – | 1 823 |
| **Included in:** | | | |
| Non-current liabilities | | – | 1 470 |
| Trade and other payables – current portion of onerous lease provision | 5.3 | – | 353 |
| | | – | 1 823 |

| Rm | Legal claims | Onerous lease | Future defined benefit pension scheme commitment | Total |
|---|---|---|---|---|
| Balance at 1 October 2016 | 56 | 33 | 24 | 113 |
| Amounts provided | 45 | 1 669 | 0 | 1 714 |
| Amounts utilised | (44) | (11) | (9) | (64) |
| Translation of foreign entities | 1 | 59 | 0 | 60 |
| Balance at 30 September 2017 | 58 | 1 750 | 15 | 1 823 |
| Amounts provided | 22 | – | – | 22 |
| Amounts utilised | (15) | (170) | (5) | (190) |
| Translation of foreign entities | (5) | (144) | – | (149) |
| Deconsolidation of BMI Healthcare | (60) | (1 436) | (10) | (1 506) |
| **Balance at 30 September 2018** | – | – | – | – |

# 7. **Provisions and commitments** continued

## 7.2 Contingent liabilities

Details regarding financial guarantees issued are disclosed below. The Group does not recognise contingent liabilities in the statement of financial position until future events indicate that 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.

### 7.2.1 Financial guarantees

| Rm | 2018 | 2017 |
|---|---|---|
| Guarantee covering the obligation of an associate company | **34** | 34 |
| Guarantee covering the obligation of a subsidiary company instalment sale agreement | **10** | 11 |

### 7.2.2 Litigation

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

## 7.3 Commitments

### 7.3.1 Capital expenditure commitments to be incurred

| Rm | 2018 | 2017 |
|---|---|---|
| **Authorised and contracted for** | | |
| Land and buildings | **463** | 84 |
| Plant and equipment | **10** | 85 |
| Computer equipment | **7** | 11 |
| Other (including furniture and fittings) | **36** | 103 |
| **Authorised but not yet contracted for** | | |
| Land and buildings | **1 102** | 1 181 |
| Plant and equipment | **29** | 88 |
| Computer equipment | **280** | 23 |
| Other (including furniture and fittings) | **201** | 122 |
| | **2 128** | 1 697 |
| This expenditure will be financed from internally generated funds and existing banking facilities. | | |
| To be expended: | | |
| Within 1 year | **837** | 1 068 |
| Over 1 year | **1 291** | 629 |
| | **2 128** | 1 697 |

# 7. Provisions and commitments continued

## 7.3 Commitments continued

### 7.3.2 Operating lease commitments

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 20 years with renewal options of between 1 and 30 years.

Rental escalations on properties vary between 1% and 20% per annum.

Motor vehicle leases are contracted for periods between 1 and 60 months with rentals 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 future non-cancellable minimum lease rentals are payable during the following financial years:

| Rm | 2018 | 2017 |
|---|---|---|
| Within 1 year | 155 | 3 099 |
| GHG Property Businesses | – | 2 590 |
| Other | 155 | 509 |
| 1 – 5 years | 1 074 | 12 776 |
| GHG Property Businesses | – | 10 361 |
| Other | 1 074 | 2 415 |
| 5 – 10 years | 1 416 | 15 568 |
| GHG Property Businesses | – | 12 951 |
| Other | 1 416 | 2 617 |
| > 10 years | 752 | 16 064 |
| GHG Property Businesses | – | 10 573 |
| Other | 752 | 5 491 |
| **Motor vehicles** | | |
| Within 1 year | 8 | 15 |
| 1 – 5 years | 11 | 19 |
| 5 – 10 years | – | 1 |
| > 10 years | – | 2 |
| **Plant and equipment** | | |
| Within 1 year | 5 | 34 |
| 1 – 5 years | 6 | 22 |
| **Medical equipment** | | |
| Within 1 year | 3 | 24 |
| 1 – 5 years | 7 | 83 |
| 5 –10 years | 1 | 16 |
| | 3 439 | 47 723 |

# 8. Shareholders' interest

## 8.1 Ordinary share capital and premium

| Number of shares (million) | 2018 | 2017 |
|---|---|---|
| **Authorised** | | |
| Ordinary shares of 1.0 cent each | 2 500 | 2 500 |
| **Issued** | | |
| Shares in issue at beginning of year | 1 463 | 1 462 |
| Shares issued during the year | 8 | 1 |
| **Shares in issue at end of year** | **1 471** | **1 463** |
| **Treasury shares** | | |
| Treasury shares at beginning of year | (102) | (106) |
| Purchase of treasury shares | (8) | – |
| Sale of treasury shares | 2 | 4 |
| **Treasury shares at end of year** | **(108)** | **(102)** |
| **Total issued ordinary shares (net of treasury shares)** | **1 363** | **1 360** |
| Treasury shares are held as follows: | | |
| HPFL B-BBEE Trusts | 97 | 97 |
| Forfeitable Share Plan | 11 | 5 |

| Rm | 2018 | 2017 |
|---|---|---|
| **Authorised** | | |
| Ordinary shares of 1.0 cent each | 25 | 25 |
| **Issued ordinary share capital** | | |
| Balance at beginning and end of year | 15 | 15 |
| **Share premium** | | |
| Balance at beginning of year | 4 190 | 4 182 |
| Share premium arising on issue of shares | 186 | 8 |
| **Balance at end of year** | **4 376** | **4 190** |
| **Issued ordinary share capital and premium** | **4 391** | **4 205** |

# 8. Shareholders' interest continued

## 8.2 Treasury shares

| Rm | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | (3 720) | (3 768) |
| Shares issued during the year | (183) | – |
| Purchase of treasury shares | (7) | – |
| Sale of treasury shares | 39 | 48 |
| **Balance at end of year** | (3 871) | (3 720) |

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 596 837 (2017: 2 000 000) 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 7 995 892 shares (2017: 155 400 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.

### Unissued ordinary shares

The number of unissued ordinary shares at 30 September 2018 is 1 029 million (2017: 1 038 million).

### Share-based payments

Details of options under the Netcare Share Incentive Scheme, trust units issued by the HPFL Trusts and share awards issued in terms of the Forfeitable Share Plan are disclosed in note 4.3.

