

# CARE

ANNUAL FINANCIAL  
STATEMENTS 2016

**Netcare  
Limited**



You're in safe hands



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NETCARE LIMITED

Annual Financial Statements 30 September 2016.

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

## Directors' responsibility and approval

The directors of Netcare Limited are responsible for the preparation and integrity of the annual financial statements of the Company and the Group, which have been prepared under the supervision of the Chief Financial Officer, Mr KN Gibson, CA(SA). These annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the requirements of the South African Companies Act, No 71 of 2008 (the Companies Act), and the JSE Listings Requirements in line with the accounting policies of the Group, which are supported by prudent judgements and estimates. The Group's external auditors, Grant Thornton Johannesburg (Grant Thornton) are engaged to express an independent opinion on these financial statements which has been presented on page 12.

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

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

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

The annual financial statements were approved by the Board of directors on 17 November 2016 and are signed on its behalf by:



**JM Kahn**  
Non-executive Chairman



**RH Friedland**  
Chief Executive Officer



**KN Gibson**  
Chief Financial Officer

Sandton

17 November 2016

## 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 Bagwandeem**  
Company Secretary

Sandton

17 November 2016

## Directors' report

### FOR THE YEAR ENDED 30 SEPTEMBER 2016

Your directors have pleasure in presenting their report on the activities of the Group and of the Company for the year ended 30 September 2016.

### NATURE OF BUSINESS

Netcare Limited is an investment holding company and through its subsidiaries, joint ventures and associates in Southern Africa (SA) and in the United Kingdom (UK) carries on business as a private hospital group, providing an extensive range of general, emergency and specialised medical care services. Ancillary healthcare businesses include primary, administration and logistical services.

### FINANCIAL RESULTS AND REVIEW

The financial results of the Group are set out on pages 13 to 92 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 93 to 101.

### SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Details of interests in subsidiaries, associates and joint ventures are shown on pages 102 to 109 respectively.

### ACQUISITIONS, DISPOSALS AND CHANGES IN HOLDINGS

#### Acquisitions

The Group acquired the following new subsidiaries and associate during the year:

- > With effect from 1 October 2015:
  - 74% shareholding in Chrisal Proprietary Limited.
  - 74% shareholding in Dormex Proprietary Limited.
  - 70% shareholding in Kimberley Narkokliniek Proprietary Limited.
  - 70% shareholding in Aztostep Proprietary Limited.
- > With effect from 12 February 2016:
  - 60% shareholding in Masiluleke Medical Group Proprietary Limited.
- > With effect from 29 February 2016:
  - 80% shareholding in Detox – ZA Proprietary Limited.
- > With effect from 1 March 2016:
  - 100% shareholding in Medicross Kingsway Propco Proprietary Limited.
  - 100% shareholding in Medicross Kingsway Sub Acute Proprietary Limited.
- > With effect from 15 April 2016:
  - 74% shareholding in Kalahari Katarak Oog Sentrum Proprietary Limited.
- > With effect from 1 August 2016:
  - 33.8% shareholding in Gamma Knife South Africa Proprietary Limited, which was accounted for as an associate.
- > With effect from 31 August 2016:
  - 70% in Centurion Sub-Actue Facility Proprietary Limited.

#### Disposals

- > With effect from 13 October 2015:

The Group disposed of 100% of its shareholding in Prime Med Administrator Proprietary Limited.

**Directors' report** continued**Changes in holdings**

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

> With effect from 30 September 2016:

The Group acquired an additional 49.0% shareholding in BMI Sussex Diagnostics Limited (incorporated in the United Kingdom).

This resulted in a gain of control, and the entity is now consolidated as a subsidiary.

The above excludes acquisitions, disposals and changes in holdings of dormant companies.

There were no other material changes to holdings in subsidiaries, associates or joint ventures during the year ended 30 September 2016.

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

There were no further changes to holdings in companies incorporated in the United Kingdom during the year, other than as mentioned above.

**PROPERTY, PLANT AND EQUIPMENT**

Capital expenditure incurred during the year amounted to R2 789 million (2015: R2 641 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 6 million shares during the year in terms of the Netcare Share Incentive Scheme.

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 2016 was as follows:

	Number of shareholders	Number of shares <sup>1</sup>	% of issued share capital
Public	19 845	1 343 788 893	99,08
Non-public	5	12 477 942	0,92
– Directors	4	10 395 176	0,77
– Retirement funds	1	2 082 766	0,15
<b>Total</b>	<b>19 850</b>	<b>1 356 266 835</b>	<b>100,00</b>

1. Number of shares are net of treasury shares.

**Beneficial shareholders holding 5% or more**

Public Investment Corporation Limited	253 627 285	18,70
Allan Gray Various Funds	75 346 467	5,56
<b>Total</b>	<b>328 973 752</b>	<b>24,26</b>

**Investment management shareholding greater than 5%**

Public Investment Corporation Limited	202 377 407	14,92
Allan Gray Proprietary Limited	127 067 059	9,37
Old Mutual plc	107 164 975	7,90
Prudential Portfolio Managers	72 246 734	5,33
<b>Total</b>	<b>508 856 175</b>	<b>37,52</b>

## 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	2016	2015
<b>Final distribution paid</b>		
Final dividend paid on 1 February 2016 of 54.0 cents per share (2015: 48.0 cents per share)	<b>780</b>	710
<b>Interim distribution paid</b>		
Interim dividend paid on 11 July 2016 of 38.0 cents per share (2015: 38.0 cents per share)	<b>562</b>	562
	<b>1 342</b>	1 272
Dividends attributable to treasury shares	<b>(92)</b>	(106)
<b>Paid to Netcare Limited shareholders</b>	<b>1 250</b>	1 166

Dividends paid are accounted for on the date of declaration. As a result, the final dividend of 57.0 cents per share, declared on 17 November 2016, is not reflected in the financial statements for the year ended 30 September 2016.

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, 24 January 2017
Trading ex dividend commences	Wednesday, 25 January 2017
Record date	Friday, 27 January 2017
Payment date	Monday, 30 January 2017

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

Cents	2016	2015
Interim dividend	<b>38.0</b>	38.0
Final dividend	<b>57.0</b>	54.0
	<b>95.0</b>	92.0

The estimated total cash flow of the final dividend of 57.0 cents per share payable on 30 January 2017, is R894 million.

This amount excludes R60 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	2016	2015
Interim dividend	<b>25</b>	24
Final dividend	<b>27</b>	25
	<b>52</b>	49

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' report** continued**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  
J Watts

**Independent non-executives**

M Bower – appointed 23 November 2015  
T Brewer – lead independent non-executive director and Deputy Chair  
B Buló – appointed 23 November 2015  
APH Jammine  
JM Kahn – Chairman  
MJ Kuscus  
KD Moroka  
N Weltman

The directors standing for re-election at the annual general meeting are:

T Brewer  
APH Jammine  
N Weltman

**Board diversity****Gender**

Male	7
Female	4

**Nationality**

Black South African	4
White South Africa	6
Non-South Africa	1

**Independence**

Executive	3
Independent non-executive <sup>1</sup>	8

1. The continued independence of independent non-executive directors that have served for a period of ten years is evaluated, taking into account the factors that may impair their independence. Following the 2016 review, the Board is satisfied that there are no relationships or circumstances likely to affect, or which appear to affect, the judgement of Messrs JM Kahn and APH Jammine, and Adv KD Moroka as directors. The Board is also satisfied that the Chairman of the Board, JM Kahn, is independent and free from any conflicts of interest. The independence of this role has been further enhanced by T Brewer Deputy Chair and lead independent non-executive director.

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 Bagwandeem.

The Company Secretary's business and postal addresses appear on page 111.

## AUDITORS

Grant Thornton Johannesburg continued in office as auditors of Netcare Limited.

## EVENTS AFTER THE REPORTING PERIOD

### UK Rent Transaction

In October 2016, BMI Healthcare (BMI) and its major external landlord, Hospital Topco, agreed heads of terms for a potential rent reduction transaction in relation to existing long-term leases for 35 BMI hospitals. The RPI swap instruments relating to these leases are expected to be eliminated as part of the arrangement. The parties remain constructively engaged in moving the deal to completion. A UK rent transaction will require approval from the boards of directors of BMI and Hospital Topco and will be subject to consent from certain lenders of Hospital Topco, as well as the refinancing of BMI.

On 21 October 2016 it was announced that BMI is in the process of refinancing its existing debt facilities, inclusive of the funding required for the UK rent transaction. BMI reported gross debt of £167.9 million and net debt of £110.0 million at 30 September 2016. The proposed refinancing consists of: (1) a senior term loan facility of up to £285 million; (2) a revolving credit facility of up to £75 million; and (3) a second lien facility of £66 million, in which Netcare holds a contractual economic interest.

In the period from 1 October 2016 to 31 October 2016, the mark-to-market value of the RPI swap instruments fell to R1 188 million (£72.1 million) reflecting movements in market expectations of future inflation indices.

### Akeso Clinics

On 15 November 2016 the Netcare Board approved the proposed acquisition by Netcare of Akeso Clinics Limited, which is a national group of 12 dedicated mental healthcare facilities comprising 873 beds. This transaction is subject to the usual regulatory approvals.

### Pharmacy Outsourcing Agreement

The outsourcing of Netcare's hospital retail front shop operations and the Medicross retail pharmacies to Clicks Group Limited (Clicks) was approved by the Competition Commission and Competition Tribunal on 11 November 2016. Clicks will take over the 37 Medicross pharmacies on 1 December 2016 and the retail (front shop) pharmacy operations within 45 Netcare hospitals with effect from 1 February 2017. The outsourcing agreement will not have a material impact on the earnings or financial position of the Group.

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 2016 or the results of its operations or cash flow for the year then ended.

## Directors' report continued

### GOING CONCERN

The directors have reviewed the Group and Company's 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. In arriving at this conclusion, the directors have assessed the situation of the operating companies in both SA and the UK as set out below.

The review of the budget and cash flow forecast for the SA operations indicate that these operations will continue to deliver positive cash flows and earnings and meet their obligations as they fall due for at least the next 12 months from the date of approval of this report.

The BMI Healthcare directors have reviewed forecasts of the UK business for the purpose of the going concern review. These forecasts show that the UK business will comply with its financial covenants throughout the forecast period with significant headroom. The forecasts also show sufficient liquidity headroom through the review period, taking into account committed facilities available to the business.

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:
  - Special Resolution number 1 – General authority to repurchase shares.
  - Special Resolution number 2 – Approval of non-executive directors' remuneration.
  - Special Resolution number 3 – Financial assistance to related and inter-related companies in terms of sections 44 and 45 of the Companies Act.

#### Subsidiaries

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

- > Netcare Health Partners for Life Finance Company Proprietary Limited passed a special resolution to amend clauses on 9 October 2015.
- > Kimberley Narkokliniek Proprietary Limited passed a special resolution on 28 October 2015.
- > Aztostep Proprietary Limited passed a special resolution on 28 October 2015.
- > Netcare Raslouw Propco Proprietary Limited, passed a special resolution to change the name of the Company on 30 October 2015.
- > Netcare Hospitals Proprietary Limited passed a special resolution to increase the authorised shares on 15 March 2016.
- > Eliogyn Proprietary Limited passed a special resolution on 14 April 2016.
- > Kalahari Katarak en Oog Sentrum Proprietary Limited passed a special resolution on 14 April 2016.
- > Netcare Unitas Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 19 May 2016.
- > Netcare Linksfeld Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 01 June 2016.
- > Medicross Kingsway Propco Proprietary Limited passed a special resolution to convert from a close corporation to private company on 28 June 2016.

- > Medicross Kingsway Sub Acute Proprietary Limited passed a special resolution to convert from a close corporation to private company on 28 June 2016.
- > Netcare Ferncrest Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 09 September 2016.
- > Netcare Greenacres Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 09 September 2016.
- > Netcare St Annes Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 09 September 2016.
- > Netcare Sunward Park Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 09 September 2016.
- > Netcare The Bay Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 09 September 2016.
- > Netcare Umhlanga Investment Company (RF) Proprietary Limited passed a special resolution to change the name of the Company and incorporation of the ring fencing provisions on 09 September 2016.

No special resolutions were passed by the General Healthcare Group of companies in the United Kingdom.

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

There were no 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 2016

### INTRODUCTION

The Audit Committee (the Committee) endeavours to review the principles, policies and practices adopted in the preparation of the annual financial statements. The Committee also endeavours to ensure that the interim and annual financial statements and any other formal announcements relating to the Group's financial performance and position comply with all statutory and JSE Listings Requirements

This report is presented to shareholders in compliance with the requirements of the Companies Act.

### ROLE OF THE AUDIT COMMITTEE

The objectives and functions of the Committee are contained in the terms of reference which are reviewed on a regular basis and approved by the Board. 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.
- > 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.
- > Reviewed and, where appropriate, updated the Audit Committee's own terms of reference.
- > 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.
- > 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.

The fees paid to the Committee members for the year ended 30 September 2016 were approved by the shareholders at the annual general meeting held on 5 February 2016.

Committee members attendance is detailed below.

		Committee attendance
T Brewer	Audit Committee Chair	3/3
M Bower	Appointed 23 November 2015	2/3
APH Jammine		2/3
N Weltman		2/3

The head of Netcare Group Internal Audit as well as Grant Thornton, in their capacity as external auditors 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, one member of the Committee is also a member of the Risk Committee. Divisional Internal Audit Committee meetings are also held twice a year and Grant Thornton in their capacity as external auditors of Netcare attend these meetings.

In the United Kingdom (UK), General Healthcare Group (GHG) operates an independent Audit Committee that reports through the Group Audit Committee. The GHG Audit Committee is chaired by G Hughes and its members are all non-executive directors of GHG.

## EXTERNAL AUDITORS

Grant Thornton is the appointed auditor for the Group and Company, with the audit partner, DS Reuben, 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 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 are 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 2016 amounted to R12 million for audit services and R1 million for other services.

Deloitte LLP is the appointed auditor for GHG in the UK. The fees paid to Deloitte for the financial year ended 30 September 2016 amounted to £0.5 million for audit services and £0.4 million for other services.

## 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.

## OTHER MATTERS

The Audit Committee reviewed the King IV recommendations and will review the proposed roll out of processes to ensure the Group's compliance with the revised code in 2017. The Committee also critically reviewed mandatory audit firm rotation and submitted comments on the topic to the JSE and the current position paper issued by IRBA is being reviewed for comment.

## APPROVAL OF AUDIT COMMITTEE REPORT

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



**T Brewer**

Audit Committee Chairperson

Sandton

14 November 2016

## Report of the independent auditor

### TO THE SHAREHOLDERS OF NETCARE LIMITED

We have audited the consolidated and separate financial statements of Netcare Limited set out on pages 13 to 109, which comprise the statements of financial position as at 30 September 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### DIRECTORS' RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

### AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

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 2016, 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.