## 8.3 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 | 2018 | 2017 |
|---|---|---|
| **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 |

# 8. Shareholders' interest continued

## 8.4 Non-controlling interest

| Rm | 2018 | 2017 |
|---|---|---|
| Balance at beginning of year | (64) | 2 188 |
| Dividends paid | (23) | (37) |
| Movements in equity interest in subsidiaries and acquisition of businesses | 27 | 33 |
| Total comprehensive profit/(loss) for the year | 110 | (2 248) |
| | 50 | (64) |

## 8.5 Other comprehensive loss

| Rm | Gross | Tax | Other comprehensive loss | Non-controlling interest | Net attributable to owners of the parent |
|---|---|---|---|---|---|
| **2018** | | | | | |
| Effect of cash flow hedge accounting | 42 | (12) | 30 | – | 30 |
| Effect of translation of foreign entities | 104 | – | 104 | 17 | 87 |
| Recycling of foreign currency translation reserve on loss of control | (1 976) | – | (1 976) | – | (1 976) |
| | (1 830) | (12) | (1 842) | 17 | (1 859) |
| **2017** | | | | | |
| Remeasurement losses on defined benefit plans | (40) | 11 | (29) | – | (29) |
| Effect of cash flow hedge accounting | (43) | 12 | (31) | – | (31) |
| Effect of translation of foreign entities | (7) | – | (7) | (12) | 5 |
| | (90) | 23 | (67) | (12) | (55) |

# 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 associated companies 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 | 2018 | 2017 |
|---|---|---|---|
| Investments at cost | | 39 | 69 |
| Share of post-acquisition reserves | | 176 | 159 |
| Carrying value of shares | | 215 | 228 |
| Director's valuation of joint venture companies | | 1 597 | 1 462 |

The valuation falls under Level 3 of the fair value hierarchy. The valuations were performed using the free cash flow method (FCF). The FCF method values an entity based on the sum of the present values of the future cash flows from year one to five, plus a discounted value in perpetuity. The book value of net debt is deducted from this value to arrive at the equity value of the investment. The future cash flows are discounted at the entity's blended weighted average cost of capital.

Netcare Hospital Group owned 50% of Rand Clinic Oncology Centre, and it was determined that joint control existed and the entity was therefore accounted for as a joint venture. Effective 1 March 2018, Netcare Hospital Group acquired a further 50% share in this entity (purchase price of R1.6 million), bringing its total shareholding to 100%. An updated assessment has been performed, and determined that from 1 March 2018 Netcare Hospital Group has control over the entity by virtue of there being no external shareholders, and it is consolidated as a subsidiary with no non-controlling interest.

During the reporting period, Netcare Unitas Linac Joint Venture, a 50% held joint venture of Netcare Hospital Group, effected a share buy-back on 1 March 2018 increasing Netcare's shareholding to 58.8% (purchase price of R2.6 million). The entity's Memorandum of Incorporation notes that voting rights are linked to shareholding. As Netcare now holds a majority stake it controls the entity and it is consolidated as a subsidiary, with a corresponding non-controlling interest.

| | | | |
|---|---|---|---|
| Trade and other receivables | 5.1 | 34 | 43 |
| Trade and other payables | 5.3 | (112) | (65) |

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

# 9. Group structure continued

## 9.2 Investment in associates

Following Netcare's decision to exit from the UK, effective 28 March 2018, Netcare's 56.9% interest in GHG PropCo 2 has been classified as an asset held for sale and its results are no longer equity accounted. Refer to note 1.4 for further details.

| Rm | 2018 | 2017 |
|---|---|---|
| Investments at cost | 14 | 131 |
| Share of post-acquisition reserves | 152 | 237 |
| Carrying value of shares | 166 | 368 |
| Loans | 335 | 449 |
| | 501 | 817 |
| Director's valuation of associated companies | 928 | 2 014 |

The valuations were performed using the free cash flow method (FCF). The FCF method values an entity based on the sum of the present values of the future cash flows from year one to five, with the exception of those investments with a limited project life, plus a discounted value in perpetuity where there is no term contract in place. The book value of net debt is deducted from this value to arrive at the the equity value of the investment. The future cash flows are discounted at the entity's blended weighted average cost of capital (WACC).

The loans to/(from) associate companies are unsecured, bearing interest at between 0.0% – 13.1%, and are repayable in November 2019 or on demand.

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| Non-current assets | | 299 | 358 |
| Current assets | | 37 | 92 |
| | 6.4.3 | 336 | 450 |
| Current liabilities | 6.4.3 | (1) | (1) |
| | | 335 | 449 |

The loans form part of the net investment in associates, and have therefore been included under non-current assets on the face of the statement of financial position.

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

# 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 6.4.

| Rm | Note | 2018 | 2017 |
|---|---|---|---|
| Included within: | | | |
| Non-current assets | | 249 | 1 831 |
| Current assets | | 48 | 53 |
| | 6.4.3 | 297 | 1 884 |

At 31 March 2018, an impairment of R1 534 million was recognised against the contractual economic interest in the debt of BMI Healthcare (2017: nil). Refer to note 11 for more detail.

The majority of the other loans and receivables are unsecured. These loans and receivables bear interest at between 0.0% and 8.0% and are repayable on demand or up to 9 years.

## 9.4 Acquisition of business

Under IFRS 10: *Consolidated Financial Statements*, an investor is considered to control an investee if all of the factors below are satisfied. The application of judgement is typically required in making these assessments:

- The investor has power over the investee, i.e. the investor has existing rights that give it the ability to direct the relevant activities.
- The investor has exposure, or rights to variable returns from its involvement with the investee.
- The investor has the ability to use its power over the investee to affect the amount of the investor's returns.

The Group assesses its control of an investee at the time of its initial investment and again if changes in facts and circumstances affect one or more of the control factors listed above. In assessing whether the Group has control over an investee, consideration is given to many factors including shareholding; voting rights and their impact on the Group's ability to direct the management, operations and returns of the investee; contractual obligations; minority shareholder rights and whether these are protective or substantive in nature; and the financial position of the investee.

# 9. **Group structure** continued

## 9.4 Acquisition of business continued

### Akeso Clinics Group

Effective 27 March 2018, after approval by the Competition Tribunal, Netcare acquired the Akeso Clinics Group. Five of the operating companies have shareholding by doctors holding non-controlling interests between 2.5% and 33.3%. (one clinic has a 33.3% non-controlling interest with the remaining clinics between 2.5% and 16.0%). The transaction has been recorded effective 31 March 2018.

In terms of IFRS 10: *Consolidated Financial Statements*, Netcare has control of the Akeso entities by virtue of its majority shareholding and majority on the board of directors, and they are therefore consolidated as subsidiaries.

Significant accounting estimates and assumptions were made in the allocation of the purchase price on acquisition of the Akeso Clinics Group in accordance with IFRS 3: *Business Combinations*. The assets and liabilities acquired were measured at fair value at the acquisition date. No contingent liabilities were determined at the acquisition date.

The only identifiable intangible assets determined during the purchase price allocation exercise have been the Akeso brand and intellectual property relating to the clinical therapeutic programmes.

The Akeso brand has been valued using the relief from royalty methodology based on the projected revenue streams, discounted at a rate appropriate to the Akeso Clinics Group taking into account the risks associated with the revenue streams. It is intended that the Akeso brand will be used for the foreseeable future as it is closely associated with the current hospitals. The expected life span of the Akeso brand is uncertain and is therefore regarded as indefinite. The carrying amounts of indefinite life intangible assets are tested annually for impairment.

The brand is instrumental in generating revenue, at year end the Akeso brand was tested for impairment using the relief from royalty methodology based on five years projected revenue streams and royalty of 0.5% with a discount rate of 11.37%. The value of the brand was more than the carrying amount of R11 million, therefore no impairment was recognised.

Patient treatment is predicated on the clinical therapeutic programmes established in the Akeso Clinics Group and modified from time to time. These programmes have been determined to be an intangible asset on acquisition and the estimated replacement cost has been used as the fair value. The expected life of the clinical intellectual property has been determined to be five years.

| Rm | 2018 |
|---|---|
| Property, plant and equipment | 541 |
| Brand | 11 |
| Clinical intellectual property | 11 |
| Current assets | 56 |
| Current liabilities | (62) |
| Net debt | (238) |
| Current tax liability | (7) |
| Deferred tax liability | (12) |
| Non-controlling interest | (3) |
| **Fair value of net assets acquired** | 297 |
| Goodwill | 936 |
| **Consideration paid** | 1 233 |

The value of the workforce in place and other intangible assets acquired have been subsumed into goodwill, which constitutes the balance of the purchase price. The acquisition of Akeso was motivated by Netcare's diversification strategy and to make possible expansion in the Netcare facilities which would otherwise have been highly unlikely which has resulted in the recognition of goodwill.

None of the goodwill is expected to be deducted for tax purposes.

### Impact of acquisition on the results of the Group

The effect on revenue of the Group would have been R382 million if the business had been acquired on 1 October 2017, and the profit for the year would have been R55 million (R54 million net of non-controlling interests). Included within the Group's profit for the period is R39 million (R38 million net of non-controlling interests) resulting from the Akeso acquisition.

# 9. Group structure continued

## 9.5 Related parties

Related party transactions constitute the transfer of resources, services or obligations between parties related to the Group on commercial terms. 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 SA 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 | 2018 | 2017 |
|---|---|---|---|
| Netcare Pharmacies 2 Proprietary Limited | Dispensary services | – | 2 |
| Medicross Healthcare Group Proprietary Limited | Healthcare services | 1 | 1 |
| Netcare Hospitals Proprietary Limited | Healthcare services | 267 | 261 |
| Netcare Pharmacies Proprietary Limited | Dispensary services | 67 | 71 |
| Akeso Clinics Proprietary Limited | Administration fee | 1 | – |
| Prime Cure Health Proprietary Limited[1] | Capitation fee | – | 4 |
| | | 336 | 339 |

1. *Prime Cure Health Proprietary Limited was sold on 1 January 2017.*

# 10. Discontinued operations, assets and liabilities classified as held for sale

## 10.1 Loss for the year from discontinued operations

Included in discontinued operations are the results of the Mozambique emergency services business, the results of BMI Healthcare and the earnings of GHG PropCo 2. GHG PropCo 2 earnings are accounted for up to the date it was transferred to held for sale.

### Mozambique emergency services business

This entity was classified as discontinued at September 2017, as a decision was taken to dispose of the business. This process will be completed by 31 December 2018.

### BMI Healthcare and GHG PropCo 2

On 28 March 2018 Netcare announced that it had made a strategic decision to exit the UK market and pursue the disposal of its interests in the UK. The operations represent a separate geographical area of operation (the UK), and therefore in terms of IFRS 5: *Non-Current Assets Held for Sale and Discontinued Operations*, BMI Healthcare and GHG PropCo 2 have been classified as discontinued operations. Further detail can be found in note 11.

| 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 |
| Financial expenses | – | (226) | – | (226) |
| Other financial losses – net | – | (85) | – | (85) |
| Attributable earnings of associates | – | 11 | 10 | 21 |
| Attributable earnings of joint ventures | – | 7 | – | 7 |
| **(Loss)/profit before taxation** | (2) | (473) | 10 | (465) |
| Taxation | (3) | 1 | – | (2) |
| **(Loss)/profit from discontinued operations** | (5) | (472) | 10 | (467) |
| **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)/profit 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 |
| GHG PropCo 1 | – | 1 280 | – | 1 280 |
| GHG PropCo 2 | – | 64 | – | 64 |
| Other | – | 77 | – | 77 |

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

## 10.1 Loss from discontinued operations continued

| | Mozambique emergency services | BMI Healthcare | GHG PropCo 2 | Total |
|---|---|---|---|---|
| **30 September 2017** | | | | |
| **The (loss)/profit from discontinued operations is analysed as follows:** | | | | |
| Revenue | 24 | 15 011 | – | 15 035 |
| **(Loss)/profit after taxation for the year is analysed as follows:** | | | | |
| Operating loss | (48) | (5 928) | – | (5 976) |
| Investment income | – | 53 | | 53 |
| Financial expenses | – | (347) | – | (347) |
| Other financial gains – net | – | 937 | – | 937 |
| Attributable earnings of associates | – | 23 | 18 | 41 |
| Attributable earnings of joint venture | – | 16 | – | 16 |
| **(Loss)/profit before taxation** | (48) | (5 246) | 18 | (5 276) |
| Taxation | 2 | 7 | – | 9 |
| **(Loss)/profit from discontinued operations** | (46) | (5 239) | 18 | (5 267) |
| **Cash flows from discontinued operations** | | | | |
| Cash flows from operating activities | (31) | 303 | – | 272 |
| Cash flows from investing activities | – | (764) | – | (764) |
| Cash flows from financing activities | 38 | 353 | – | 391 |
| **Net increase/(decrease) in cash and cash equivalents** | 7 | (108) | – | (101) |
| **Operating (loss)/profit after charging:** | | | | |
| Depreciation of property, plant and equipment | 2 | 655 | – | 657 |
| Employee costs – salaries and wages | 15 | 5 082 | – | 5 097 |
| Operating lease charges | 2 | 4 712 | – | 4 714 |
| GHG PropCo 1 | – | 2 453 | – | 2 453 |
| GHG PropCo 2 | – | 122 | – | 122 |
| Other | 2 | 2 137 | – | 2 139 |