### OTHER REPORTS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 30 September 2016, we have read the Directors' Report, Audit Committee's Report and Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

### 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 20 years.



**Grant Thornton Johannesburg**  
Registered Auditors

DS Reuben  
Partner  
Registered Auditor  
Chartered Accountant (SA)

@ Grant Thornton  
Wanderers Office Park  
52 Corlett Drive  
Illovo 2196

17 November 2016

## Group statement of profit or loss

FOR THE YEAR ENDED 30 SEPTEMBER

Rm	Notes	2016	2015
<b>Revenue</b>	2.1	<b>37 796</b>	33 711
Cost of sales		<b>(21 312)</b>	(18 948)
<b>Gross profit</b>		<b>16 484</b>	14 763
Other income		<b>457</b>	498
Administrative and other expenses		<b>(12 793)</b>	(11 533)
<b>Operating profit</b>	2.2	<b>4 148</b>	3 728
Investment income	3.3	<b>404</b>	367
Financial expenses	3.4	<b>(777)</b>	(700)
Other financial losses – net	6.3	<b>(2 048)</b>	(134)
Attributable earnings of associates		<b>100</b>	66
Attributable earnings of joint ventures		<b>57</b>	48
<b>Profit before taxation</b>		<b>1 884</b>	3 375
Taxation	2.4	<b>(836)</b>	(936)
<b>Profit for the year</b>		<b>1 048</b>	2 439
<i>Attributable to:</i>			
Owners of the parent		<b>1 667</b>	2 412
Preference shareholders		<b>52</b>	49
Profit attributable to shareholders		<b>1 719</b>	2 461
Non-controlling interest		<b>(671)</b>	(22)
		<b>1 048</b>	2 439
<b>Earnings per share (cents)</b>			
Basic	2.3	<b>122.6</b>	178.9
Diluted	2.3	<b>120.6</b>	174.8

## Group statement of other comprehensive income

### FOR THE YEAR ENDED 30 SEPTEMBER

Rm	Notes	2016	2015
<b>Profit for the year</b>		<b>1 048</b>	2 439
<b>Items that may not subsequently be reclassified to profit or loss</b>		<b>–</b>	(88)
Remeasurement of defined benefit obligation	4.2.2	<b>–</b>	(123)
Actuarial losses on defined benefit obligations		<b>(533)</b>	(75)
Actuarial gains relating to plan assets		<b>621</b>	239
Unrecognised pension surplus		<b>(97)</b>	(298)
Future defined benefit pension scheme provision		<b>9</b>	11
Taxation on items that may not subsequently be reclassified to profit or loss	8.5	<b>–</b>	35
<b>Items that may subsequently be reclassified to profit or loss</b>		<b>(1 142)</b>	912
Effect of cash flow hedge accounting		<b>(15)</b>	44
Change in fair value of cash flow hedges		<b>(36)</b>	7
Reclassification of the cash flow hedge accounting reserve		<b>21</b>	37
Effect of translation of foreign entities		<b>(1 131)</b>	878
Taxation on items that may subsequently be reclassified to profit or loss	8.5	<b>4</b>	(10)
<b>Other comprehensive (loss)/income for the year</b>		<b>(1 142)</b>	824
<b>Total comprehensive (loss)/income for the year</b>		<b>(94)</b>	3 263
Attributable to:			
Owners of the parent		<b>1 005</b>	2 814
Preference shareholders		<b>52</b>	49
Non-controlling interest		<b>(1 151)</b>	400
		<b>(94)</b>	3 263

## Group statement of financial position

AT 30 SEPTEMBER

Rm	Notes	2016	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	2.8	14 421	13 622
Goodwill	2.10	3 942	4 482
Intangible assets	2.9	314	397
Investment in joint ventures	9.1	191	197
Investment in associates	9.2	721	668
Loans and receivables	9.3	1 652	1 680
Financial assets	6.1	34	57
Deferred lease assets		21	16
Deferred taxation	2.5	1 318	1 597
<b>Total non-current assets</b>		<b>22 614</b>	22 716
<b>Current assets</b>			
Loans and receivables	9.3	58	71
Inventories	5.2	1 019	1 107
Trade and other receivables	5.1	4 972	5 192
Taxation receivable		16	19
Cash and cash equivalents	3.2	1 980	2 551
		<b>8 045</b>	8 940
Assets classified as held for sale		–	8
<b>Total current assets</b>		<b>8 045</b>	8 948
<b>Total assets</b>		<b>30 659</b>	31 664
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Ordinary share capital and premium	8.1	4 197	4 033
Treasury shares	8.2	(3 768)	(3 713)
Other reserves		2 465	3 090
Retained earnings		7 283	6 902
Equity attributable to owners of the parent		<b>10 177</b>	10 312
Preference share capital and premium	8.3	644	644
Non-controlling interest	8.4	2 188	3 325
<b>Total shareholders' equity</b>		<b>13 009</b>	14 281
<b>Non-current liabilities</b>			
Long-term debt	3.1	6 132	6 104
Financial liabilities	6.2	2 158	224
Post-retirement benefit obligations	4.2	427	400
Deferred lease liabilities		124	118
Deferred taxation	2.5	1 207	1 633
Provisions	7.1	113	150
<b>Total non-current liabilities</b>		<b>10 161</b>	8 629
<b>Current liabilities</b>			
Trade and other payables	5.3	6 012	6 403
Short-term debt	3.1	1 390	2 162
Financial liabilities	6.2	5	4
Taxation payable		81	110
Bank overdrafts	3.2	1	75
<b>Total current liabilities</b>		<b>7 489</b>	8 754
<b>Total equity and liabilities</b>		<b>30 659</b>	31 664

## 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
<b>Balance at 1 October 2014</b>	15	947	(735)	(19)
Shares issued during the year	–	37	–	–
Sale of treasury shares	–	–	56	–
Restructure of HPFL B-BBEE Trusts <sup>1</sup>	–	3 034	(3 034)	–
Share-based payment reserve movements	–	–	–	–
Income tax recognised in equity	–	–	–	–
Preference dividends paid	–	–	–	–
Dividends paid <sup>2</sup>	–	–	–	–
Distributions to beneficiaries of the HPFL B-BBEE Trusts	–	–	–	–
Increase in equity interest in subsidiaries	–	–	–	–
Total comprehensive income for the year	–	–	–	22
<b>Balance at 30 September 2015</b>	<b>15</b>	<b>4 018</b>	<b>(3 713)</b>	<b>3</b>
Shares issued during the year	–	164	(141)	–
Sale of treasury shares	–	–	86	–
Share-based payments reserve movements	–	–	–	–
Tax recognised in equity	–	–	–	–
Preference dividends paid	–	–	–	–
Dividends paid <sup>2</sup>	–	–	–	–
Distributions to beneficiaries of the HPFL B-BBEE Trusts	–	–	–	–
Increase in equity interest in subsidiaries	–	–	–	–
Total comprehensive income for the year	–	–	–	(17)
<b>Balance at 30 September 2016</b>	<b>15</b>	<b>4 182</b>	<b>(3 768)</b>	<b>(14)</b>

1. Refer to note 4.3 for more detail relating to this transaction.

2. Refer to page 5 of the directors' report for detail of the ordinary dividends paid.

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 share- holders' equity
32	2 172	90	285	5 859	8 646	644	2 882	12 172
-	-	-	-	-	37	-	-	37
-	-	-	-	244	300	-	-	300
-	-	-	-	(53)	(53)	-	-	(53)
-	-	-	39	-	39	-	-	39
-	-	-	-	(90)	(90)	-	-	(90)
-	-	-	-	-	-	(49)	-	(49)
-	-	-	-	(1 166)	(1 166)	-	(9)	(1 175)
-	-	-	-	(211)	(211)	-	-	(211)
-	-	-	-	(4)	(4)	-	52	48
-	469	-	-	2 323	2 814	49	400	3 263
<b>32</b>	<b>2 641</b>	<b>90</b>	<b>324</b>	<b>6 902</b>	<b>10 312</b>	<b>644</b>	<b>3 325</b>	<b>14 281</b>
-	-	-	-	-	23	-	-	23
-	-	-	-	15	101	-	-	101
-	-	-	33	-	33	-	-	33
-	-	-	-	35	35	-	-	35
-	-	-	-	-	-	(52)	-	(52)
-	-	-	-	(1 250)	(1 250)	-	(9)	(1 259)
-	-	-	-	(74)	(74)	-	-	(74)
-	-	-	-	(8)	(8)	-	23	15
-	(641)	-	-	1 663	1 005	52	(1 151)	(94)
<b>32</b>	<b>2 000</b>	<b>90</b>	<b>357</b>	<b>7 283</b>	<b>10 177</b>	<b>644</b>	<b>2 188</b>	<b>13 009</b>

## Group statement of cash flows

FOR THE YEAR ENDED 30 SEPTEMBER

Rm	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Cash received from customers		<b>37 561</b>	33 523
Cash paid to suppliers and employees		<b>(32 279)</b>	(28 567)
<b>Cash generated from operations</b>	2.6	<b>5 282</b>	4 956
Interest paid		<b>(678)</b>	(600)
Taxation paid	2.7	<b>(950)</b>	(1 104)
Ordinary dividends paid by subsidiaries		<b>(9)</b>	(9)
Ordinary dividends paid		<b>(1 250)</b>	(1 166)
Preference dividends paid		<b>(52)</b>	(49)
Distribution to beneficiaries of the HPFL B-BBEE Trusts		<b>(74)</b>	(211)
<b>Net cash from operating activities</b>		<b>2 269</b>	1 817
<b>Cash flows from investing activities</b>			
Acquisition of businesses	9.4	<b>(18)</b>	(39)
Acquisition of business loans	9.4	<b>(25)</b>	–
Acquisition of property, plant and equipment	2.8	<b>(2 789)</b>	(2 641)
Additions to intangible assets	2.9	<b>(33)</b>	(12)
Proceeds on disposal of property, plant and equipment and intangible assets		<b>60</b>	68
Proceeds on disposal of business	9.5	<b>20</b>	3
Decrease/(increase) in investments and loans		<b>119</b>	(145)
Interest received		<b>161</b>	152
Dividends received		<b>34</b>	12
Cash related to acquisition of business	9.4	<b>1</b>	4
Increase in equity from associates and joint ventures to subsidiaries	9.6	<b>(43)</b>	(49)
<b>Net cash flow from investing activities</b>		<b>(2 513)</b>	(2 647)
<b>Cash flows from financing activities</b>			
Proceeds on disposal of treasury shares		<b>101</b>	300
Proceeds from issue of ordinary shares		<b>23</b>	37
Long-term debt raised		<b>356</b>	828
Short-term debt (repaid)/raised		<b>(572)</b>	278
Acquisition of non-controlling interests		<b>9</b>	–
<b>Net cash from financing activities</b>		<b>(83)</b>	1 443
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(327)</b>	613
Translation effects on cash and cash equivalents of foreign entities		<b>(170)</b>	157
Cash and cash equivalents at beginning of the year		<b>2 476</b>	1 706
<b>Cash and cash equivalents at the end of the year</b>	3.2	<b>1 979</b>	2 476

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# Notes to the Group annual financial statements

FOR THE YEAR ENDED 30 SEPTEMBER

## 1. ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS

### 1.1 Basis of preparation

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

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are 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 when otherwise indicated. Foreign currency exchange rates used in the preparation of converting into Rands are:

	30 September 2016 Closing rate	30 September 2016 Average rate	30 September 2015 Closing rate	30 September 2015 Average rate
– GBP British Pounds	17.79	21.04	20.94	18.55
– MZN Mozambique Meticals	5.68	3.75	3.03	2.92

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 Group's private hospital network and emergency medical services and additional services.
- > **Primary Care**  
This segment offers comprehensive primary healthcare services and managed care.

##### 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.

## 1. ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS *continued*

### 1.1 Basis of preparation *continued*

#### Changes to the presentation of the financial statements and notes on the financial statements

In order to facilitate improved reading of the financial statements, we have made the following amendments in the current year. The order of the notes is based on IAS1.114(a) of IFRS, which gives prominence to the areas of our activities that the Group considers most relevant to understand our financial performance and position. This new grouping has been detailed on page 19. In addition, as part of this process, certain immaterial disclosures and accounting policies have been removed from the financial statements. In applying materiality to financial statement disclosures, we consider both the quantitative and qualitative materiality of each item. The main change to the presentation of the financial statements and notes thereon in 2016, is:

In 2015, the financial statements included the section "Accounting Policies". In 2016, the accounting policies have been included, whenever possible, within the relevant notes to the financial statements, and the changes in wording are intended to more clearly set out the accounting policies that are specific to Netcare. These changes in the wording do not represent changes in accounting policies.

### 1.2 Going concern

The directors consider it appropriate to adopt the going concern basis in preparing the Group and Company 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 2015.

Accounting policies for which no choice is permitted in terms of International Financial Reporting Standards have been included only if management concluded that the disclosure would assist users in understanding the financial statements as a whole, and 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 early adopted the disclosure initiative Amendments to IAS 1: Presentation of financial statements. The order of the notes as well as the presentation of the accounting policies have been amended to improve the communication of the results.

No further new, revised and amended standards were implemented during the financial reporting period ended 30 September 2016.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 1. ACCOUNTING FRAMEWORK AND CRITICAL JUDGEMENTS *continued*

#### 1.4 Critical accounting judgements, estimates and assumptions

The Group prepares its financial statements in accordance with IFRS which requires management to make judgements, accounting estimates and assumptions that affect the reported income, expenses, assets, liabilities and disclosure of contingent assets and liabilities. Use of available information and the application of judgement and assumptions are inherent in the formation of estimates. The actual results could differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised.

Certain accounting policies have been identified as involving particularly complex or subjective judgements, assumptions or assessments during the year and have been included in the relevant notes accordingly.

#### 1.5 Events after the reporting period

##### UK Rent Transaction

In October 2016, BMI, and its major external landlord, Hospital Topco, agreed heads of terms for a potential rent reduction transaction in relation to existing long-term leases for 35 BMI hospitals. The RPI swap instruments relating to these leases are expected to be eliminated as part of the arrangement. The parties remain constructively engaged in moving the deal to completion. A UK rent transaction will require approval from the boards of directors of BMI and Hospital Topco and will be subject to consent from certain lenders of Hospital Topco, as well as the refinancing of BMI.

On 21 October 2016 it was announced that BMI is in the process of refinancing its existing debt facilities, inclusive of the funding required for the UK rent transaction. BMI reported gross debt of £167.9 million and net debt of £110.0 million at 30 September 2016. The proposed refinancing consists of: (1) a senior term loan facility of up to £285 million; (2) a revolving credit facility of up to £75 million; and (3) a second lien facility of £66 million, in which Netcare holds a contractual economic interest.

In the period from 1 October 2016 to 31 October 2016, the mark-to-market value of the RPI swaps fell to R1 188 million (£72.1 million) reflecting movements in market expectations of future inflation indices.

##### Akeso Clinics

On 15 November 2016 the Netcare Board approved the proposed acquisition by Netcare of Akeso Clinics, which is a national group of 12 dedicated mental healthcare facilities comprising 873 beds. This transaction is subject to the usual regulatory approvals.

##### Pharmacy Outsourcing Agreement

The outsourcing of Netcare's hospital retail front shop operations and the Medicross retail pharmacies to Clicks was approved by the Competition Commission and Competition Tribunal on 11 November 2016. Clicks will take over the 37 Medicross pharmacies on 1 December 2016 and the retail front shop pharmacy operations within 45 Netcare hospitals with effect from 1 February 2017. The outsourcing agreement will not have a material impact on the earnings or financial position of the Group.

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 2016 or the results of its operations or cash flow for the year then ended.

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## 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 revenue, theatre and ward fees 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 consumed.

Rm	2016	2015
<b>South Africa</b>	<b>18 958</b>	17 289
Hospital and Emergency Services	<b>17 780</b>	16 119
Primary Care	<b>1 178</b>	1 170
<b>United Kingdom</b>	<b>18 838</b>	16 422
	<b>37 796</b>	33 711

## Notes to the Group annual financial statements continued for the year ended 30 September

### 2. INVESTMENTS AND RETURNS *continued*

#### 2.2 Operating profit

##### Short-term employee benefits

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

Rm	2016	2015
<b>Operating profit after charging:</b>		
Amortisation of intangible assets	101	118
Auditors' remuneration	27	21
Audit fees – current year	22	17
Audit fees – prior year	4	3
Fees for other services	1	1
Depreciation of property, plant and equipment	1 290	1 135
Directors' emoluments	42	37
Executive directors paid by subsidiaries		
Basic remuneration, bonuses, retirement and medical benefits	33	30
Non-executive directors		
Consulting fees and fees for services as directors	9	7
Employee costs (excluding directors' emoluments)	12 926	11 617
Salaries and wages	12 392	11 113
Group retirement benefit contributions	467	441
Amount expensed in terms of defined benefit schemes	34	24
Share-based payment expenses	33	39
Loss on disposal of investments	–	2
Loss on disposal of property, plant and equipment	5	3
Operating lease charges	4 126	3 625
Land and buildings	4 085	3 583
GHG Property Businesses	3 124	2 683
Other	961	900
Motor vehicles	41	42
Technical, managerial and secretarial services	49	43
<b>After crediting:</b>		
Fair value gain on investments on acquisition of control	11	77
Gain on bargain purchase	2	1
Profit on disposal of property, plant and equipment	23	33
Profit on disposal of investments	4	1
Reversal of investment impairment	44	–

## 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.

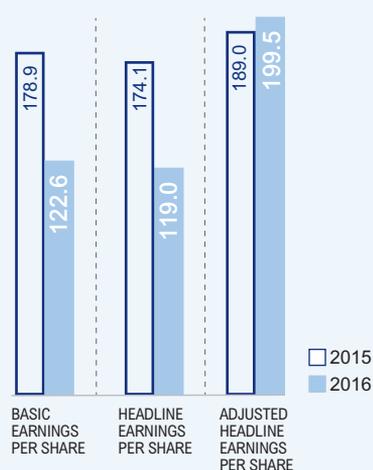
No adjustments were made to reported earnings attributable to shareholders in the computation of diluted earnings per share.