## 10.2 Assets and liabilities classified as held for sale

Assets and liabilities held for sale include assets and liabilities relating to discontinued operations as referred to in note 10.1, as well as other assets held for sale. Disposal is expected to occur within the next 12 months and these assets and liabilities have therefore been classified as assets and liabilities held for sale. The proceeds from disposal are expected to exceed or equal the net carrying amount of the assets.

| Rm | 2018 | 2017 |
|---|---|---|
| **Major classes of assets comprising the assets held for sale** | | |
| Property, plant and equipment | 69 | 5 |
| Investment in associate | 226 | – |
| Inventories | – | 1 |
| Trade and other receivables | – | 4 |
| Taxation receivable | – | 2 |
| Cash and cash equivalents | 2 | 31 |
| | 297 | 43 |
| **Major classes of liabilities directly associated with a disposal group held for sale** | | |
| Trade and other payables | – | (5) |
| | – | (5) |

# 11. Deconsolidation of BMI Healthcare

BMI Healthcare has been deconsolidated with effect from 28 March 2018, refer note 1.4 for further details.

The investment in BMI Healthcare is accounted for as an available for sale financial instrument and is carried at Rnil on the statement of financial position. Netcare does not have any funding obligations or commitments towards BMI Healthcare.

## GHG PropCo 2

Following Netcare's decision to exit from the UK, effective 28 March 2018, Netcare's 56.9% interest in GHG PropCo 2 has been classified as an asset held for sale and its results are no longer equity accounted. Refer note 1.4 for further details.

| Rm | 2018 |
|---|---|
| **Net asset value deconsolidated** | |
| Property, plant and equipment | (2 602) |
| Goodwill | (940) |
| Intangible assets | (162) |
| Investment in joint ventures | (36) |
| Investment in associates | (54) |
| Inventories | (372) |
| Trade and other receivables | (1 961) |
| Cash and cash equivalents | (673) |
| Long term debt | 3 172 |
| Financial liabilities | 1 121 |
| Deferred lease liability | 98 |
| Provisions | 1 505 |
| Short term debt | 345 |
| Trade and other payables | 2 788 |
| Realisation of net asset value | 2 229 |
| Realisation of foreign currency translation reserve through statement of profit or loss | 1 976 |
| **Profit on loss of control** | 4 205 |

## 12. 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 2018 financial year. The Group has not early adopted the undermentioned new, amended and revised IFRS that are not yet effective.

| New standards | Requirements |
|---|---|
| *IFRS 9: Financial Instruments* | The standard was issued in July 2014 to replace IAS 39: *Financial Instruments: Recognition and Measurement* and becomes effective for accounting periods beginning on or after 1 January 2018, and will be adopted by the Group on 1 October 2018.<br><br>With the exception of loans to associated entities, IFRS 9 will not have a material impact on the initial classification and measurement of the Group's financial instruments. Loans to associated entities are currently considered part of the Group's investment in these entities, and these are disclosed as part of the non-current asset "Investment in associates" reflected on the Group's statement of financial position. These loans are accounted for as financial liabilities in the respective associate entity's records. As neither party has the unconditional right to avoid settlement of the loans in cash, another financial asset, or in a variable number of equity instruments, IFRS 9 requires that the loans be accounted for as financial assets/liabilities in the respective entity's records. This will result in the reclassification of associate loans, amounting to R335 million, to loans and receivables on the statement of financial position. All of the Group's other financial assets are currently accounted for using amortised cost or fair value through profit or loss. These categories are unchanged in IFRS 9, and no reclassification is therefore considered necessary.<br><br>IAS 39 makes use of an incurred loss model to calculate impairments on financial assets. Under this model, the Group's current provision for doubtful debts is appropriate, and the Group has not recognised impairments on certain loans and receivables, as no default event has occurred.<br><br>IFRS 9 introduces the expected credit loss model, which requires consideration of a broader range of factors when determining whether an impairment is required. The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its trade receivables, as these have contractual repayment terms of less than 12 months. Under the expected credit loss model, the Group's provision for doubtful debts is still considered materially appropriate; however, there are certain loans and receivables that will require impairment. This is based on an assessment of past events with specific third parties, the current macro-economic conditions impacting on these third parties, as well as consideration of their forecasts.<br><br>At a Group level it is expected that loans to associated entities and cash and cash equivalents which represent approximately 35% of total loans and receivables (including loans to associated entities) at 30 September 2018 will fall within the scope of IFRS 9 impairment testing. The loans to associated entities were previously only tested for impairment if indicators of impairment existed, while there were no incurred losses in cash and cash equivalents.<br><br>The Group will be in a position to more accurately quantify the impact of the changes from IFRS 9 during the second quarter of the financial year commencing 1 October 2018.<br><br>The Group has elected to adopt IFRS 9 – Hedge Accounting. There are no anticipated changes to the structure of the Group's hedges, and these are expected to remain highly effective. There will therefore be no material impact to the valuation of the hedging instruments, however additional disclosures will be provided in line with the requirements of IFRS 9.<br><br>The standard will require certain other additional disclosures, including a reconciliation of the changes in carrying amounts of financial assets and financial liabilities arising from a change in measurement attributable on transition to IFRS 9. Disclosure will also be made regarding the inputs, assumptions and estimation techniques used to estimate expected credit losses.<br><br>When IFRS 9 is adopted, in line with the transition requirements, the Group has elected to reflect the cumulative impact of IFRS 9 in equity on the date of adoption. |

## 12. New issued standards not yet effective continued

| New standards | Requirements |
|---|---|
| *IFRS 15: Revenue from Contracts with Customers* | The standard is effective for accounting periods beginning on or after 1 January 2018 and will be adopted by the Group on 1 October 2018.<br><br>The transactions impacted by IFRS 15 are high in volume, value and complexity. The Group has performed a detailed analysis on all the types of revenue streams in the business, and has determined that there is no material impact on recognition or measurement.<br><br>Under the new revenue model, the following was assessed:<br><br>**1. Identify the contract with a customer**<br>All parties with whom the Group interacts have approved the relevant contract, in most cases through written consent. Each party's rights regarding the goods or services to be transferred are easily identifiable, and so are the payment terms. The Group follows strict processes with regard to obtaining pre-authorisations from medical aids when required, performing credit checks on debtors and requesting deposits when engaging with private patients, therefore these contracts are considered to have commercial substance, with a high probability of collection of the consideration.<br><br>**2. Identify the performance obligations in the contract**<br>The Group provides distinct goods and services in the form of pharmaceutical products, accommodation, theatre and ward fees, equipment rentals and other services and the performance obligations are easily identifiable in the contract.<br><br>**3. Determine the transaction price**<br>The Group's 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 our contracts, even those that extend beyond 12 months, require payments on a monthly basis, therefore there are no significant financing components.<br><br>**4. Allocate the transaction price to the performance obligations in the contract**<br>Using a patient stay in one of the Group's hospitals as an example, patients may receive various performance obligations depending on the nature of their treatment, e.g. ward fees for the bed, theatre fees if surgery is required, pharmaceutical costs if medication is administered, etc. Each performance obligation is distinct, and is able to be billed at its relative stand-alone selling price.<br><br>**5. Recognise revenue when (or as) the entity satisfies a performance obligation**<br>A performance obligation is satisfied when control of the underlying goods or services for the particular performance obligation is transferred to the customer. 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.<br><br>IFRS 15 expands the current disclosure requirements about revenue recognition, and the standard specifically requires a disaggregation of revenue to depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. Consideration needs to be given to how revenue is managed by the chief operating decision maker, and it should be reconciled to the revenue information disclosed for each segment. The Group's current disaggregation of revenue is done on a segmental basis, as this is how it is managed by the Executive Committee, therefore no material change to our disclosure is anticipated.<br><br>IFRS 15, upon adoption can be applied either on a fully retrospective basis, requiring the restatement of the comparative periods presented, or with the cumulative retrospective impact applied as an adjustment to equity. When the latter approach is applied it is necessary to disclose the impact on each line item in the financial statements in the reporting period. As the impact is considered to be minimal for the Group, the Group has elected to reflect the cumulative impact of IFRS 15, if any, in equity on the date of adoption. |

# 12. New issued standards not yet effective continued

| New standards | Requirements |
|---|---|
| *IFRS 16: Leases* | The standard replaces IAS 17: *Leases* and is effective for accounting periods beginning on or after 1 January 2019 and will be adopted by the Group on 1 October 2019.<br><br>IFRS 16 sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. IFRS 16 applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer.<br><br>IFRS 16 will primarily change lease accounting for lessees and is expected to have a material impact on the Group's annual financial statements, as lease agreements will give rise to the recognition of an asset representing the right to use the leased item and a loan obligation for future lease payables. Lease costs will be recognised in the form of depreciation of the right-of-use asset and interest on the lease liability.<br><br>Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting and is not expected to have a material impact for the Group.<br><br>The Group is assessing the impact of the accounting changes that will arise under IFRS 16, and has selected an IT solution to manage the Group's leases and perform the relevant IFRS 16 calculations. The solution will be implemented and rolled out prior to adoption on 1 October 2019.<br><br>The changes to lessee accounting will have the following material impact on the Group and will directly increase the level of presentation and disclosure as indicated below:<br>• Right-of-use assets will be recorded for assets that are leased by the Group; currently no lease assets are included on the Group's consolidated statement of financial position for operating leases.<br>• Liabilities will be recorded for future lease payments in the Group's consolidated statement of financial position for the 'reasonably certain' period of the lease, which may include future lease periods for which the Group has extension options. Currently liabilities are not recorded for future operating lease payments, which are disclosed as commitments.<br>• Expenses will be for depreciation of right-of-use assets and interest on lease liabilities. Interest will typically be higher in the early stages of a lease and reduce over the term. Currently operating lease rentals are expensed on a straight-line basis over the lease term within operating expenses.<br>• Operating lease cash flows are currently included within operating cash flows in the consolidated statement of cash flows; under IFRS 16 these will be recorded as cash flows from financing activities reflecting the repayment of lease liabilities (borrowings) and related interest.<br><br>The Group will be in a position to quantify the impact of the changes required by IFRS 16 during second quarter of the year commencing 1 October 2019. The Group has elected to apply retrospective application on the date of adoption. |

# Company statement of financial position

**at 30 September**

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 2.1 | 837 | 839 |
| **Total non-current assets** | | **837** | **839** |
| **Current assets** | | | |
| Amounts owing by subsidiaries | 2.1 | 4 410 | 4 464 |
| Cash and cash equivalents | 3.1 | 16 | 12 |
| **Total current assets** | | **4 426** | **4 476** |
| **Total assets** | | **5 263** | **5 315** |
| **EQUITY AND LIABILITIES** | | | |
| **Capital and reserves** | | | |
| Ordinary share capital and premium | 5.1 | 4 347 | 4 158 |
| Other reserves | | 231 | 233 |
| Retained earnings | | 20 | 262 |
| Equity attributable to ordinary shareholders | | 4 598 | 4 653 |
| Preference share capital and premium | 5.2 | 644 | 644 |
| **Total shareholders' equity** | | **5 242** | **5 297** |
| **Current liabilities** | | | |
| Amounts owing to subsidiaries | 2.1 | 3 | 1 |
| Trade and other payables | 4.1 | 18 | 17 |
| **Total current liabilities** | | **21** | **18** |
| **Total equity and liabilities** | | **5 263** | **5 315** |

# Company statement of profit or loss

**for the year ended 30 September**

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **Revenue** | 2.2 | **1 300** | 1 406 |
| Gross Profit | | **1 300** | 1 406 |
| Administrative and other expenses | | **–** | (2) |
| **Operating profit** | 2.3 | **1 300** | 1 404 |
| **Profit before taxation** | | **1 300** | 1 404 |
| Taxation | 2.4 | **(1)** | – |
| **Profit after taxation** | | **1 299** | 1 404 |
| **Total comprehensive income for the year** | | **1 299** | 1 404 |
| Attributable to: | | | |
| Ordinary shareholders | | **1 244** | 1 348 |
| Preference shareholders | | **55** | 56 |
| | | **1 299** | 1 404 |

# Company statement of cash flows

**for the year ended 30 September**

| Rm | Notes | 2018 | 2017 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 2.5 | **1 301** | 1 409 |
| Taxation paid | 2.6 | **(1)** | (1) |
| Dividends paid | | **(1 486)** | (1 389) |
| Preference dividends paid | | **(55)** | (56) |
| **Net cash from operating activities** | | **(241)** | (37) |
| **Cash flows from investing activities** | | | |
| Decrease/(increase) in investments and loans | | **56** | (2) |
| **Net cash flow from investing activities** | | **56** | (2) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | **189** | 16 |
| **Net cash from financing activities** | | **189** | 16 |
| **Net increase/(decrease) in cash and cash equivalents** | | **4** | (23) |
| Cash and cash equivalents at the beginning of the year | | **12** | 35 |
| **Cash and cash equivalents at the end of the year** | 3.1 | **16** | 12 |