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 2/2015 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	2016	2015
Basic earnings per share	<b>122.6</b>	178.9
Diluted earnings per share	<b>120.6</b>	174.8
Headline earnings per share	<b>119.0</b>	174.1
Diluted headline earnings per share	<b>117.1</b>	170.0
Adjusted headline earnings per share	<b>199.5</b>	189.0

#### Earnings per share



**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**2. INVESTMENTS AND RETURNS** *continued*

**2.3 Earnings per share** *continued*

Million	2016	2015
<b>Weighted average number of ordinary shares</b>		
The weighted average number of ordinary shares used in the calculations is as follows:		
Weighted average number of shares	<b>1 354</b>	1 345
Potential dilutive effect of employee share options and HPFL B-BBEE Trust units	<b>22</b>	32
<b>Diluted weighted average number of shares</b>	<b>1 376</b>	1 377
<b>Potential dilutive effect of employee share options and HPFL B-BBEE Trust units</b>		
The dilutive effect is arrived as follows:		
Netcare Share Incentive Scheme	<b>1</b>	3
Forfeitable Share Plan	<b>6</b>	6
HPFL B-BBEE Trust units	<b>15</b>	23
	<b>22</b>	32
Rm	2016	2015
<b>Basic earnings per share</b>		
The profit used in the calculation of basic earnings per share is as follows:		
Profit for the year	<b>1 048</b>	2 439
Adjusted for:		
Dividends paid on shares attributable to the Forfeitable Share Plan	<b>(7)</b>	(6)
Preference shareholders	<b>(52)</b>	(49)
Non-controlling interest	<b>671</b>	22
<b>Profit attributable to owners of the parent</b>	<b>1 660</b>	2 406

## 2. INVESTMENTS AND RETURNS continued

### 2.3 Earnings per share continued

Rm	Gross pre tax & non-controlling interests 2016	Net 2016	Gross pre tax & non-controlling interests 2015	Net 2015
<b>Headline earnings</b>				
Headline earnings are determined as follows:				
<b>Earnings used in the calculation of basic earnings per share</b>	<b>1 884</b>	<b>1 660</b>	3 375	2 406
Adjusted for:				
Bargain purchase on acquisition of subsidiary	(2)	(2)	(1)	(1)
Fair value gains on investments on acquisition of control	(11)	(7)	(77)	(49)
Reversal of impairment on investments	(44)	(24)	–	–
Reversal of impairment of property, plant and equipment	(1)	(1)	–	–
Profit on disposal of property, plant and equipment and intangibles	(18)	(12)	(30)	(16)
Loss on disposal of investments	–	–	1	1
Profit on disposal of investments	(4)	(3)	–	–
<b>Headline earnings</b>	<b>1 804</b>	<b>1 611</b>	3 268	2 341
<b>Adjusted headline earnings</b>				
Adjusted headline earnings are determined as follows:				
<b>Headline earnings</b>	<b>1 804</b>	<b>1 611</b>	3 268	2 341
Adjusted for:				
Amount reclassified from the cash flow hedge accounting reserve	20	9	36	16
Fair value losses on derivative financial instruments	2 029	1 074	109	49
Ineffectiveness losses on cash flow hedges	(1)	–	–	–
Competition Commission costs	30	22	42	30
Recognition of loan impairment	3	3	4	4
Restructure costs	2	3	223	102
Change in tax rate	–	(21)	–	–
<b>Adjusted headline earnings</b>	<b>3 887</b>	<b>2 701</b>	3 682	2 542

**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**2. INVESTMENTS AND RETURNS** *continued*

**2.4 Taxation**

Rm	Note	2016	2015
<b>South African normal taxation</b>			
Current year		<b>(911)</b>	(884)
Prior years		<b>(4)</b>	1
Capital gains tax		<b>(6)</b>	–
		<b>(921)</b>	(883)
<b>Foreign taxation</b>			
Current year		<b>(19)</b>	(19)
Prior years		<b>4</b>	–
		<b>(15)</b>	(19)
<b>Income tax</b>			
		<b>(936)</b>	(902)
<b>South African deferred taxation</b>			
Current year		<b>(30)</b>	(7)
Prior years		<b>2</b>	(1)
Rate change		<b>(10)</b>	–
		<b>(38)</b>	(8)
<b>Foreign deferred taxation<sup>1</sup></b>			
Current year		<b>92</b>	(11)
Prior years		<b>26</b>	(15)
Rate change		<b>20</b>	–
		<b>138</b>	(26)
<b>Deferred taxation</b>	2.5	<b>100</b>	(34)
<b>Total taxation per statement of profit or loss</b>		<b>(836)</b>	(936)

1. Included in this amount in the current year is a credit of R130 million relating to tax on the UK RPI swap instruments non-cash fair value adjustment of R1 988 million recognised in September 2016. Refer to note 6.2 and 6.3 for more information.

## 2. INVESTMENTS AND RETURNS continued

### 2.4 Taxation continued

	2016	2015
<b>Reconciliation of effective taxation rate (%)</b>		
South African normal tax rate	28.0	28.0
Adjusted for:		
Assessed losses created/(utilised)	11.1	(1.0)
Capital gains tax	0.3	–
Different foreign tax rate	7.4	0.1
Net non taxable income and allowances	(1.8)	–
Change in statutory tax rate	(0.5)	–
Prior year's taxation	(1.5)	0.5
Translation of foreign entities	1.4	0.1
<b>Effective taxation rate</b>	<b>44.4</b>	<b>27.7</b>
Rm		
<b>Estimated taxation losses</b>		
Unused tax losses available for set-off against future taxable income		
South Africa	350	435
United Kingdom	6 864	6 709
	<b>7 214</b>	<b>7 144</b>
Utilised against the deferred tax balance		
South Africa	(298)	(315)
United Kingdom	(4 913)	(5 656)
	<b>(5 211)</b>	<b>(5 971)</b>
Not recognised as a deferred tax asset		
South Africa	52	120
United Kingdom	1 951	1 053
	<b>2 003</b>	<b>1 173</b>

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.

### 2.5 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	2016	2015
<b>Reconciliation of movement</b>			
Balance at beginning of year		(36)	59
Current year charge			
Per the statement of profit or loss	2.4	100	(34)
Amounts recognised in other comprehensive income		4	22
Amounts recognised directly in equity		25	(43)
Acquisition of businesses		(1)	(16)
Translation of foreign entities		19	(24)
<b>Balance at end of year</b>		<b>111</b>	<b>(36)</b>
Comprising:			
Deferred tax assets		1 318	1 597
Deferred tax liabilities		(1 207)	(1 633)
		<b>111</b>	<b>(36)</b>

**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**2. INVESTMENTS AND RETURNS** continued

**2.5 Deferred taxation** continued

Rm	Balance at beginning of year	Reclassification between categories	Recognised in profit or loss
<b>2016</b>			
Property, plant and equipment	(301)	(87)	19
Cash-settled share-based payments of subsidiaries	6	–	–
Prepayments	(8)	–	(1)
Allowance for doubtful debts	25	–	8
Post-retirement benefit obligations	118	–	8
Payroll accruals and provisions	147	–	24
Deferred lease liabilities/derivatives	(1 121)	42	197
Calculated tax losses	1 221	–	(94)
Financial instruments	37	(42)	3
Other temporary differences	(160)	87	(64)
	(36)	–	100

Rm	Balance at beginning of year	Reclassification between categories	Recognised in profit or loss
<b>2015</b>			
Property, plant and equipment	(228)	–	(27)
Cash-settled share-based payments of subsidiaries	32	–	1
Prepayments	(9)	–	1
Allowance for doubtful debts	26	–	(1)
Post-retirement benefit obligations	79	–	5
Payroll accruals and provisions	167	–	(20)
Deferred lease liabilities/derivatives	(958)	–	(17)
Calculated tax losses	1 064	–	19
Financial instruments	15	–	22
Other temporary differences	(129)	–	(17)
	59	–	(34)

Recognised in other comprehensive income	Recognised directly in equity	Acquisitions/ disposals	Exchange differences	Balance at end of year
-	-	(1)	33	(337)
-	(5)	-	-	1
-	-	-	-	(9)
-	-	-	-	33
(2)	-	-	(1)	123
-	-	-	-	171
-	-	-	157	(725)
-	-	-	(167)	960
6	-	-	1	5
-	30	-	(4)	(111)
4	25	(1)	19	111

Recognised in other comprehensive income	Recognised directly in equity	Acquisitions/ disposals	Exchange differences	Balance at end of year
-	-	(17)	(29)	(301)
-	(27)	-	-	6
-	-	-	-	(8)
-	-	-	-	25
32	-	-	2	118
-	-	-	-	147
-	-	-	(146)	(1 121)
-	-	1	137	1 221
(10)	-	-	10	37
-	(16)	-	2	(160)
22	(43)	(16)	(24)	(36)

**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**2. INVESTMENTS AND RETURNS** *continued*

**2.6 Cash generated from operations**

Rm	Notes	2016	2015
<b>Operating profit</b>		<b>4 148</b>	3 728
Adjustments for:			
Amortisation of intangible assets	2.9	<b>101</b>	118
Depreciation of property, plant and equipment	2.8	<b>1 290</b>	1 135
Profit on disposal of property, plant and equipment and intangible assets		<b>(18)</b>	(30)
Reversal of impairment of property, plant and equipment	2.9	<b>(1)</b>	–
Recognition of loan impairments		<b>3</b>	4
Reversal of impairment of investments and loans		<b>(44)</b>	–
(Profit)/loss on disposal of investments (net)		<b>(4)</b>	1
Increase in deferred lease liabilities		<b>15</b>	19
Share-based payment expense	4.3	<b>33</b>	39
Fair value gains on investments on acquisition of control		<b>(11)</b>	(77)
Other non-cash flow items		<b>29</b>	31
<b>Cash generated from operations before working capital changes</b>		<b>5 541</b>	4 968
Increase in trade and other receivables		<b>(235)</b>	(188)
Decrease/(increase) in inventories		<b>16</b>	(54)
(Decrease)/increase in trade and other payables		<b>(40)</b>	230
		<b>5 282</b>	4 956

**2.7 Taxation paid**

Rm	2016	2015
Amounts payable at beginning of year (net)	<b>91</b>	198
Charge per the profit or loss (excluding deferred taxation)	<b>936</b>	902
Other taxation movements through equity	<b>(10)</b>	97
Translation of foreign entities	<b>(2)</b>	(2)
Amounts payable at end of year (net)	<b>(65)</b>	(91)
	<b>950</b>	1 104

## 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 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.

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.

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 (cash generating unit)] and, if lower, the assets are impaired to that value.

Property, plant and equipment is depreciated over the useful lives of the assets taking into account residual values, where appropriate. 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 consider issues such as future market conditions, the remaining lives of the assets and projected disposal values. Property, plant and equipment is depreciated to estimated residual value on a straight-line basis over the assets expected useful lives.

Land is not depreciated. During the 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 until there is some headroom between carrying value and depreciated replacement 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 2016 financial year were as follows:

Land	Indefinite
Buildings	5 – 50 years
Leasehold improvements	Shorter of the lease term and the asset's useful life
Computer equipment	1 – 20 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.

**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**2. INVESTMENTS AND RETURNS** *continued*

**2.8 Property, plant and equipment** *continued*

Rm	Freehold and leasehold land and buildings	Assets under construction	Computer equipment
Carrying value at 1 October 2014	7 463	723	296
Additions	337	1 074	109
Disposals	(20)	–	–
Depreciation	(293)	–	(114)
Acquisition of businesses	98	–	–
Transfers between categories	901	(1 022)	74
Transfers to intangible assets	–	–	(34)
Transfer to non-current assets held for sale <sup>1</sup>	(8)	–	–
Translation of foreign entities	310	32	19
<b>Carrying value at 30 September 2015</b>	<b>8 788</b>	<b>807</b>	<b>350</b>
Additions	<b>271</b>	<b>1 245</b>	<b>138</b>
Disposals	<b>(13)</b>	<b>(9)</b>	<b>(2)</b>
Depreciation	<b>(251)</b>	–	<b>(128)</b>
Reversal of impairment	–	–	–
Acquisition of businesses	<b>29</b>	–	–
Transfers between categories	<b>955</b>	<b>(966)</b>	<b>16</b>
Transfers to intangible assets	–	–	<b>(17)</b>
Translation of foreign entities	<b>(387)</b>	<b>(14)</b>	<b>(31)</b>
<b>Carrying value at 30 September 2016</b>	<b>9 392</b>	<b>1 063</b>	<b>326</b>

1. The transfer relates to an unused property that was sold on 16 May 2016.

Furniture and equipment	Medical equipment	Motor vehicles and aircraft	Plant and machinery	Total
221	2 778	18	5	11 504
73	1 035	1	12	2 641
(1)	(14)	–	–	(35)
(45)	(671)	(1)	(11)	(1 135)
–	1	–	–	99
(3)	50	–	–	–
–	–	–	–	(34)
–	–	–	–	(8)
15	216	–	(2)	590
<b>260</b>	<b>3 395</b>	<b>18</b>	<b>4</b>	<b>13 622</b>
<b>61</b>	<b>1 042</b>	<b>11</b>	<b>21</b>	<b>2 789</b>
<b>(1)</b>	<b>(9)</b>	<b>–</b>	<b>–</b>	<b>(34)</b>
<b>(106)</b>	<b>(784)</b>	<b>(5)</b>	<b>(16)</b>	<b>(1 290)</b>
–	–	1	–	1
1	–	–	–	30
–	(5)	–	–	–
–	–	–	–	(17)
<b>(13)</b>	<b>(236)</b>	<b>(1)</b>	<b>2</b>	<b>(680)</b>
<b>202</b>	<b>3 403</b>	<b>24</b>	<b>11</b>	<b>14 421</b>

## Notes to the Group annual financial statements continued for the year ended 30 September

### 2. INVESTMENTS AND RETURNS *continued*

#### 2.8 Property, plant and equipment *continued*

Rm	Cost	Accumulated depreciation and impairments	Carrying value
<b>Net carrying value</b>			
<b>2016</b>			
Freehold and leasehold land and buildings	<b>11 615</b>	<b>(2 223)</b>	<b>9 392</b>
Assets under construction	<b>1 063</b>	<b>–</b>	<b>1 063</b>
Computer equipment	<b>1 067</b>	<b>(741)</b>	<b>326</b>
Furniture and equipment	<b>586</b>	<b>(384)</b>	<b>202</b>
Medical equipment	<b>8 135</b>	<b>(4 732)</b>	<b>3 403</b>
Motor vehicles and aircraft	<b>34</b>	<b>(10)</b>	<b>24</b>
Plant and machinery	<b>27</b>	<b>(16)</b>	<b>11</b>
	<b>22 527</b>	<b>(8 106)</b>	<b>14 421</b>
<b>2015</b>			
Freehold and leasehold land and buildings	10 965	(2 177)	8 788
Assets under construction	807	–	807
Computer equipment	1 061	(711)	350
Furniture and equipment	570	(310)	260
Medical equipment	7 965	(4 570)	3 395
Motor vehicles and aircraft	25	(7)	18
Plant and machinery	17	(13)	4
<b>Net carrying value</b>	<b>21 410</b>	<b>(7 788)</b>	<b>13 622</b>

The South African hospital 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 R9.4 billion as at 30 September 2016. 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 R21.9 billion as at 30 September 2015. The fair value was determined using the capitalisation of the first year's net income approach for the hospitals, 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:

- > The valuation exercise has assumed "fair value in continuation of existing use closing".
- > 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.

## 2. INVESTMENTS AND RETURNS *continued*

### 2.8 Property, plant and equipment *continued*

- 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.

#### Impairment losses recognised in the year

Management assessed whether there were any indicators of impairment in the current year and none were identified and as such no impairment tests were performed. During the year an impairment of R1 million initially recognised in 2014 was reversed. This relates to the recoverable amount of an aircraft which is now considered to be higher than the cost.

The reversal of the impairment is included in profit for the year, in administrative and other expenses.

#### Borrowing costs

Borrowing costs of R48 million (2015: R51 million) were capitalised during the year and are included in "Additions" in the movement summary.

The capitalisation rate ranges between 9.0% – 11.0%.

#### Security

Property, plant and equipment with a carrying value of R326 million (2015: R332 million) has been encumbered as security for debt. Refer to note 3.1 for more details.

### 2.9 Intangible assets

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

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

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.

Where appropriate, the fair value of assets less cost to sell is used in the impairment assessment.

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.

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 2016 financial year were as follows:

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

## Notes to the Group annual financial statements continued for the year ended 30 September

### 2. INVESTMENTS AND RETURNS *continued*

#### 2.9 Intangible assets *continued*

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.