# Company statement of changes in equity

**for the year ended 30 September**

| Rm | Ordinary share capital | Ordinary share premium | Share-based payment reserve |
|---|---|---|---|
| **Balance at 1 October 2016** | 15 | 4 127 | 233 |
| Shares issued during the year | – | 16 | – |
| Dividends paid | – | – | – |
| Preference dividends paid | – | – | – |
| Total comprehensive income for the year | – | – | – |
| **Balance at 30 September 2017** | 15 | 4 143 | 233 |
| Shares issued during the year | – | **189** | – |
| Dividends paid | – | – | – |
| Preference dividends paid | – | – | – |
| Total comprehensive income for the year | – | – | – |
| **Balance at 30 September 2018** | **15** | **4 332** | **233** |

| Retained earnings | Equity attributable to ordinary shareholders | Preference share capital and premium | Total shareholders' equity |
|---|---|---|---|
| 303 | 4 678 | 644 | 5 322 |
| – | 16 | – | 16 |
| (1 389) | (1 389) | – | (1 389) |
| – | – | (56) | (56) |
| 1 348 | 1 348 | 56 | 1 404 |
| 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** |

# 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 | 2018 | 2017 |
|---|---|---|
| **Investment in subsidiaries** | | |
| Investments at cost | 663 | 663 |
| Share-based payments arising from the Group's share incentive schemes | 174 | 176 |
| | 837 | 839 |
| **Amounts owing by/(to) subsidiaries** | | |
| Included in: | | |
| Current assets | 4 410 | 4 464 |
| Current liabilities | (3) | (1) |
| **Net interest in subsidiaries** | 5 244 | 5 302 |

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.

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

| Rm | 2018 | 2017 |
|---|---|---|
| Dividends received | 1 300 | 1 406 |

### 2.3 Operating profit

| Rm | 2018 | 2017 |
|---|---|---|
| **After charging:** | | |
| Directors' emoluments (Refer to the Group financial statements note 4.1 for details) | 10 | 10 |

### 2.4 Taxation

| Rm | 2018 | 2017 |
|---|---|---|
| **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 | (28.0) | (28.0) |
| Capital gains tax | 0.1 | – |
| **Effective taxation rate** | 0.1 | – |

# 2. Investments and returns continued

## 2.5 Cash generated by operations

| Rm | 2018 | 2017 |
|---|---|---|
| Operating profit | 1 300 | 1 404 |
| Cash generated by operations before working capital changes | 1 300 | 1 404 |
| Decrease in accounts receivable | – | 4 |
| Increase in accounts payable | 1 | 1 |
| | 1 301 | 1 409 |

## 2.6 Taxation paid

| Rm | 2018 | 2017 |
|---|---|---|
| Amounts payable at beginning of year | – | 1 |
| Charge per the statement of profit or loss | 1 | – |
| Amounts payable at end of year | – | – |
| | 1 | 1 |

# 3. Funding

## 3.1 Cash and cash equivalents

| Rm | 2018 | 2017 |
|---|---|---|
| Cash on hand and balances with banks | 16 | 12 |

# 4. Working capital

## 4.1 Trade and other payables

| Rm | 2018 | 2017 |
|---|---|---|
| Other payables | 18 | 17 |

# 5. Shareholders' Interest

## 5.1 Ordinary share capital and premium

| Number of shares (million) | 2018 | 2017 |
|---|---|---|
| **Authorised** | | |
| Ordinary shares of 1.0 cent each | 2 500 | 2 500 |
| **Issued** | | |
| Shares in issue at beginning of year | 1 463 | 1 462 |
| Shares issued during the year | 8 | 1 |
| **Shares in issue at end of year** | 1 471 | 1 463 |

| Rm | | |
|---|---|---|
| **Authorised** | | |
| Ordinary shares of 1.0 cent each | 25 | 25 |
| **Issued ordinary share capital** | | |
| Balance at beginning and end of year | 15 | 15 |
| **Share premium** | | |
| Balance at beginning of year | 4 143 | 4 127 |
| Share premium arising on issue of shares | 189 | 16 |
| **Balance at end of year** | 4 332 | 4 143 |
| **Total issued ordinary share capital and premium** | 4 347 | 4 158 |

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

# 5. Shareholders' interest continued

## 5.2 Preference share capital

| Rm | 2018 | 2017 |
|---|---|---|
| **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 | 2018 | 2017 |
|---|---|---|
| • 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 | 1 000 |

# 7. Group structure

## 7.1 Related parties

| Rm | 2018 | 2017 |
|---|---|---|
| **Related party transactions** | | |
| Various transactions were entered into by the Company during the year with related parties. | | |
| Details of loan balances with the investment in subsidiaries are disclosed in Annexure A. | | |
| The following is a summary of transactions with related parties during the year: | | |
| Dividends received: | | |
| • Netcare Holdings Proprietary Limited | 1 300 | 1 406 |
| Management fees received: | | |
| • Netcare Hospitals Proprietary Limited | 10 | 10 |

## 7.2 Key management personnel

Refer to note 4.1 of the Group annual financial statements.

# 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 |
| BMI Healthcare Ltd[1] | Investment holding | United Kingdom |
| GHG 1 Limited trading as BMI Healthcare[1] | Hospital/healthcare services | United Kingdom |
| General Healthcare Group Limited[1] | Hospital/healthcare services | United Kingdom |
| General Healthcare Mixer Partnership LLP[1] | Investment holding | United Kingdom |
| Medicross Healthcare Group Proprietary Limited | Primary healthcare services | South Africa |
| Netcare Hospital Group Proprietary Limited | Investment holding | South Africa |
| Netcare Hospitals Proprietary Limited | Hospital/healthcare services | South Africa |
| Netcare International SA Proprietary Limited | Investment holding | South Africa |
| Netcare Property Holdings Proprietary Limited | Property owning | South Africa |
| Prime Cure Holdings Proprietary Limited[2] | Investment holding | South Africa |
| Waterfall City Hospital 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

*1. Netcare's direct shareholding in these entities has been deconsolidated. Refer to note 11 for details.*
*2. Prime Cure Holdings Proprietary Limited was deregistered during the year.*

*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 Blaauwberg Day Theatre Proprietary Limited, effective 23 July 2018.
- Medicross Pinetown Day Theatre (RF) Proprietary Limited, effective 20 October 2017.
- Medicross Kuilsriver Day Theatre Proprietary Limited, effective 31 July 2018.
- Netcare Ceres Investment Company (RF) Proprietary Limited, effective 30 July 2018.
- Netcare Vaalpark Investment Company (RF) Proprietary Limited, effective 20 July 2018.
- Eliomate Proprietary Limited, effective 01 July 2018.
- Setedale Proprietary Limited, effective 21 November 2017.
- Dosimeter Proprietary Limited, effective 01 July 2018.
- Akeso Clinics Proprietary Limited, effective 31 March 2018.
- Oak Tree Services Proprietary Limited, effective 31 March 2018.
- Crimson Clover Trading 10 Proprietary Limited, effective 31 March 2018.

## Disposal of subsidiaries during the year

No entities were disposed of during the year.

## Change in the Group's ownership interest in subsidiaries:

- Acquired an additional 3% in Waterfall City Hospital Proprietary Limited, effective 1 December 2017.
- As a result of a share buy back by Cancare Proprietary Limited, the Group's shareholding increased to 70.4%, effective 1 December 2017.
- Acquired an additional 50% in Rand Clinic Oncology Proprietary Limited, effective 1 March 2018.
- As a result of a share buy back the Group's shareholding in Netcare Unitas Linac Joint Venture Proprietary Limited increased to 58.8%, effective 1 March 2018. Additional shares were issued and the Group's shareholding decreased to 52.6%, effective 1 April 2018.
- The Group's shareholding in Netcare Clinton Oncology Centre Proprietary Limited decreased to 51%, effective 1 October 2017.

| Issued ordinary share capital (Thousands) | Effective Group holding % 2018 | Effective Group holding % 2017 | Investment (Rm) 2018 | Investment (Rm) 2017 | Loans to subsidiaries 2018 | Loans to subsidiaries 2017 |
|---|---|---|---|---|---|---|
| R120 | **100** | 100 | **663** | 663 | **4 246** | 4 422 |
| R1 | **100** | 100 | **–** | – | **159** | 38 |
| | **–** | 57 | **–** | – | **–** | – |
| | **–** | 57 | **–** | – | **–** | – |
| | **–** | 57 | **–** | – | **–** | – |
| | **–** | 57 | **–** | – | **–** | – |
| R2 | **100** | 100 | **13** | 13 | **–** | – |
| R4 | **100** | 100 | **–** | – | **–** | – |
| | **100** | 100 | **151** | 151 | **–** | – |
| | **100** | 100 | **–** | – | **–** | – |
| | **100** | 100 | **–** | – | **–** | – |
| | **–** | 100 | **–** | 2 | **–** | – |
| | **88** | 85 | **–** | – | **–** | – |
| | | | **10** | 10 | **2** | 3 |
| | | | **837** | 839 | **4 407** | 4 463 |
| | | | | | **4 410** | 4 464 |
| | | | | | **(3)** | (1) |

# 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 2018 | 2017 | Carrying value (Rm) 2018 | 2017 |
|---|---|---|---|---|---|
| Basfour 2463 Proprietary Limited[1] | South Africa | – | 50 | – | – |
| National Renal Care Proprietary Limited | South Africa | **50** | 50 | **202** | 174 |
| Netcare Parklands Linac Joint Venture Proprietary Limited | South Africa | **50** | 50 | **8** | 7 |
| Olivedale Clinic Oncology Centre Proprietary Limited | South Africa | **45** | 45 | **5** | 5 |
| Rand Clinic Oncology Centre Proprietary Limited[2] | South Africa | – | 50 | – | – |
| Waterberg Lodge Proprietary Limited | South Africa | **50** | 50 | * | 2 |
| Netcare Unitas Linac Joint Venture Proprietary Limited[3] | South Africa | – | 50 | – | 8 |
| BMI Southend Private Hospital Limited[4] | United Kingdom | – | 50 | – | 4 |
| BMI Imaging Clinic Limited[4] | United Kingdom | – | 50 | – | 21 |
| Meriden Hospital Advanced Imaging Centre Limited[4] | United Kingdom | – | 50 | – | 7 |
| **Total interest in joint ventures** | Note 9.1 | | | **215** | 228 |
| Loans included in: | | | | | |
| Trade and other receivables (note 5.1/9.1) | | | | **34** | 43 |
| Trade and other payables (note 5.3/9.1) | | | | **(112)** | (65) |
| | | | | **(78)** | (22) |

*1. Basfour 2463 Proprietary Limited was deregistered during the year and the investment was impaired.*
*2. The Group acquired an additional 50% share in Rand Clinic Oncology Centre Proprietary Limited and it has been consolidated as a subsidiary. Refer to note 9.1 for details.*
*3. As a result of a share buy back the Group's shareholding increased to 58.8% in Netcare Unitas Linac Joint Venture Proprietary Limited and it has been consolidated as a subsidiary. Additional shares were issued, and the Group's shareholding decreased to 52.6%. Refer to note 9.1 for details.*
*4. Refer to note 11 for details about the deconsolidation of BMI Healthcare.*
** Amount is 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** | **2018** | 2017[1] |
| The Group's share of profit for the year | **41** | 53 |
| The Group's share of other comprehensive income for the year | – | – |
| **The Group's share of total comprehensive income for the year** | **41** | 53 |
| **Aggregate carrying amount of the Group's interests in these joint ventures** | **215** | 228 |

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

*1. Restated for discontinued operations.*

# Annexure C – Investment in associated companies

| Company | Place of incorporation and principal place of business | Proportion of ownership interests and voting power held by the Group | | Carrying value (Rm) | |
|---|---|---|---|---|---|
| | | 2018 | 2017 | 2018 | 2017 |
| Community Hospital Management Proprietary Limited | South Africa | 25 | 25 | 52 | 70 |
| Nalithemba Proprietary Limited | South Africa | 50 | 50 | 253 | 314 |
| Kokstad Private Hospital Proprietary Limited | South Africa | 30 | 30 | 14 | 11 |
| Gamma Knife Proprietary Limited[1] | South Africa | 27 | 32 | (2) | 4 |
| Ismatype Proprietary Limited | South Africa | 30 | 30 | 2 | 2 |
| Botle Facilities Management Proprietary Limited | Lesotho | 40 | 40 | 37 | 33 |
| Tsepong Proprietary Limited | Lesotho | 40 | 40 | 145 | 164 |
| GHG PropCo 2 entities[2] | United Kingdom | – | 57 | – | 212 |
| Three Shires Hospital Limited[2] | United Kingdom | – | 50 | – | 7 |
| **Total investment in associated companies** | | | | **501** | **817** |