Rm	Management contracts and other	Software	Development expenditure	Total
<b>2016</b>				
<b>Net carrying value</b>				
Cost	<b>70</b>	<b>1 091</b>	<b>37</b>	<b>1 198</b>
Accumulated amortisation and impairment losses	<b>–</b>	<b>(876)</b>	<b>(8)</b>	<b>(884)</b>
	<b>70</b>	<b>215</b>	<b>29</b>	<b>314</b>
<b>Movement in the carrying value</b>				
Carrying value at 1 October 2015	<b>76</b>	<b>308</b>	<b>13</b>	<b>397</b>
Additions	<b>8</b>	<b>9</b>	<b>16</b>	<b>33</b>
Amortisation	<b>(6)</b>	<b>(94)</b>	<b>(1)</b>	<b>(101)</b>
Transfers from property, plant and equipment	<b>–</b>	<b>15</b>	<b>2</b>	<b>17</b>
Transfers between categories	<b>1</b>	<b>(1)</b>	<b>–</b>	<b>–</b>
Translation of foreign entities	<b>(9)</b>	<b>(22)</b>	<b>(1)</b>	<b>(32)</b>
<b>Carrying value at 30 September 2016</b>	<b>70</b>	<b>215</b>	<b>29</b>	<b>314</b>
<b>2015</b>				
<b>Net carrying value</b>				
Cost	129	1 229	21	1 379
Accumulated amortisation and impairment losses	(53)	(921)	(8)	(982)
	76	308	13	397
<b>Movement in intangible assets</b>				
Carrying value at 1 October 2014	85	336	16	437
Additions	2	10	–	12
Disposals	–	(3)	–	(3)
Amortisation	(7)	(110)	(1)	(118)
Transfers from property, plant and equipment	–	51	(17)	34
Transfers between categories	(13)	2	11	–
Translation of foreign entities	9	22	4	35
<b>Carrying value at 30 September 2015</b>	<b>76</b>	<b>308</b>	<b>13</b>	<b>397</b>

The remaining amortisation periods for intangible assets at 30 September 2016 are:

Management contracts and other	3 – 19 years
Software	2 – 10 years
Development expenditure	7 years

No borrowing costs were capitalised during the 2016 and 2015 years.

## 2. INVESTMENTS AND RETURNS *continued*

### 2.10 Goodwill

Rm	2016	2015
<b>Net carrying value</b>		
Cost	3 975	4 515
Accumulated impairment losses	(33)	(33)
	<b>3 942</b>	4 482
The movement in the carrying value of goodwill is as follows:		
Balance at beginning of year	4 482	3 879
Acquisition of businesses	54	137
Translation of foreign entities	(594)	466
<b>Balance at end of year</b>	<b>3 942</b>	4 482

#### Goodwill impairment testing

Goodwill is allocated to the cash generating unit (CGU) that is expected to benefit from the acquisition.

Goodwill is considered for impairment annually. Factors taken into consideration include the economic viability of the asset itself and where it is a component of a larger 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 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.

Where appropriate, the fair value of assets less cost to sell is used in the impairment assessment.

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.

Impairment losses of CGUs are first used to reduce the net carrying value of the goodwill and then to reduce the carrying value of other assets.

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

Rm	2016	2015
<b>South Africa</b>		
Hospital operations	359	359
Primary Care operations	186	155
<b>United Kingdom</b>		
BMI Healthcare	3 397	3 968
	<b>3 942</b>	4 482

#### 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 2016 to 30 September 2021. 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) of 13.5% (2015: 13.6%) is based on current market assessments of the optimal capital structure, cost of debt and cost of equity.
- > Long term growth rate of 5.5% (2015: 5.5%).

The amount by which the value-in-use exceeds the carrying value is significantly large to enable the directors to conclude that any possible reasonable change in any of the key assumptions would not result in an impairment loss.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 2. INVESTMENTS AND RETURNS *continued*

#### 2.10 Goodwill *continued*

##### BMI Healthcare

The recoverable amount of BMI Healthcare is assessed using a value-in-use model. Value-in-use is calculated as the present value of the projected cash flows attributable to that unit. The key assumptions in the value-in-use calculations are as follows:

- > Latest management forecasts for the five year period from 1 October 2016 to 30 September 2021, using key assumptions concerning payor volumes and tariff changes, general inflation and salary increases.
- > A pre-tax WACC of 9.2% (2015: 8.5%) based on current market assessments of optimal capital structure, cost of debt and market risk premium.
- > Long term growth rate of 2.0% (2015: 2.5%) based on current, post-Brexit, economic indicators for long term growth.

The WACC rate used reflects both market factors as well as sector and company factors. Whilst management believes the assumptions are realistic, it is possible that an impairment could be identified if there were material changes in forecast revenue and/or headline EBITDAR (earning before interest, tax, depreciation, amortisation and property rentals). Revenue and headline EBITDAR are derived from volumes, price and mix assumptions across a range of payor groups. Revenue and headline EBITDAR growth rates could be adversely impacted by both macro-economic challenges (thereby impacting demand and pricing of private healthcare) and changes in government policy and sentiment with regard to private sector participation in the NHS. The value-in-use calculation is very sensitive to these assumptions. In particular a further significant economic downturn could result in an impairment.

Overall, a 3.8% increase in the post-tax WACC rate or a 5.4% reduction in the long term growth rate or a 7.5% reduction in the EBITDAR, for the year ending 30 September 2021 would result in the carrying amount being equal to the value-in-use.

#### 2.11 Segment report

Information reported to the chief operating decision maker (the Executive Committee) is based on the two geographical divisions in which the entity operates, South Africa (SA) and the United Kingdom (UK).

SA has two further 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 within SA and the UK are reviewed by the Executive Committee to the operating profit level.

Net interest expenses, other net financial losses, attributable earnings of associates and taxation are only allocated to the SA and UK segments as a whole.

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

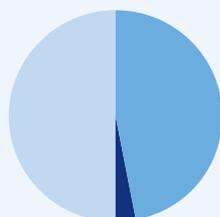
## 2. INVESTMENTS AND RETURNS *continued*

### 2.11 Segment report *continued*

#### 2.11.2 Segment report – 2016

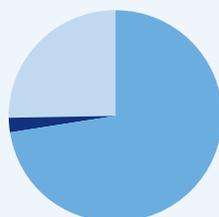
Rm	South Africa			United Kingdom	Group
	Hospital and emergency services	Primary Care	Total	BMI Healthcare	
<b>Statement of profit or loss</b>					
<b>Revenue</b>	17 780	1 178	<b>18 958</b>	18 838	<b>37 796</b>
<b>EBITDA*</b>	4 029	118	<b>4 147</b>	1 392	<b>5 539</b>
Depreciation and amortisation	(559)	(40)	<b>(599)</b>	(792)	<b>(1 391)</b>
Depreciation of property, plant and equipment	(557)	(40)	<b>(597)</b>	(693)	<b>(1 290)</b>
Amortisation of intangible assets	(2)	–	<b>(2)</b>	(99)	<b>(101)</b>
<b>Operating profit</b>	3 469	79	<b>3 548</b>	600	<b>4 148</b>
Investment income			<b>330</b>	74	<b>404</b>
Financial expenses			<b>(415)</b>	(362)	<b>(777)</b>
Other financial losses – net			<b>2</b>	(2 050)	<b>(2 048)</b>
Attributable earnings of joint ventures and associates			<b>71</b>	86	<b>157</b>
<b>Profit/(loss) before taxation</b>			<b>3 536</b>	(1 652)	<b>1 884</b>
Taxation			<b>(977)</b>	141	<b>(836)</b>
<b>Profit/(loss) for the year</b>			<b>2 559</b>	(1 511)	<b>1 048</b>
<b>Segment assets and liabilities</b>					
Total assets			<b>17 963</b>	12 696	<b>30 659</b>
Total liabilities			<b>(8 470)</b>	(9 180)	<b>(17 650)</b>
Debt net of cash			<b>(3 587)</b>	(1 956)	<b>(5 543)</b>
<b>Other segment information</b>					
Additions to property, plant and equipment	1 909	119	<b>2 028</b>	761	<b>2 789</b>
EBITDA margin %	22.7	10.0	<b>21.9</b>	7.4	<b>14.7</b>
Operating margin %	19.5	6.7	<b>18.7</b>	3.2	<b>11.0</b>
Capex additions % of revenue	10.7	10.1	<b>10.7</b>	4.0	<b>7.4</b>

#### REVENUE



■ 47.0% HOSPITAL AND EMERGENCY SERVICES  
■ 3.1% PRIMARY CARE  
■ 49.9% BMI HEALTHCARE

#### EBITDA\*



■ 72.8% HOSPITAL AND EMERGENCY SERVICES  
■ 2.1% PRIMARY CARE  
■ 25.1% BMI HEALTHCARE

#### OPERATING PROFIT



■ 83.6% HOSPITAL AND EMERGENCY SERVICES  
■ 1.9% PRIMARY CARE  
■ 14.5% BMI HEALTHCARE

\* Earnings before interest, tax, depreciation and amortisation.

## Notes to the Group annual financial statements continued for the year ended 30 September

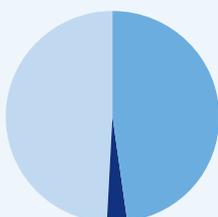
### 2. INVESTMENTS AND RETURNS *continued*

#### 2.11 Segment report *continued*

##### 2.11.2 Segment report – 2015

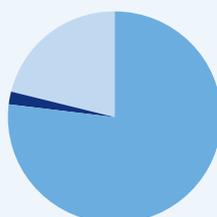
Rm	South Africa			United Kingdom	Group
	Hospital and emergency services	Primary Care	Total	BMI Healthcare	
<b>Statement of profit or loss</b>					
<b>Revenue</b>	16 119	1 170	<b>17 289</b>	16 422	<b>33 711</b>
<b>EBITDA*</b>	3 837	111	<b>3 948</b>	1 033	<b>4 981</b>
Depreciation and amortisation	(502)	(35)	<b>(537)</b>	(716)	<b>(1 253)</b>
Depreciation of property, plant and equipment	(492)	(35)	<b>(527)</b>	(608)	<b>(1 135)</b>
Amortisation of intangible assets	(10)	–	<b>(10)</b>	(108)	<b>(118)</b>
<b>Operating profit</b>	3 335	76	<b>3 411</b>	317	<b>3 728</b>
Investment income			<b>280</b>	87	<b>367</b>
Financial expenses			<b>(352)</b>	(348)	<b>(700)</b>
Other financial losses – net			–	(134)	<b>(134)</b>
Attributable earnings of joint ventures and associates			<b>67</b>	47	<b>114</b>
<b>Profit/(loss) before taxation</b>			<b>3 406</b>	(31)	<b>3 375</b>
Taxation			<b>(908)</b>	(28)	<b>(936)</b>
<b>Profit/(loss) for the year</b>			<b>2 498</b>	(59)	<b>2 439</b>
<b>Segment assets and liabilities</b>					
Total assets			<b>16 788</b>	14 876	<b>31 664</b>
Total liabilities			<b>(8 384)</b>	(8 999)	<b>(17 383)</b>
Debt net of cash			<b>(3 292)</b>	(2 498)	<b>(5 790)</b>
<b>Other segment information</b>					
Additions to property plant and equipment	1 832	61	<b>1 893</b>	748	<b>2 641</b>
EBITDA margin %	23.8	9.5	<b>22.8</b>	6.3	<b>14.8</b>
Operating margin %	20.7	6.5	<b>19.7</b>	1.9	<b>11.1</b>
Capex additions % of revenue	11.4	5.2	<b>10.9</b>	4.6	<b>7.8</b>

#### REVENUE



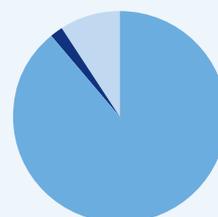
■ 47.8% HOSPITAL AND EMERGENCY SERVICES  
■ 3.5% PRIMARY CARE  
■ 48.7% BMI HEALTHCARE

#### EBITDA\*



■ 77.0% HOSPITAL AND EMERGENCY SERVICES  
■ 2.2% PRIMARY CARE  
■ 20.8% BMI HEALTHCARE

#### OPERATING PROFIT



■ 89.5% HOSPITAL AND EMERGENCY SERVICES  
■ 2.0% PRIMARY CARE  
■ 8.5% BMI HEALTHCARE

\* Earnings before interest, tax, depreciation and amortisation.

### 3. FUNDING

#### 3.1 Debt

All borrowings except for finance leases are accounted for as financial liabilities in accordance with the accounting policy disclosed in note 6.4.

##### 3.1.1 Long-term debt

Rm	Notes	2016	2015
Total debt		<b>7 522</b>	8 266
Short-term portion	3.1.2	<b>(1 390)</b>	(2 162)
<b>Non-current portion</b>	6.4.3	<b>6 132</b>	6 104
Comprising:			
<b>Debt in South African Rand</b>			
Secured liabilities			
Mortgage bond		<b>1</b>	2
Finance leases		<b>27</b>	29
Unsecured liabilities			
Promissory notes and commercial paper in issue		<b>2 000</b>	3 000
Bank loans		<b>2 502</b>	1 602
Other		<b>5</b>	4
		<b>4 535</b>	4 637
<b>Debt in foreign currency</b>			
Secured liabilities			
Finance leases		<b>301</b>	308
Bank loans		<b>2 518</b>	3 193
Arrangement fees		<b>(3)</b>	(10)
Unsecured liabilities			
Accrued interest		<b>171</b>	138
		<b>2 987</b>	3 629
		<b>7 522</b>	8 266

## Notes to the Group annual financial statements continued for the year ended 30 September

### 3. FUNDING continued

#### 3.1 Debt continued

##### 3.1.1 Long-term debt continued

Rm	Security	Effective interest rate at 30 September 2016	2016	2015
Terms of repayment				
<b>Debt in South African Rand</b>				
<b>Mortgage bond</b>				
Secured by land and buildings with a book value of R10 million (2015: R8 million)		8.9%	1	2
Repayable in monthly instalments ending in 2023				
<b>Finance leases</b>				
Secured by medical equipment and motor vehicles with a book value of R37 million (2015: R38 million)		9.0% – 9.5%	27	29
Repayable in monthly instalments ending in 2023				
<b>Promissory notes</b>				
Repayable on maturity in February 2017, March 2018, February 2019 and July 2020		8.6% – 9.2%	2 000	3 000
<b>Bank and Other</b>				
Repayable on maturity on 5 February 2018, 24 February 2018, 20 November 2021 and 24 August 2022		8.7% – 9.5%	2 507	1 606
			<b>4 535</b>	4 637
<b>Debt in foreign currency</b>				
<b>Secured debt</b>				
<b>BMI Healthcare</b>				
Repayable in full on 9 October 2015	} Secured over the assets of BMI Healthcare	3.4%	–	484
Repayable in full on 9 April 2017		1.3%	534	467
Facility expires on 31 March 2018		4.4%	364	429
Repayable in full on 9 April 2018		5.2%	376	442
Repayable in full on 9 October 2018		4.8%	1 008	1 187
Repayable in full on 9 October 2018	6.8%	236	184	
			<b>2 518</b>	3 193
<b>Finance leases</b>				
Secured by plant and medical equipment with a book value of R287 million (2015: R299 million)		5.1% – 22.9%	301	308
Repayable in monthly instalments ending in March 2021				
<b>Other</b>				
Accrued interest			171	138
Less: Arrangement fees			(3)	(10)
			<b>2 987</b>	3 629

**3. FUNDING** *continued***3.1 Debt** *continued***3.1.1 Long-term debt** *continued***Finance lease liabilities**

Rm	Minimum lease payments		Present value of minimum lease payments	
	2016	2015	2016	2015
Less than 1 year	<b>120</b>	129	<b>74</b>	72
Later than 1 year but not later than 5 years	<b>258</b>	313	<b>192</b>	189
Later than 5 years	<b>65</b>	64	<b>62</b>	76
	<b>443</b>	506	<b>328</b>	337
Less: future finance charges	<b>(115)</b>	(169)	<b>–</b>	–
<b>Present value of minimum lease payments</b>	<b>328</b>	337	<b>328</b>	337

**Maturity profile**

Rm	Total	Maturity profile				
		< 1 year	1 – 2 year	2 – 3 years	3 – 4 years	> 4 years
<b>2016</b>						
Debt in South African Rand	<b>4 535</b>	<b>258</b>	<b>1 610</b>	<b>552</b>	<b>602</b>	<b>1 513</b>
Debt in foreign currency	<b>2 987</b>	<b>1 132</b>	<b>435</b>	<b>1 312</b>	<b>53</b>	<b>55</b>
	<b>7 522</b>	<b>1 390</b>	<b>2 045</b>	<b>1 864</b>	<b>655</b>	<b>1 568</b>

Rm	Total	Maturity profile				
		< 1 year	1 – 2 year	2 – 3 years	3 – 4 years	> 4 years
<b>2015</b>						
Debt in South African Rand	4 637	1 016	265	1 609	560	1 187
Debt in foreign currency	3 629	1 146	485	493	1 428	77
	8 266	2 162	750	2 102	1 988	1 264

**Undrawn borrowing facilities**

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

Rm	2016	2015
Facilities expire:		
Within 1 year	<b>1 600</b>	1 600
After 2 years or more	<b>6 500</b>	3 000
	<b>8 100</b>	4 600

The UK debt is ring-fenced from Netcare's South African operations.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 3. FUNDING *continued*

#### 3.1 Debt *continued*

##### 3.1.2 Short-term debt

Rm	Notes	2016	2015
Comprising:			
<b>South African Rand</b>			
Short-term portion of long-term debt		8	16
Commercial paper in issue		250	1 000
		<b>258</b>	1 016
<b>Foreign currency</b>			
Short-term portion of long-term debt		964	1 014
Accrued interest		171	138
<i>Less:</i>			
Arrangement fees		(3)	(6)
		<b>1 132</b>	1 146
	3.1.1/6.4.3	<b>1 390</b>	2 162

The UK debt is ring-fenced from Netcare's South African operations.

#### 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	Notes	2016	2015
Cash on hand and balances with banks	6.4.3	1 980	2 551
Bank overdrafts	6.4.3	(1)	(75)
		<b>1 979</b>	2 476
<b>Cash on hand and balances with banks</b>			
South African Rand		949	1 420
Foreign currency		1 031	1 131
		<b>1 980</b>	2 551
<b>Bank overdrafts</b>			
South African Rand		(1)	(75)
		<b>1 979</b>	2 476

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

### 3. FUNDING *continued*

#### 3.3 Investment income

Finance income comprises expected returns on retirement benefit plan assets and 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	Note	2016	2015
Investment income on retirement benefit plan assets	4.2.2	65	77
Interest on bank accounts and other		339	290
		<b>404</b>	367

#### 3.4 Financial expenses

Finance expenses comprise amortisation of arrangement fees, 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	2016	2015
Amortisation of arrangement fee		6	7
Interest on bank loans and other		424	333
Interest on promissory notes		248	259
Total funding financial expense		<b>678</b>	599
Retirement benefit plan financial expenses		<b>99</b>	101
– Post-retirement healthcare benefits	4.2.1	34	24
– Post-retirement pension benefits	4.2.2	65	77
		<b>777</b>	700

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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 2015 <sup>1</sup>	Acquired	Disposed	30 Sep 2016	Directly <sup>4</sup>	Indirectly <sup>5</sup>
<b>Executive directors</b>						
RH Friedland <sup>2</sup>	11 966 366	<b>169 511</b>	<b>(2 000 000)</b>	<b>10 135 877</b>	<b>8 162 853</b>	<b>1 973 024</b>
KN Gibson <sup>3</sup>	192 263	<b>67 036</b>	–	<b>259 299</b>	<b>259 299</b>	–
<b>Non-executive directors</b>						
N Weltman	10 000	–	–	<b>10 000</b>	–	<b>10 000</b>
<b>Prescribed officers</b>						
C Pailman	66 109	<b>50 399</b>	–	<b>116 508</b>	<b>116 508</b>	–
J Du Plessis	35 243	<b>31 371</b>	<b>(3 200)</b>	<b>63 414</b>	<b>63 414</b>	–
	12 269 981	<b>318 317</b>	<b>(2 003 200)</b>	<b>10 585 098</b>	<b>8 602 074</b>	<b>1 983 024</b>

1. The information in this column is consistent with 30 September 2015.

2. RH Friedland retained 10 135 877 (2015: 11 966 366) shares which are held both directly and indirectly and are of a beneficial nature.

3. KN Gibson retained 259 299 (2015: 192 263) 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. OUR PEOPLE *continued*

### 4.1 Remuneration of directors and prescribed officers *continued*

#### 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 2016:

Number of options	Grant date	1 Oct 2015	Exercised	30 Sep 2016
<b>Executive directors</b>				
KN Gibson	2-Oct-06	1 041	–	<b>1 041</b>
<b>Prescribed officers</b>				
C Pailman	2-Oct-06	10 405	–	<b>10 405</b>
		11 446	–	<b>11 446</b>

No share options were granted in 2016 (2015: Nil)

There were no vested Health Partners for Life share options as at 30 September 2016 (2015: Nil).

##### Forfeitable share plan

The following forfeitable shares were held by directors and prescribed officers at 30 September 2016:

Number of options	Grant date	1 Oct 2015	Exercised	Shares sold during the year	Shares granted during the year	30 Sep 2016	Market price at exercise date (cents)	Gain arising on exercise (R'000)
<b>Executive directors</b>								
RF Friedland <sup>6</sup>	13-Dec-12	801 272	<b>(169 511)</b>	<b>(121 860)</b>	<b>544 286</b>	<b>1 054 187</b>	<b>3 233</b>	<b>5 481</b>
KN Gibson <sup>7</sup>	13-Dec-12	312 770	<b>(67 036)</b>	<b>(46 698)</b>	<b>230 893</b>	<b>429 929</b>	<b>3 279</b>	<b>2 198</b>
<b>Prescribed officers</b>								
C Pailman	13-Dec-12	195 625	<b>(31 371)</b>	<b>(39 765)</b>	<b>132 843</b>	<b>257 332</b>	<b>3 410</b>	<b>1 070</b>
J Du Plessis	13-Dec-12	251 162	<b>(50 399)</b>	<b>(40 931)</b>	<b>176 755</b>	<b>336 587</b>	<b>3 273</b>	<b>1 650</b>
N Phillipson	13-Dec-12	139 564	–	<b>(50 750)</b>	<b>120 964</b>	<b>209 778</b>	–	–
		1 700 393	<b>(318 317)</b>	<b>(300 004)</b>	<b>1 205 741</b>	<b>2 287 813</b>		<b>10 399</b>

6. RH Friedland exercised and sold 291 371 (2015: 72 843) share options during the year in terms of the Forfeitable Share Plan.

7. KN Gibson exercised and sold 113 734 (2015: exercised 28 434) share options during the year in terms of the Forfeitable Share Plan.

The forfeitable shares vest in 6 tranches from 13 June 2015 in terms of the rules of the scheme.

Refer to note 4.3.2 in the Group annual financial statements for more details on the forfeitable shares.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 4. OUR PEOPLE *continued*

#### 4.1 Remuneration of directors and prescribed officers *continued*

##### 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 2016, are set out below:

##### Executive directors

R'000	Salary	Company contributions	Guaranteed package	Bonuses <sup>1</sup>	Total	Fair value of options granted <sup>2</sup>
<b>2016</b>						
RH Friedland	7 801	687	8 488	5 800	14 288	2 932
KN Gibson	4 023	376	4 399	2 200	6 599	1 190
	<b>11 824</b>	<b>1 063</b>	<b>12 887</b>	<b>8 000</b>	<b>20 887</b>	<b>4 122</b>
<b>2015</b>						
RH Friedland	7 400	652	8 052	6 000	14 052	3 662
KN Gibson	3 802	355	4 157	2 500	6 657	1 430
	11 202	1 007	12 209	8 500	20 709	5 092

£'000	Salary	Company contributions	Guaranteed package	Bonuses <sup>1</sup>	Contribution towards long term incentive	Total
<b>2016</b>						
J Watts	560	61	621	220	595	1 436
<b>2015</b>						
J Watts	479	42	521	–	–	521

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.

##### Non-executive directors

Fees for services as directors:

R'000	2016	2015
M Bower <sup>1</sup>	984	–
T Brewer	1 586	1 312
B Bulu <sup>2</sup>	840	–
APH Jammie	1 172	1 095
JM Kahn	1 833	1 238
MJ Kuscus	985	931
KD Moroka	877	691
SJ Vilakazi <sup>3</sup>	–	725
N Weltman	1 050	1 008
	<b>9 327</b>	<b>7 000</b>

1. Appointed on 23 November 2015

2. Appointed on 23 November 2015

3. Retired on 31 May 2015

## 4. OUR PEOPLE *continued*

### 4.1 Remuneration of directors and prescribed officers *continued*

#### 4.1.3 Directors' and prescribed officers' emoluments *continued*

##### Prescribed officers

R'000	Salary	Company contributions	Guaranteed package	Bonuses <sup>1</sup>	Total	Fair value of options granted <sup>2</sup>
<b>2016</b>						
C Pailman	3 072	287	3 359	1 200	4 559	716
J Du Plessis	3 515	300	3 815	1 800	5 615	934
N Phillipson	2 798	255	3 053	1 350	4 403	575
	<b>9 385</b>	<b>842</b>	<b>10 227</b>	<b>4 350</b>	<b>14 577</b>	<b>2 225</b>
<b>2015</b>						
C Pailman	2 917	272	3 189	1 500	4 689	894
J Du Plessis	3 327	282	3 609	2 000	5 609	1 148
N Phillipson	2 656	242	2 898	1 500	4 398	638
	8 900	796	9 696	5 000	14 696	2 680

1. Incentive bonuses paid in respect of the previous financial year.

2. The fair value of options granted is the annual expense determined in accordance with IFRS 2.

## 4.2 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 (gains)/losses are recognised in other comprehensive income.

Rm	2016	2015
Post-retirement healthcare benefits	427	400

### 4.2.1 Post-retirement healthcare benefits

The Group provides post-retirement benefits to certain of its retirees in South Africa. 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 – Netcare Medical Scheme

Valuation method adopted

30 September 2015

Projected unit credit method

## Notes to the Group annual financial statements continued for the year ended 30 September

### 4. OUR PEOPLE *continued*

#### 4.2 Post-retirement benefit obligations *continued*

##### 4.2.1 Post-retirement healthcare benefits *continued*

%	Note	2016	2015
<b>Principal actuarial assumptions</b>			
Net discount rate		2.3	2.3
Subsidy inflation		6.3	6.3
<b>Rm</b>			
<b>Actuarial obligation of amounts recognised in the statement of financial position</b>			
Unfunded obligation		427	400
<b>Reconciliation of net defined benefit obligation to amounts recognised in the statement of financial position</b>			
Net liability at beginning of year		400	260
Current service cost		10	8
Net interest cost	3.4	34	24
Benefits paid		(17)	(15)
Remeasurement losses		–	123
<b>Net liability at end of year</b>		<b>427</b>	<b>400</b>
<b>Net post-retirement healthcare costs recognised in the statement of profit or loss</b>			
Service cost		10	8
Interest cost		34	24
<b>Total cost recognised in profit or loss</b>		<b>44</b>	<b>32</b>
<b>Net amount recognised in other comprehensive income</b>			
Remeasurement on the net defined benefit liability		–	123
Taxation		–	(35)
<b>Net actuarial loss recognised in other comprehensive income</b>		<b>–</b>	<b>88</b>

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 R77 million to the post retirement subsidy in 2017.

#### Sensitivity Analysis

The effect of a 1% increase and 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)	(25)
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%			6
Net discount rate increase of 1.0%			(14)

The scheme exposes the Group to a number of risks:

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

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

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

## 4. OUR PEOPLE *continued*

### 4.2 Post-retirement benefit obligations *continued*

#### 4.2.2 Post-retirement pension benefits

In the UK, employees are covered by defined contribution schemes and defined benefit schemes. There are currently three defined contribution schemes, of which two are closed to new entrants.

An actuarial valuation is performed every year for the post-retirement pension benefits using key financial assumptions which have been derived directly from the yields on AA-rated corporate bonds or from yields on Government bonds reflecting a best estimate of the likely future experience.

##### Defined contribution schemes

The assets of the scheme are held separately from the Company and the Group and are under the control of the appointed trustees.

There are no specific vesting conditions associated with the scheme and the contributions made by the employee and employer will not be forfeited or reduced if the employee resigns.

The total number of members forming part of the scheme for the reporting period was 11 136 (2015: 9 924).

Total expense recognised in profit or loss in respect of the contributions made by the Group was R154 million (2015: R150 million). Due to exchange rate fluctuations of the Rand over the past year, the foreign exchange rate impact contributed R18 million.

All contributions were paid over to the scheme and there were no unpaid contributions for the reporting period (2015: Nil).

##### Defined benefit schemes

The scheme is administered by a Fund that is legally separate to the entity. The Board of the fund is made up of Company appointed trustee directors and member nominated trustee directors in equal proportion. The trustee directors are responsible for the investing policy of the assets of the scheme (the Trust itself is a limited company).

Under the defined benefit scheme, the employees are entitled to retirement benefits of 1/60th of each year's pensionable service on attainment of retirement age of 65.

The plan is closed to future accruals and members with effect from 31 August 2008. No other post-retirement benefits are provided.

The actuarial valuation of plan assets and the present value of the defined obligations were performed by Aon Hewitt as at 30 September 2016.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 4. OUR PEOPLE *continued*

#### 4.2 Post-retirement benefit obligations *continued*

##### 4.2.2 Post-retirement pension benefits *continued*

###### Valuation

Last actuarial valuation

30 September 2016

Valuation method adopted

Projected unit credit method

	2016	2015
<b>Principal actuarial assumptions</b>		
Net discount rate	<b>2.3%</b>	3.7%
Future pension increases	<b>3.0%</b>	3.0%
CPI inflation rate	<b>2.0%</b>	2.0%
RPI inflation rate	<b>3.1%</b>	3.1%
Average longevity at retirement age for current pensioners (years)		
– Male	<b>87.2</b>	87.4
– Female	<b>90.3</b>	90.0
Average longevity at retirement age for current employees (future pensioners)(years)		
– Male	<b>89.1</b>	88.7
– Female	<b>92.3</b>	91.9

The overall expected return on assets is calculated as the average of the expected returns on each individual asset class, weighted by the Scheme's exposure to that asset class. The expected return on asset assumption is the same as the discount rate assumption.

Reducing the discount rate by 0.25% pa will increase the defined benefit obligation by approximately 4.4% equivalent to R98 million and increasing the RPI inflation assumption by 0.25% per annum for pension increases before and after retirement will increase the liabilities by approximately 3.3% or R74 million. An increase in the life expectancy of one year will increase the liabilities by approximately 3.7% or R82 million.

Rm	Notes	2016	2015
<b>Present value of obligation</b>			
Balance at beginning of year		<b>2 022</b>	1 591
Interest cost	3.4	<b>65</b>	77
Benefit payments		<b>(79)</b>	(54)
Remeasurement losses/(gains)		<b>533</b>	(48)
Translation of foreign entities		<b>(313)</b>	456
<b>Benefit obligation at end of year</b>		<b>2 228</b>	2 022
<b>Fair value of plan assets</b>			
Balance at beginning of year		<b>2 855</b>	2 261
Interest income	3.3	<b>65</b>	77
Employer contributions		<b>18</b>	16
Benefit payments		<b>(79)</b>	(54)
Other		<b>(9)</b>	(6)
Remeasurement gains		<b>621</b>	239
Translation of foreign entities		<b>(442)</b>	322
<b>Fair value of plan assets at end of year</b>		<b>3 029</b>	2 855
Represented by investments in:			
Equity instruments		<b>2 195</b>	2 171
Debt instruments		<b>834</b>	684
		<b>3 029</b>	2 855

All equity and debt instruments have quoted prices in active markets (Level 1).

The disclosure of the funded status is for accounting disclosure purposes only, and does not indicate assets available to the Group.

## 4. OUR PEOPLE *continued*

### 4.2 Post-retirement benefit obligations *continued*

#### 4.2.2 Post-retirement pension benefits *continued*

Rm	2016	2015
<b>Reconciliation to the statement of financial position</b>		
Present value of obligation	(2 228)	(2 022)
Fair value of plan assets	3 029	2 855
Net surplus	801	833
Unrecognised portion of net defined benefit asset	(801)	(833)
Opening balance	(833)	(670)
Current year movement	(97)	(298)
Translation of foreign entities	129	135
<b>Net post-retirement pension amounts recognised in the statement of profit or loss</b>		
Interest income on return on plan assets	65	77
Actual expenses paid	(9)	(6)
Interest cost on obligation	(65)	(77)
<b>Total expense recognised in profit or loss</b>	<b>(9)</b>	<b>(6)</b>
<b>Net amount recognised in other comprehensive income</b>		
Remeasurement on net defined benefit liability	(88)	(287)
Actuarial losses/(gains) relating to the defined benefit obligation	533	(48)
Actuarial gains relating to plan assets	(621)	(239)
Movement in the unrecognised portion of plan assets	97	298
Future defined benefit pension scheme provision (Refer to note 7.1 for details)	(9)	(11)

There were no actuarial (gains)/losses recognised during the year (2015: Rnil).

*The scheme exposes the Group to a number of risks:*

- > **Investment risk:** The liabilities are calculated using a discount rate set with reference to corporate bond yields; if the assets underperform this yield, a deficit will be created. The plan holds a significant proportion of growth and synthetic assets which are expected to outperform corporate bonds in the long-term while providing volatility and risk in the short-term. The allocation to growth assets is monitored such that it is aligned to the plan's long-term objectives.
- > **Interest rate risk:** A decrease in corporate bond yields will increase the value placed on the scheme's liabilities for IAS 19, although this will be partially offset by an increase in the value of the scheme's bond holdings. A significant portion of the scheme's benefit obligations are linked to inflation, and higher inflation leads to higher liabilities (although, in most cases, caps on the level of inflationary increases are in place to protect against extreme inflation). The majority of the assets are either unaffected by, or only loosely correlated with, inflation, meaning that an increase in inflation will also increase the deficit.
- > **Longevity risk:** The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities.

The process to manage the actuarial risks by the Group has not changed from the prior year and there is no specific risk for dependants of members.