*1. The Group diluted it's shareholding in Gamma Knife Proprietary Limited from 31.9% to 27.1% during the year.*
*2. Refer to note 11 for details around the deconsolidation of BMI Healthcare. These investments have been classified as assets held for sale.*

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

## Material investment in associates

The directors do not consider any of the investments in associates to be quantitatively material to the Group. The total equity accounted earnings for the year amounted to R32 million, and the value of the investment in associates at 30 September 2018 was R501 million.

| Rm | 2018 | 2017[1] |
|---|---|---|
| **Aggregate information of associates that are not individually material** | | |
| The Group's share of profit for the year | 32 | 36 |
| The Group's share of other comprehensive income for the year | – | – |
| **The Group's share of total comprehensive income for the year** | **32** | **36** |
| **Aggregate carrying amount of the Group's interests in these associates** | **501** | **817** |

*1. Restated for discontinued operations.*

# 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 | 8 555 | 49.97 | 2 525 122 | 0.18 |
| 1 001 – 50 000 | 7 209 | 42.10 | 51 216 413 | 3.76 |
| 50 001 – 100 000 | 344 | 2.01 | 24 630 638 | 1.81 |
| 100 001 – 10 000 000 | 992 | 5.79 | 683 689 458 | 50.14 |
| 10 000 001 and above | 22 | 0.13 | 601 269 786 | 44.11 |
| **Total** | 17 122 | 100.00 | 1 363 331 417 | 100.00 |
| **Distribution of shareholders per category** | | | | |
| Individuals | 14 319 | 83.63 | 74 273 110 | 5.45 |
| Private Companies | 229 | 1.34 | 12 989 956 | 0.95 |
| Nominees and Trusts | 864 | 5.04 | 20 465 086 | 1.50 |
| Banks and Brokerage Firms | 75 | 0.44 | 56 176 644 | 4.14 |
| Insurance Companies | 92 | 0.54 | 74 197 496 | 5.44 |
| Pension Funds and Medical Aid Schemes | 575 | 3.36 | 447 107 911 | 32.79 |
| Collective Investment Schemes and Mutual Funds | 968 | 5.65 | 678 121 214 | 49.73 |
| **Total** | 17 122 | 100.00 | 1 363 331 417 | 100.00 |
| **Public and non-public shareholdings** | | | | |
| Public | 17 119 | 99.98 | 1 350 502 892 | 99.06 |
| Non-public | 3 | 0.02 | 12 828 525 | 0.94 |
| Directors[2] | 2 | 0.01 | 10 745 759 | 0.79 |
| Retirement funds | 1 | 0.01 | 2 082 766 | 0.15 |
| **Total** | 17 122 | 100.00 | 1 363 331 417 | 100.00 |
| **Beneficial shareholders holding 5% or more** | | | | |
| Public Investment Corporation Limited | | | 249 231 931 | 18.28 |
| Allan Gray various funds | | | 125 205 172 | 9.18 |
| **Total** | | | 374 437 103 | 27.46 |
| **Investment Manager Top 10** | | | | |
| Allan Gray Proprietary Limited | | | 221 502 811 | 16.25 |
| Public Investment Corporation Group | | | 203 948 554 | 14.96 |
| Coronation Fund Managers Limited | | | 193 954 066 | 14.23 |
| Old Mutual plc | | | 70 562 208 | 5.18 |
| The Vanguard Group, Inc. | | | 53 603 985 | 3.93 |
| Blackrock Inc | | | 48 886 481 | 3.59 |
| Visio Capital Management Proprietary Limited | | | 41 655 059 | 3.06 |
| Prudential plc | | | 33 241 289 | 2.44 |
| GIC Private Limited | | | 28 536 092 | 2.09 |
| State Street Corporation | | | 27 753 049 | 2.04 |
| **Total** | | | 923 643 594 | 67.75 |
| **Beneficial Owner Top 10** | | | | |
| Public Investment Corporation Limited | | | 249 231 931 | 18.28 |
| Allan Gray Balanced Fund | | | 60 799 555 | 4.46 |
| Old Mutual Life Assurance Company SA | | | 40 957 504 | 3.00 |
| Coronation Balanced Plus Fund | | | 33 438 027 | 2.45 |
| Allan Gray Equity Fund | | | 29 781 514 | 2.18 |
| GIC Private Limited | | | 29 671 222 | 2.18 |
| Alexander Forbes Investments | | | 28 418 847 | 2.08 |
| Coronation Top 20 Fund | | | 27 757 691 | 2.04 |
| Vanguard Total International Stock Index Fund | | | 24 692 474 | 1.81 |
| Government of Norway | | | 21 763 319 | 1.60 |
| **Total** | | | 546 512 084 | 40.09 |
| **Geographic Ownership** | | | | |
| South Africa | | | 966 998 493 | 70.93 |
| International | | | 396 332 924 | 29.07 |
| **Total** | | | 1 363 331 417 | 100.00 |

*1. Number of shares in issue net of treasury shares.*
*2. Beneficial shareholding of directors in the issued share capital of the Company.*

# Corporate information

## Company registration number
(Registration number 1996/008242/06)

## Business address and registered office
Netcare Limited
76 Maude Street (corner West Street),
Sandton 2196, Private Bag X34,
Benmore 2010

## Company secretary
Lynelle Bagwandeen
tel no: +27 (0) 11 301 0265
Lynelle.bagwandeen@netcare.co.za

## Investor relations
ir@netcare.co.za

## Customer call centre
0860 NETCARE (0860 638 2273)
customer.service@netcare.co.za

## Fraud line
0860 fraud 1 (086 037 2831)
fraud@netcare.co.za

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

## Sponsor
Nedbank Corporate and Investment Banking
Third floor, F Block, Nedbank 135 Rivonia Campus
135 Rivonia Road
Sandown, Sandton, 2196

## Transfer secretaries
4 Africa Exchange
1st Floor, Cedarwood House
Ballywoods Office Park ,33 Ballyclare Drive, Bryanston, 2191
tel no: +27 (0) 11 100 8352

## Auditors
Grant Thornton Johannesburg – until 31 December 2018
Deloitte and Touche – from 1 January 2019

## 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

1 February 2019

### Reports

| | |
|---|---|
| Interim results announcement | May |
| Final results announcement | November |

## Dividends

### Ordinary and Special dividends

| | Declared | Paid |
|---|---|---|
| Interim | May | June |
| Final and Special | 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 this announcement/presentation 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.