The Group expects to contribute R15 million to the defined benefit plan during the 2017 financial year.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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 income statement during the year.

Rm	Notes	2016	2015
<b>Equity-settled</b>			
<b>Netcare Share Incentive Scheme<sup>1</sup></b>	4.3.1	<b>1</b>	3
The Group grants share options to certain employees under the Netcare Share Incentive 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.			
<b>Netcare Limited Forfeitable Share Plan</b>	4.3.2	<b>29</b>	28
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.			
<b>Health Partners for Life (B-BBEE transaction)</b>	4.3.3	<b>3</b>	8
The beneficiaries of the Health Partners for Life Trusts hold Trust units which entitle them to the economic benefits 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.			
		<b>33</b>	39

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	2016	2015
Shares allotted	<b>205 814 414</b>	202 852 008
Share options granted	<b>8 221 953</b>	7 011 029
Unallocated share options	<b>8 774 910</b>	12 948 240
	<b>222 811 277</b>	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.

Participants in the scheme are executives or other employees of the Group, including, but not limited to, executive directors selected by the Board. Participants may be offered the opportunity to acquire share options in terms of the scheme. In terms of the rules of the scheme, all offers are granted at the closing market price of the Company's shares on the JSE Limited on the trading day immediately preceding the last day on which the relevant options are granted. The share options granted vest in equal amounts over five years commencing on the second anniversary of the grant date.

In the event of death, serious disability, retrenchment or retirement of a participant, options may be taken up and paid for within 12 months of such event. In the event of resignation of a participant, options which have vested may be exercised and paid for and any unvested options will be forfeited.

The number of Netcare ordinary shares to which any eligible participant is entitled shall not exceed 1% of the ordinary shares in issue.

#### Vesting periods of options granted

Number of share options	2016	2015
Already vested	<b>400 000</b>	990 000
Within 1 year	<b>300 000</b>	300 000
Within 1 – 2 years	–	300 000
	<b>700 000</b>	1 590 000

The scheme did not hold any shares in the Company at 30 September 2016.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 4. OUR PEOPLE *continued*

#### 4.3 Share-based payments *continued*

##### 4.3.1 Netcare Share Incentive Scheme *continued*

###### 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 2014	5 647 550	958
Granted	500 000	1 451
Exercised	(4 557 550)	838
Balance at 1 October 2015	1 590 000	1 435
Exercised	<b>(860 000)</b>	<b>1 470</b>
Expired/forfeited	<b>(30 000)</b>	<b>838</b>
<b>Balance at 30 September 2016</b>	<b>700 000</b>	<b>1 470</b>

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

Grant date	Expiry date	Exercise price (cents)	Outstanding at 1 Oct 2015	Expired/forfeited	Exercised	Outstanding at 30 Sep 2016	Vested at 30 Sep 2016
25-Aug-08	25-Aug-18	838	90 000	<b>(30 000)</b>	<b>(60 000)</b>	–	–
03-Jan-11	02-Jan-18	1 517	1 000 000	–	<b>(800 000)</b>	<b>200 000</b>	–
07-Feb-11	07-Feb-18	1 451	500 000	–	–	<b>500 000</b>	<b>400 000</b>
			1 590 000	<b>(30 000)</b>	<b>(860 000)</b>	<b>700 000</b>	<b>400 000</b>

Refer to note 4.1 for details on share options held by directors.

The fair value of options granted since 7 November 2002 was calculated using the Trinomial model. The share option cost expensed during the year amounted to R1 million (2015: R3 million). The expected unrecognised share-based payment expense relating to non-vested share options amounts to Rnil million (2015: R1 million).

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

Assumptions	%
Volatility	<b>24.0 – 28.0</b>
Forfeiture rate	<b>15.0</b>
Risk-free interest rate	<b>7.7 – 9.8</b>
Dividend yield	<b>3.3 – 3.5</b>

## 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 Listing 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	2016	2015
Within 1 year	<b>2 155 179</b>	2 101 651
Within 1 – 2 years	<b>1 158 069</b>	2 101 651
Within 2 – 3 years	<b>1 402 902</b>	1 274 704
Within 3 – 4 years	<b>1 402 902</b>	–
Within 4 – 5 years	<b>1 402 902</b>	–
	<b>7 521 954</b>	5 478 006

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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 October 2015	Granted	Forfeited	Exercised	Outstanding at 30 Sep 2016
<b>Retention shares</b>					
13-Dec-12	1 256 433	–	(16 384)	(472 253)	767 796
01-Feb-13	41 660	–	–	(20 830)	20 830
16-Apr-13	30 114	–	(1 075)	(14 097)	14 942
07-Jun-13	30 614	–	–	(15 306)	15 308
15-Aug-13	14 240	–	–	(7 119)	7 121
12-Jul-14	208 865	–	–	(83 542)	125 323
16-Mar-15	56 535	–	–	(22 613)	33 922
19-May-15	19 085	–	–	(7 217)	11 868
20-Jan-16	–	1 657 857	(26 415)	–	1 631 442
21-Jun-16	–	21 578	–	–	21 578
	1 657 546	1 679 435	(43 874)	(642 977)	2 650 130
<b>Performance shares</b>					
13-Dec-12	3 261 007	–	(42 131)	(1 225 709)	1 993 167
01-Feb-13	41 660	–	–	(20 830)	20 830
16-Apr-13	30 114	–	(2 763)	(14 097)	13 254
07-Jun-13	30 614	–	–	(15 306)	15 308
15-Aug-13	14 240	–	–	(7 119)	7 121
12-Jul-14	313 292	–	–	(125 312)	187 980
16-Mar-15	94 930	–	–	(37 971)	56 959
19-May-15	34 603	–	–	(13 085)	21 518
20-Jan-16	–	2 560 524	(26 415)	–	2 534 109
21-Jun-16	–	21 578	–	–	21 578
	3 820 460	2 582 102	(71 309)	(1 459 429)	4 871 824
	5 478 006	4 261 537	(115 183)	(2 102 406)	7 521 954

2 102 406 forfeitable shares had vested at 30 September 2016 and were exercised during the 2016 financial year (2015: 838 678).

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 R29 million (2015: R28 million). The expected unrecognised share-based payment expense relating to non-vested share issues amounts to R50 million (2015: R19 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	FSP1 %	FSP2 %
Annual attrition rate	10	10
Probability of performance condition – Vesting 1	100	50
Probability of performance condition – Vesting 2	75	50
Probability of performance condition – Vesting 3	50	50

#### 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, will acquire Netcare shares. The HPFL Trusts that are participants to the transaction are The Patient Care and Passionate People Trust, The Physician Partnerships Trust, The Mother & Child Trust and The Healthy Lifestyle Trust. The objective of the HPFL Trusts is to manage and administer the award, settlement and repurchase of Trust units, the assets and liabilities of the trusts and the making of income awards, if applicable, in a manner consistent with Netcare's commitment to Broad-based Black Economic Empowerment.

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 starting 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 the difference between the market value of the units and the debt allocation. The debt allocation consists of the original cost of the Netcare shares on the allocation date, interest charged on the loan to purchase the Netcare shares and tax paid by Netcare and the Trusts on account of the B-BBEE transaction, adjusted by dividends received.

The details of the trusts are as follows:

##### **The Patient Care and Passionate People Trust and The Physician Partnerships Trust**

The Patient Care and Passionate People Trust (PCT) indirectly assists the Group in attracting and retaining management and staff. Awards made under this trust are in addition to any awards participants may receive under the Forfeitable Share Plan.

The Physician Partnerships Trust assists the Group in attracting and retaining medical professionals in SA. The Trust established the Hamilton Naki Clinical Scholarship to support the development of academic specialists. To date, thirteen specialists have been selected to pursue doctoral degrees in SA and abroad under this scholarship.

Beneficiaries who are Netcare employees cease to be entitled to hold Trust units if they resign or are dismissed from their employment. 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.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 4. OUR PEOPLE *continued*

#### 4.3 Share-based payments *continued*

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

###### The Mother & Child Trust and The Healthy Lifestyle Trust

The Mother & Child Trust funds the provision of healthcare assistance to women and children, through selected women's groups and children's organisations. Broad-women empowerment companies are beneficiaries of this Trust.

The Healthy Lifestyle Trust promotes healthy lifestyle through wellness programmes and selected national screening initiatives. The South African Football Association is an anchor beneficiary of this Trust.

Details of the Trust units at 30 September 2016 are:

Trust	Shares allocated to Trust 1 Oct 2015	Disposals during the year	Shares allocated to Trust 30 Sep 2016	Units in issue	Available
The Patient Care and Passionate People Trust	49 754 798	(1 446 141)	48 308 657	13 242 630	35 066 027
The Physician Partnerships Trust	35 872 995	(931 299)	34 941 696	14 030 879	20 910 817
The Mother & Child Trust	9 916 737	–	9 916 737	4 000 000	5 916 737
The Healthy Lifestyle Trust	5 402 144	(120 083)	5 282 061	600 000	4 682 061
	100 946 674	(2 497 523)	98 449 151	31 873 509	66 575 642

Movement in the number of units was as follows:

	The Patient Care and Passionate Trust	The Physician Partnerships Trust	The Mother & Child Trust	The Healthy Lifestyle Trust	Total
Balance at 1 October 2015	17 615 657	15 455 800	4 000 000	600 000	37 671 457
Exercised	(3 385 161)	(1 424 921)	–	–	(4 810 082)
Forfeited	(987 866)	–	–	–	(987 866)
<b>Balance at 30 September 2016</b>	<b>13 242 630</b>	<b>14 030 879</b>	<b>4 000 000</b>	<b>600 000</b>	<b>31 873 509</b>

The fair value of the units issued was calculated using the Trinomial model. The fair value of units expensed during 2016 was R3 million (2015: R8 million). The expected unrecognised share-based payment expense relating to non-vested share options amounts to R3 million (2015: R5 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 and in the UK, the United Kingdom Executive Committee.

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

#### Remuneration of key management personnel

Remuneration paid to key management personnel is as follows:

Rm	2016	2015
<b>SA Exco<sup>1</sup></b>		
Salaries and allowances	34	34
Company contributions	3	3
Bonuses and termination payments	18	21
Fair value of options granted <sup>2</sup>	9	11
	<b>64</b>	69
<b>UK Exco<sup>3</sup></b>		
Salaries and allowances	37	37
Company contributions	3	3
Short-term incentives and termination payments	6	18
Long-term incentives	13	39
	<b>59</b>	97

1. 2016 – 10 posts on average (2015: 11 posts).

2. The fair value of options granted is the annual expense determined in accordance with IFRS 2.

3. 2016 – 7 posts on average (2015: 8 posts).

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 Lethimvula Investments Limited and 94.1% of the share capital of Lethimvula Investments Limited is owned by AfroCentric Investment Corporation Limited. JM Kahn, who is a non-executive director of Netcare Limited, is also a director of AfroCentric Investment Corporation Limited.

At 30 September 2016, the shareholding of Netcare directors in AfroCentric Investment Corporation Limited was as follows:

Ordinary shares

Netcare director	Ordinary shares held	Direct	Indirect	% of total issued share capital
JM Kahn	18 535 608	18 535 608	–	3.3

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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.

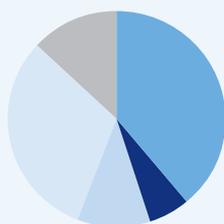
Rm	Note	2016	2015
Trade receivables		3 895	4 152
Allowance for doubtful debts		(247)	(247)
Trade receivables – net		3 648	3 905
Prepaid expenses		514	526
Joint venture receivables (refer to Annexure C)	9.1	30	11
Current portion of deferred lease assets		5	2
Current portion of deferred lease liabilities		11	17
Other debtors		764	731
		4 972	5 192
The carrying amount of trade and other receivables is denominated in the following currencies:			
Foreign currency		2 393	2 770
South African Rand		2 579	2 422
		4 972	5 192

Trade receivables include R12 million (2015: R14 million) for accounts with renegotiated credit terms.

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

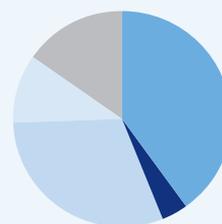
Rm	2016	2015
Trade receivables – net, can be categorised into the following types:	3 648	3 905
<b>South Africa</b>		
Medical aid	717	548
Private	116	166
Road Accident Fund	2	4
Compensation for Occupational Injuries and Disease	197	402
Patient work-in-progress	579	458
Other	241	220
	1 852	1 798
<b>United Kingdom</b>		
Insured	719	744
Self-pay	72	141
National Health Service (NHS)	549	780
Patient work-in-progress	183	165
Other	273	277
	1 796	2 107

#### SOUTH AFRICA 2016



■ 38.7% MEDICAL AID  
■ 6.3% PRIVATE  
■ 10.6% COMPENSATION FOR OCCUPATIONAL INJURIES AND DISEASE  
■ 31.3% PATIENT WORK-IN-PROGRESS  
■ 13.0% OTHER  
□ 0.1% ROAD ACCIDENT FUND

#### UNITED KINGDOM 2016



■ 40.0% INSURED  
■ 4.0% SELF-PAY  
■ 30.6% NATIONAL HEALTH SERVICE (NHS)  
■ 10.2% PATIENT WORK-IN-PROGRESS  
■ 15.2% OTHER

## 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	2016	2015
Medical and pharmaceutical merchandise	<b>934</b>	1 038
Crockery, cutlery, linen, soft furnishings and other consumables	<b>85</b>	69
	<b>1 019</b>	1 107

The cost of inventories recognised as an expense during the year was R10 310 million (2015: R11 078 million). The write-down of inventories during the year to net realisable value was R1 million (2015: R7 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	Note	2016	2015
Trade payables		<b>2 401</b>	2 637
Leave pay		<b>296</b>	274
Bonuses		<b>300</b>	260
Joint venture payables (Refer to Annexure C)	9.1	<b>115</b>	122
Accrued expenses		<b>1 813</b>	2 245
Claims incurred but not reported		<b>13</b>	14
Deferred rent <sup>1</sup>		<b>498</b>	586
Other payables		<b>576</b>	265
		<b>6 012</b>	6 403

1. The deferred rent relates to rental on certain hospital properties payable to GHG PropCo 1 by BMI Healthcare. In 2006, BMI Healthcare entered into an agreement with each of the GHG PropCo 1 property holding companies whereby it was agreed that the rent due under each lease for the 3 month period ending 31 October 2006 would be deferred until demand of repayment by the relevant PropCo following the occurrence of certain payment triggers. This has been taken into consideration by management in the going concern assessment.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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.

The valuation of the UK interest rate and RPI swap instruments and the application of hedge accounting involves significant judgement as they are based on a view of likely future events, although there can be no certainty as to how the events will actually unfold.

#### 6.1 Financial assets

Rm	Note	2016	2015
<b>Derivative financial instruments</b>			
Interest rate swaps			
South African Rand		19	38
<b>Non-derivative financial instrument</b>			
Investment in Cell Captive		15	19
	6.4.2/6.4.3	34	57

#### 6.2 Financial liabilities

<b>Derivative financial instruments</b>			
Interest rate swaps			
South African Rand		15	7
Inflation rate swaps			
South African Rand		19	13
Foreign currency <sup>1</sup>		2 129	208
	6.4.2/6.4.3	2 163	228
Included under non-current liabilities		2 158	224
Included under current liabilities		5	4
		2 163	228

1. Refer to note 6.3 for information on the change in the mark-to-market valuation of the RPI swap instrument liabilities post year-end.

## 6. FINANCIAL MANAGEMENT continued

### 6.3 Other financial losses – net

Other financial losses – net comprise fair value losses and gains arising from interest and inflation rate swap instruments and are recognised in profit and loss. Amount reclassified from cash flow hedge accounting reserves is a result of derecognition and recycling of inflation rate swap instruments held in the UK, as well as expiry of interest rate swap instruments in SA.

Rm	2016	2015
Amount reclassified from the cash flow hedge accounting reserve	(20)	(25)
Fair value losses on inflation rate swap instruments to March 2016	(41)	(107)
Fair value losses on inflation rate swap instruments to September 2016 <sup>1</sup>	(1 988)	(2)
Ineffectiveness gains on cash flow hedges	1	–
	<b>(2 048)</b>	(134)

1. Non-cash fair value adjustment relating to the UK RPI swap instruments.

Netcare's UK subsidiary, BMI Healthcare (BMI), leases 35 of its hospital properties from various subsidiary entities of its major external landlord, Hospital Topco. The leases on these properties have annual rental uplifts linked to the Retail Price Increase (RPI). BMI also holds certain RPI swap instruments which, combined with the leases, achieve the economic effect of a fixed 2.5% rental uplift.

In October 2016, BMI and Hospital Topco agreed heads of terms for a potential rent reduction transaction (UK Rent Transaction). The parties remain constructively engaged in moving the deal to completion.

In terms of IFRS, the RPI swap instruments (related to the 35 property leases described above) are required to be carried at their fair market value at each reporting date. The valuation of these instruments is sensitive to future RPI expectations and also the expected timing and amount of any swap termination payment. The future RPI rates used in the valuation of the RPI swap instruments have been based on future forecasts available in the market. The impact of the termination date was estimated using a weighted average of probabilities of the cash flows expected to arise at possible future termination dates. However, as a consequence of the heads of terms agreed for the UK Rent Transaction, the estimate of the termination dates and amounts used in valuing the RPI swap instruments changed from the corresponding estimates applicable at previous reporting dates.

The RPI swap instruments valuation as at 30 September 2016 of R2 129 million (£119.7 million) reflects the mark-to-market valuation by the counterparty. As a consequence of the UK Rent Transaction, the Group recorded a significant, non-cash fair value accounting charge of R1 988 million (£107.9 million), before tax, in the year in respect of the RPI swap instruments.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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 swaps is calculated based on a discounted cash flow model using a number of key assumptions.

The valuation of the UK RPI swap instruments takes into account management's expectation of the future cash flows attributable to this swap.

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 is 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	Level 3	Total
<b>2016</b>				
<b>Non-derivative financial asset</b>				
Cell Captive		15	–	15
<b>Derivative financial assets</b>				
Interest rate swaps		19	–	19
	6.1	34	–	34
<b>Derivative financial liabilities</b>				
Interest rate swaps		(15)	–	(15)
Inflation rate swaps		(2 148)	–	(2 148)
	6.2	(2 163)	–	(2 163)
<b>2015</b>				
<b>Non-derivative financial asset</b>				
Cell Captive		19	–	19
<b>Derivative financial assets</b>				
Interest rate swaps		38	–	38
	6.1	57	–	57
<b>Derivative financial liabilities</b>				
Interest rate swaps		(7)	–	(7)
Inflation rate swaps		(13)	(208)	(221)
	6.2	(20)	(208)	(228)

The Group has no financial instruments categorised as Level 1.

The RPI swap instruments have been reclassified from a Level 3 liability to a Level 2 liability as the valuation method in the current year is based on fair value measurements that are observable indirectly, being derived from market data. In the prior year the valuation also included certain weighted probability assessments as to the future cash flows under the instrument. There were no transfers in the prior year.

#### 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 profit for the year.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 6. FINANCIAL MANAGEMENT *continued*

#### 6.4 Financial instruments and risk management *continued*

##### 6.4.2 Fair value hierarchy *continued*

###### Derivative financial assets and derivative financial liabilities – Level 2 & Level 3

The analyses of the levels 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 2016.

Ratio Offset and Regression Analysis methods were used and modelled the hedged items as an 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 swap instruments

- > Zero coupon perfect fit swap instruments curve as at 30 September 2016 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 swap instruments

- > Forecast and historical Consumer Price Index (CPI metrics) were provided by independent sources.
- > Zero coupon perfect fit swap instruments curve as at 30 September 2016 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 swap instruments

- > 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) and 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.

## 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	Fair value through profit or loss	Derivatives designated as hedging instruments	Total
<b>2016</b>						
<b>Financial assets</b>						
Associate loans and receivables	9.2	380	–	–	–	380
Loans and receivables	9.3	1 710	–	–	–	1 710
Financial assets	6.1	–	–	15	19	34
Trade and other receivables <sup>1</sup>		4 323	–	–	–	4 323
Cash and cash equivalents	3.2	1 980	–	–	–	1 980
<b>Total</b>		<b>8 393</b>	<b>–</b>	<b>15</b>	<b>19</b>	<b>8 427</b>
<b>Financial liabilities</b>						
Associate loans and payables	9.2	15	–	–	–	15
Long-term debt	3.1.1	–	6 132	–	–	6 132
Financial liabilities	6.2	–	–	–	2 163	2 163
Trade and other payables <sup>2</sup>		–	5 810	–	–	5 810
Short-term debt	3.1.2	–	1 390	–	–	1 390
Bank overdrafts	3.2	–	1	–	–	1
<b>Total</b>		<b>15</b>	<b>13 333</b>	<b>–</b>	<b>2 163</b>	<b>15 511</b>

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.

Financial assets and financial liabilities are classified as Level 2 or Level 3 in accordance with the contractual rights and obligations assigned to the balances. The fair values of these financial assets and financial liabilities are set out below:

Rm	Notes	Level 2	Level 3	Total
<b>2016</b>				
<b>Financial assets</b>				
Associate loans and receivables	9.2	–	380	380
Loans and receivables	9.3	–	1 710	1 710
Trade and other receivables <sup>1</sup>		–	4 323	4 323
Cash and cash equivalents	3.2	1 980	–	1 980
<b>Total</b>		<b>1 980</b>	<b>6 413</b>	<b>8 393</b>
<b>Financial liabilities</b>				
Associate loans and payables	9.2	–	15	15
Long-term debt	3.1.1	–	6 132	6 132
Trade and other payables <sup>2</sup>		–	5 810	5 810
Short-term debt	3.1.2	–	1 390	1 390
Bank overdrafts	3.2	1	–	1
<b>Total</b>		<b>1</b>	<b>13 347</b>	<b>13 348</b>

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.

The Group has no Level 1 financial assets and financial liabilities.

The fair value of the financial assets and financial liabilities included in Level 2 and Level 3 categories have been determined in accordance with the contractual rights and obligations assigned to the balance.

There has been no transfer between levels during the financial year 30 September 2016 (2015: No transfer occurred between categories).

## Notes to the Group annual financial statements continued for the year ended 30 September

### 6. FINANCIAL MANAGEMENT *continued*

#### 6.4 Financial instruments and risk management *continued*

##### 6.4.3 Financial instruments by category *continued*

Rm	Notes	Loans and receivables	Amortised cost	Fair value through profit or loss	Derivatives designated as hedging instruments	Total
<b>2015</b>						
<b>Financial assets</b>						
Associate loans and receivables	9.2	356	–	–	–	356
Loans and receivables	9.3	1 751	–	–	–	1 751
Financial assets	6.1	–	–	19	38	57
Trade and other receivables		4 543	–	–	–	4 543
Cash and cash equivalents	3.2	2 551	–	–	–	2 551
<b>Total</b>		<b>9 201</b>	<b>–</b>	<b>19</b>	<b>38</b>	<b>9 258</b>
<b>Financial liabilities</b>						
Associate loans and payables	9.2	8	–	–	–	8
Long-term debt	3.1.1	–	6 104	–	–	6 104
Financial liabilities	6.2	–	–	–	228	228
Trade and other payables		–	6 267	–	–	6 267
Short-term debt	3.1.2	–	2 162	–	–	2 162
Bank overdrafts	3.2	–	75	–	–	75
<b>Total</b>		<b>8</b>	<b>14 608</b>	<b>–</b>	<b>228</b>	<b>14 844</b>

Financial assets and financial liabilities are classified as Level 2 or Level 3 in accordance with the contractual rights and obligations assigned to the balances. The fair values of these financial assets and financial liabilities are set out below:

Rm	Notes	Level 2	Level 3	Total
<b>2015</b>				
<b>Financial assets</b>				
Associate loans and receivables	9.2	–	356	356
Loans and receivables	9.3	–	1 751	1 751
Trade and other receivables		–	4 543	4 543
Cash and cash equivalents	3.2	2 551	–	2 551
<b>Total</b>		<b>2 551</b>	<b>6 650</b>	<b>9 201</b>
<b>Financial liabilities</b>				
Associate loans and payables	9.2	–	8	8
Long-term debt	3.1.1	–	6 104	6 104
Trade and other payables		–	6 267	6 267
Short-term debt	3.1.2	–	2 162	2 162
Bank overdrafts	3.2	75	–	75
<b>Total</b>		<b>75</b>	<b>14 541</b>	<b>14 616</b>

## 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. Key functions are managed from the head office in SA and the UK, but due authority is obtained from central treasury. 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.

In the UK, the indebtedness of BMI Healthcare has been converted to fixed rates through fixed-for-floating interest rate swap instruments covering a notional amount of £116 million.

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 local 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 R20 million (2015: R27 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 2016, the Group had 10 (2015: 8) fixed-for-floating interest rate swap instrument contracts and 2 (2015: 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.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 6. FINANCIAL MANAGEMENT continued

#### 6.4 Financial instruments and risk management continued

##### 6.4.4 Financial risk management continued

##### 6.4.4.1 Interest rate risk continued

Rm	Notional amount	Rate (%)	Maturity date	Fair value gain/(loss)
<b>2016</b>				
<b>Interest rate swaps</b>				
South Africa	3 150	7.4	2018 – 2021	–
				–
<b>Inflation rate swaps</b>				
South Africa	3	0.0	2017	2
BMI Healthcare	2 059	2.5	2031 <sup>1</sup>	(2 029)
				(2 027)
<b>2015</b>				
<b>Interest rate swaps</b>				
South Africa	2 650	6.3	2018 – 2021	–
				–
<b>Inflation rate swaps</b>				
South Africa	3	0.0	2016	–
BMI Healthcare	2 424	2.5	2031 <sup>1</sup>	(109)

1. The valuation of these instruments is sensitive to future RPI expectations and also the expected timing and amount of any swap instrument termination payment. The future RPI rates used in the valuation of the RPI swap instruments have been based on future forecasts available in the market. The impact of the termination date was estimated using a weighted average of probabilities of the cash flows expected to arise at possible termination dates. However, as a consequence of the heads of terms agreed for the UK Rent Transaction, the estimate of the termination dates and amounts used in valuing the RPI swap instruments changed from the corresponding estimates applicable at previous reporting dates.

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

In addition to the above, losses of R15 million (2015 gains: R44 million) resulting from the fair value movement in the interest rate swap instruments designated as cash flow hedges, as well as recycling 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) equity Rm
<b>2016</b>		
<b>Interest rate swaps</b>		
South Africa	Increase of 1%	67
	Decrease of 1%	(70)
<b>Inflation rate swaps</b>		
South Africa	Increase of 1%	9
	Decrease of 1%	(10)
United Kingdom	Increase of 0.25%	905
	Decrease of 0.25%	(884)
<b>2015</b>		
<b>Interest rate swaps</b>		
South Africa	Increase of 1%	72
	Decrease of 1%	(75)
<b>Inflation rate swaps</b>		
South Africa	Increase of 1%	10
	Decrease of 1%	(10)
United Kingdom	Increase of 1%	22
	Decrease of 1%	(22)

## 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.

The Group is exposed to translational foreign exchange risk. The Group has investments in foreign subsidiaries whose net assets are exposed to foreign currency translation risk.

The UK debt of BMI Healthcare provides a natural hedge against the assets of that subsidiary.

During the year, a gain of R90 million (2015: R296 million) was made on the currency translation arising from the consolidation of BMI Healthcare and was recognised in the statement of comprehensive income and included in the foreign currency translation reserve in equity.

##### Foreign exchange sensitivity

The impact of a R1 increase/decrease in the Rand/Pound Sterling exchange rate at year-end would result in an increase/decrease of R31 million in equity (2015: R139 million).

##### 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.

In SA, 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.

In the UK, trade receivables consist mainly of amounts owed by private medical insurers and the National Health Service (NHS). Medical insurance companies are registered insurers, and are subject to liquidity ratios. The NHS is backed by the UK government.

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. In SA, the Group is exposed to concentration risk in the Compensation for Occupational Injuries and Diseases. The amount due by the Commissioner as at 30 September 2016 was R197 million (2015: R402 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. In the UK, the Group is exposed to five customers namely Kuwait Health Office, BUPA, Axa, Aviva and the NHS. The risk of non-payment from these debtors is low as a result of the good credit rating of these organisations. Due to the sensitivity and nature of these debtors, the outstanding amounts at year-end are not disclosed.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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

Rm	2016	2015
At 30 September 2016 trade receivables of R1 087 million (2015: R1 068 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	<b>293</b>	260
Past due 31 – 60 days	<b>132</b>	164
Past due 60 – 120 days	<b>132</b>	199
More than 120 days <sup>1</sup>	<b>530</b>	445

1. The majority is made up of outstanding Compensation for Occupational Injuries and Disease and Kuwait Health Office balances. Refer above 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	2016	2015
Balance at beginning of year	<b>(247)</b>	(223)
Impairment losses recognised	<b>(157)</b>	(150)
Amounts written off as uncollectible	<b>104</b>	130
Amounts recovered during the year	<b>40</b>	(3)
Translation of foreign entities	<b>13</b>	(1)
<b>Balance at end of year</b>	<b>(247)</b>	(247)

## 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
<b>2016</b>				
Trade and other payables <sup>1</sup>	<b>6 012</b>	–	–	<b>6 012</b>
Bank overdrafts	<b>1</b>	–	–	<b>1</b>
Secured debt	<b>895</b>	<b>1 621</b>	–	<b>2 516</b>
Finance leases	<b>74</b>	<b>192</b>	<b>62</b>	<b>328</b>
	<b>6 982</b>	<b>1 813</b>	<b>62</b>	<b>8 857</b>
<b>2015</b>				
Trade and other payables <sup>1</sup>	6 403	–	–	6 403
Bank overdrafts	75	–	–	75
Secured debt	946	2 230	9	3 185
Finance leases	72	188	76	336
	7 496	2 418	85	9 999

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

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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 objective when managing capital is to maintain an optimal capital structure to ensure that there is sufficient capital available to support funding requirements, while optimising the cost of capital to safeguard the Group's ability to continue as a going concern and to maximise the return to its stakeholders.

The Group manages its capital and adjusts it in view of changes in economic conditions and the needs of the Group. In order to maintain the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, repurchase shares currently in issue, issue new shares, raise new debt or sell assets to reduce existing debt.

Opportunities in the market are monitored closely to ensure that the most efficient funding solution is implemented.

The Group monitors capital using the net debt to EBITDA ratio in SA and the UK. The Group's policy is to keep this ratio in line with annual targets. The net debt to EBITDA ratio for the year is as follows:

Rm	2016	2015
<b>South Africa</b>		
Debt	<b>4 535</b>	4 637
Cash and cash equivalents	<b>(948)</b>	(1 345)
Net debt	<b>3 587</b>	3 292
EBITDA	<b>4 147</b>	3 948
Net debt to EBITDA (times)	<b>0.9</b>	0.8
<b>£m</b>		
<b>United Kingdom</b>		
Debt	<b>167.9</b>	173.3
Cash and cash equivalents	<b>(57.9)</b>	(54.0)
Net debt	<b>110.0</b>	119.3
EBITDA	<b>66.4</b>	55.2
Net debt to EBITDA (times)	<b>1.7</b>	2.2

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.

## 7. PROVISIONS AND COMMITMENTS

### 7.1 Provisions

**Legal claims provisions** – The Group is subject to a number of legal claims. Provision has been made for the estimated costs of settlement, based on management's best estimate of the outcome of settlements on a case-by-case basis. This provision is expected to be utilised within five years.

**Onerous lease provision** – The onerous lease was raised as a result of a present legal obligation existing as a consequence of an unavoidable past obligation under the terms and conditions for two head lease agreements for rental costs to be incurred until, respectively, 2018 and 2034. This provision will be utilised within the next two to 18 years.

**Future defined benefit pension scheme commitment provision** – This provision represents the long-term portion of the estimated costs of future potential contributions to the defined benefit pension scheme. This provision will be utilised within the next two years.

Rm	2016	2015
Legal claims	<b>56</b>	60
Onerous lease	<b>33</b>	52
Future defined benefit pension scheme commitment	<b>24</b>	38
<b>Total provisions included in non-current liabilities</b>	<b>113</b>	150

The carrying amount of provisions is analysed as follows:

Rm	Legal claims	Onerous lease	Future defined benefit pension scheme commitment	Total
Balance at 1 October 2014	45	58	35	138
Amounts provided	43	–	7	50
Amounts utilised	(35)	(13)	(12)	(60)
Translation of foreign entities	7	7	8	22
Balance at 30 September 2015	60	52	38	150
Amounts provided	<b>45</b>	–	<b>2</b>	<b>47</b>
Amounts utilised	<b>(39)</b>	<b>(13)</b>	<b>(10)</b>	<b>(62)</b>
Translation of foreign entities	<b>(10)</b>	<b>(6)</b>	<b>(6)</b>	<b>(22)</b>
<b>Balance at 30 September 2016</b>	<b>56</b>	<b>33</b>	<b>24</b>	<b>113</b>

## Notes to the Group annual financial statements continued for the year ended 30 September

### 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.

Rm	2016	2015
<b>7.2.1 Financial guarantees</b>		
> Guarantee covering the obligation of an associate company	<b>34</b>	34
> Guarantee covering the obligations of pathologists, to a banking institution following the sale of Ampath	–	45
> Guarantee covering the obligation of a subsidiary company instalment sale agreement	<b>15</b>	20
<b>7.2.2 Litigation</b>		
> There are current and pending legal cases, which have been adequately provided for (note 7.1). The Group is not aware of any other 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	2016	2015
<b>Authorised and contracted for</b>		
Land and buildings	<b>222</b>	292
Plant and equipment	<b>215</b>	212
Computer equipment	<b>21</b>	13
Other (including furniture and fittings)	<b>12</b>	2
<b>Authorised but not yet contracted for</b>		
Land and buildings	<b>1 990</b>	1 077
Plant and equipment	<b>439</b>	364
Computer equipment	<b>32</b>	42
Other (including furniture and fittings)	<b>74</b>	10
	<b>3 005</b>	2 012
This expenditure will be financed from internally generated funds and existing banking facilities.		
To be expended:		
Within 1 year	<b>2 041</b>	727
Over 1 year	<b>964</b>	1 285

## 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 125 years with renewal options of between 1 and 20 years.

Rental escalations on properties vary between 1% and 15% 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 30 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	2016	2015
<b>Properties</b>		
Within 1 year	<b>2 981</b>	3 339
GHG Property Businesses	<b>2 466</b>	3 018
Other	<b>515</b>	321
1 – 5 years	<b>12 229</b>	13 413
GHG Property Businesses	<b>9 863</b>	12 085
Other	<b>2 366</b>	1 328
5 – 10 years	<b>14 948</b>	16 661
GHG Property Businesses	<b>12 328</b>	15 139
Other	<b>2 620</b>	1 522
> 10 years	<b>18 154</b>	23 993
GHG Property Businesses	<b>12 532</b>	18 688
Other	<b>5 622</b>	5 305
<b>Motor vehicles</b>		
Within 1 year	<b>22</b>	16
1 – 5 years	<b>22</b>	3
<b>Plant and equipment</b>		
Within 1 year	<b>32</b>	35
1 – 5 years	<b>49</b>	84
<b>Medical equipment</b>		
Within 1 year	<b>14</b>	13
1 – 5 years	<b>50</b>	48
5 – 10 years	<b>36</b>	48
	<b>48 537</b>	57 653

**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**8. SHAREHOLDERS' INTERESTS**

**8.1 Ordinary share capital and premium**

	2016	2015
Number of shares (million)		
<b>Authorised</b>		
Ordinary shares of 1.0 cent each	<b>2 500</b>	2 500
<b>Issued</b>		
Shares in issue at beginning of year	<b>1 456</b>	1 478
Shares issued during the year	<b>6</b>	95
Shares cancelled during the year	<b>–</b>	(117)
<b>Shares in issue at end of year</b>	<b>1 462</b>	1 456
<b>Treasury shares</b>		
Treasury shares at beginning of year	<b>(107)</b>	(141)
HPFL B-BBEE Trusts purchase of treasury shares	<b>–</b>	(91)
Sale of treasury shares	<b>1</b>	8
HPFL B-BBEEE Trusts treasury share buy-back	<b>–</b>	117
<b>Treasury shares at end of year</b>	<b>(106)</b>	(107)
<b>Total issued ordinary shares</b>	<b>1 356</b>	1 349
Treasury shares are held as follows:		
HPFL B-BBEEE Trusts	<b>98</b>	101
Forfeitable Share Plan	<b>8</b>	6
Rm	2016	2015
<b>Authorised</b>		
Ordinary shares of 1.0 cent each	<b>25</b>	25
<b>Issued ordinary share capital</b>		
Balance at beginning and end of year	<b>15</b>	15
<b>Share premium</b>		
Balance at beginning of year	<b>4 018</b>	947
Share premium arising on issue of shares	<b>164</b>	37
Repurchase and cancellation of shares for the HPFL B-BBEE Trusts restructure	<b>–</b>	3 034
<b>Balance at end of year</b>	<b>4 182</b>	4 018
<b>Issued ordinary share capital and premium</b>	<b>4 197</b>	4 033

## 8. SHAREHOLDERS' INTERESTS *continued*

### 8.2 Treasury shares

Rm	2016	2015
Balance at beginning of year	(3 713)	(735)
Restructure of HPFL B-BBEE Trusts (repurchase and subscription net)	–	(3 034)
Issue of treasury shares held by Forfeitable Share Plan	(141)	–
Sale of treasury shares	86	56
<b>Balance at end of year</b>	<b>(3 768)</b>	<b>(3 713)</b>

The HPFL Trusts are special purpose entities of which Netcare is a beneficiary. They 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.

In 2015, a decision was taken to restructure the Netcare B-BBEE transaction in order to simplify the structures and settle all associated funding liabilities. The increase in Netcare's share price created an opportunity for the HPFL scheme and the PCT scheme to increase value for future beneficiaries by the repayment of Finco liabilities. This resulted in a movement within share premium and treasury shares, but had zero impact on the Group's total shareholders' equity. The transaction included both a repurchase and a subscription of Netcare Limited shares. The average price paid for the shares repurchased was R38.86.

During the year 1 million (2015: 8 million) 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 4 million shares (2015: Nil 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 2016 is 1 038 million (2015: 1 044 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 75% of the prime rate. Although the rights to receive dividends are cumulative, declaration of such dividends is at the discretion of the directors.

Rm	2016	2015
<b>Authorised</b>		
10 million (2015: 10 million) variable rate, cumulative, non-redeemable, non-convertible preference shares of 50.0 cents each	5	5
<b>Issued</b>		
7 million (2015: 7 million) preference shares in issue at beginning and end of year	3	3
<b>Share premium</b>		
Balance at beginning and end of year	641	641
<b>Total issued preference share capital and premium</b>	<b>644</b>	<b>644</b>

**Notes to the Group annual financial statements** continued  
for the year ended 30 September

**8. SHAREHOLDERS' INTERESTS** *continued*

**8.4 Non-controlling interest**

Rm	2016	2015
Balance at beginning of year	<b>3 325</b>	2 882
Dividends paid	<b>(9)</b>	(9)
Movements in equity interest in subsidiaries and acquisition of businesses	<b>23</b>	52
Total comprehensive (loss)/income for the year	<b>(1 151)</b>	400
	<b>2 188</b>	3 325

**8.5 Other comprehensive income**

Rm	Gross	Tax	Other comprehensive (loss)/income	Non-controlling interest	Net attributable to owners of the parent
<b>2016</b>					
Effect of cash flow hedge accounting	<b>(15)</b>	<b>4</b>	<b>(11)</b>	<b>(2)</b>	<b>(9)</b>
Effect of translation of foreign entities	<b>(1 131)</b>	–	<b>(1 131)</b>	<b>(478)</b>	<b>(653)</b>
	<b>(1 146)</b>	<b>4</b>	<b>(1 142)</b>	<b>(480)</b>	<b>(662)</b>
<b>2015</b>					
Remeasurement losses on defined benefit plans	(123)	35	(88)	–	(88)
Effect of cash flow hedge accounting	44	(10)	34	13	21
Effect of translation of foreign entities	878	–	878	409	469
	799	25	824	422	402

## 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 includes 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	2016	2015
Investments at cost		90	96
Share of post-acquisition reserves		101	101
Carrying value of shares		191	197
Director's valuation of joint venture companies		1 291	1 031

This valuation falls under Level 3 of the fair value hierarchy. The valuations are performed using the free cash flow (FCF) method. 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 (WACC).

In 2016, loans to and from joint ventures have been assessed as working capital in nature, and have therefore been recognised as part of trade receivables and trade payables.

Trade and other receivables	5.1	30	11
Trade and other payables	5.3	(115)	(122)

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

## Notes to the Group annual financial statements continued for the year ended 30 September

### 9. GROUP STRUCTURE *continued*

#### 9.2 Investment in associates

Included in the investment in associates balance is the investment in GHG PropCo 2. The GHG PropCo 2 entities (collectively referred to as GHG PropCo 2) are classified as associates even though the Group owns an effective interest of 57%. An assessment was undertaken to determine if the Group has control over the entities, as defined in IFRS 10: Consolidated Financial Statements. The cumulative effects of a number of factors led management to conclude that Netcare is not able to govern the financial and operating policies of GHG PropCo 2, including the rights of the lender and the statutory, contractual and legal rights of GHG PropCo 2's other shareholders at 30 September 2016. However, the Group does have representation on the GHG PropCo 2 board of directors, and is therefore considered to have significant influence over the GHG PropCo 2 entities.

Rm	2016	2015
Investments at cost	129	159
Share of post-acquisition reserves	227	161
Carrying value of shares	356	320
Loans	365	348
	721	668
Director's valuation of associated companies	1 806	1 659

This valuation falls under Level 3 of the fair value hierarchy. The valuations are performed using the free cash flow (FCF) method. 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 (WACC).

The loans to/(from) associate companies are unsecured, bearing interest at between 0.0% – 13.1%, and are repayable on demand or up to 8 years.

Rm	Note	2016	2015
Non-current assets		301	303
Current assets		79	53
	6.4.3	380	356
Current liabilities	6.4.3	(15)	(8)
		365	348

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 of 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	2016	2015
Included in:			
Non-current assets		<b>1 652</b>	1 680
Current assets		<b>58</b>	71
	6.4.3	<b>1 710</b>	1 751

An investment of R1 339 million (2015: R1 398 million) relating to the acquisition of a contractual economic interest in the debt of BMI Healthcare, is incorporated in the balance of loans and receivables. The blended effective interest rate applicable on this loan is 12.0% (2015: 12.0%) and is repayable in full in October 2018.

The other loans and receivables are unsecured, bearing interest at between 0.0% and 10.50% and are repayable on demand or up to 7 years.

### 9.4 Acquisition of businesses

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 investors 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.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 9. GROUP STRUCTURE *continued*

#### 9.4 Acquisition of businesses *continued*

The aggregate consideration paid on acquisition of businesses is as follows:

Rm	2016	2015
Property, plant and equipment	30	62
Current assets	2	5
Debt	–	(1)
Deferred taxation	–	(7)
Current liabilities	(11)	(8)
<b>Fair value of net assets acquired</b>	<b>21</b>	51
Non-controlling interest	(7)	(19)
Goodwill <sup>1</sup>	29	7
<b>Consideration paid</b>	<b>43</b>	39
<i>1. Goodwill is net of a bargain purchase of R2 million (2015: R1 million).</i>		
Consideration paid in cash and cash equivalents	43	39
Acquisition of businesses	18	39
Acquisition of businesses loans	25	–
Less: Cash and cash equivalent balances acquired	(1)	(4)
	<b>42</b>	35

Comprising:

Acquired 74% shareholding in Chrisal Proprietary Limited effective 1 October 2015.

Acquired 74% shareholding in Dormex Proprietary Limited effective 1 October 2015.

Acquired 70% shareholding in Kimberley Narkokliniek Proprietary Limited effective 1 October 2015.

Acquired 70% shareholding in Aztostep Proprietary Limited effective 1 October 2015.

Acquired 60% shareholding in Masiluleke Medical Group Proprietary Limited effective 12 February 2016.

Acquired 80% shareholding in Detox - ZA Proprietary Limited effective 29 February 2016.

Acquired 100% shareholding in Medicross Kingsway Propco Proprietary Limited effective 1 March 2016.

Acquired 100% shareholding in Medicross Kingsway Sub Acute Proprietary Limited effective 1 March 2016.

Acquired 74% shareholding in Kalahari Katarak on Oog Sentrum Proprietary Limited effective 15 April 2016.

Acquired 70% shareholding in Centurion Sub-Actue Facility Proprietary Limited effective 31 August 2016.

All the acquisitions have been shown in aggregate as they are immaterial to the Group.

The goodwill of R31 million arises due to expected synergies between the businesses.

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

#### Impact of acquisitions on the results of the Group

The profit for the year includes a loss of R2 million that relates to the businesses acquired during the year.

The revenue includes R6 million in respect of the businesses acquired during the year. The effect on

revenue would have been immaterial, and the effect on profit would have been an additional loss of

R4 million, had the businesses been acquired on 1 October 2015 rather than on their various

acquisition dates.

## 9. GROUP STRUCTURE *continued*

### 9.5 Proceeds on disposal of businesses

Rm	2016	2015
Investments and loans	–	2
Current assets	2	–
Current liabilities	(1)	–
<b>Net assets disposed</b>	<b>1</b>	<b>2</b>
Profit on disposal	19	1
Recognised through profit or loss	4	1
Contingent profit recognised in other payables	15	–
<b>Proceeds from disposal of businesses</b>	<b>20</b>	<b>3</b>

Comprising:

Disposed of 100% shareholding in Prime Med Administrators Proprietary Limited (a subsidiary), effective 13 October 2015. The contingent profit to be recognised will be a result of conditions being met in stages over 5 years.

The disposal in 2015 related to the disposal of our 50% shareholding in Optimed Proprietary Limited (an associate).

### 9.6 Increase in equity interest in associates and joint ventures to subsidiaries

Rm	2016	2015 <sup>1</sup>
Property, plant and equipment	1	37
Current assets	22	4
Debt	–	(1)
Deferred taxation	–	(9)
Current liabilities	(3)	(3)
<b>Fair value of net assets acquired</b>	<b>20</b>	<b>28</b>
Non-controlling interest	–	(24)
Goodwill	23	129
<b>Consideration paid</b>	<b>43</b>	<b>133</b>
Consideration paid in cash and cash equivalents	43	53
Less: Cash and cash equivalent balances acquired	–	(4)
	<b>43</b>	<b>49</b>

1. Acquired additional shareholding in joint venture investment of 10% in Constantia Clinic Proprietary Limited and 40% in North West Cancer Limited.

Comprising:

Acquired an additional 49% shareholding in the associate, BMI Sussex Diagnostics Limited, effective 30 September 2016 and thereafter it will be recognised as a subsidiary.

The goodwill of R23 million arises because the cost of the acquisitions included a control premium.

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

## Notes to the Group annual financial statements continued for the year ended 30 September

### 9. GROUP STRUCTURE *continued*

#### 9.7 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	2016	2015
Netcare Pharmacies 2 Proprietary Limited	Dispensary services	14	13
Medicross Healthcare Group Proprietary Limited	Healthcare services	1	–
Netcare 911 Proprietary Limited	Capitation fee	–	4
Netcare Hospitals Proprietary Limited	Healthcare services	253	234
Netcare Pharmacies Proprietary Limited	Dispensary services	67	64
Primecure Health Proprietary Limited	Capitation fee	16	15
PrimeMed Administrators Proprietary Limited <sup>1</sup>	Administration fee	–	27
		<b>351</b>	<b>357</b>

1. PrimeMed Administrators Proprietary Limited was sold on 13 October 2015.

## 10. 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 2016 financial year. The Group has not early adopted the undermentioned new, amended and revised IFRS that are not yet effective.

New standards	Requirements	Effective date	Impact
IFRS 9: Financial Instruments	<p>(2014) An update was issued on 24 July 2014 and supersedes IFRS 9 (2013). The standard contains requirements in the following areas:</p> <ul style="list-style-type: none"> <li>&gt; Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</li> <li>&gt; The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.</li> <li>&gt; Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</li> <li>&gt; The requirements for derecognition of financial assets and liabilities are carried forward from IAS 39.</li> </ul>	1 January 2018	This standard first becomes applicable to the Group for the financial year ending 30 September 2019 and the impact is currently being assessed.
IFRS 15: Revenue from Contracts with Customers	The new standard requires companies to recognise revenue to depict the transfer of goods or services to customers, that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, and provides guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The adoption of the standard on the Group's performance and financial position will result in additional presentation and disclosure.	1 January 2018	This standard first becomes applicable to the Group for the financial year ending 30 September 2019. Further amendments to the standard are expected before the effective date.
IFRS 16: Leases	IFRS 16 replaces the leases standard, IAS 17 Leases, and related interpretations. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1 January 2019	This standard first becomes applicable to the Group for the financial year ending 30 September 2020 and the impact is currently being assessed.

## Notes to the Group annual financial statements continued for the year ended 30 September

### 10. NEW ISSUED STANDARDS NOT YET EFFECTIVE *continued*

Amendments to standards	Requirements	Effective date and impact
IFRS 10: Consolidated Financial statements and IAS 28: Investments in Associates and Joint Ventures (2011)	Amendments to IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures (2011) clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture. This will require full recognition in the investor's financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3: Business Combinations) or partial recognition of gains and losses where the assets do not constitute a business whereby gain or loss is recognised only to the extent of the unrelated investors' interests in that associate or joint venture.	The amended standards become applicable to the Group for the financial year ending 30 September 2017.
IFRS 11: Joint Arrangements	Amendments adding new guidance on accounting for the acquisition of an interest in a joint operation, that constitutes a business, which specifies the appropriate accounting treatment for such acquisition and application the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11. The amendments apply prospectively both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation.	The amended standard becomes applicable to the Group for the financial year ending 30 September 2017 and is not expected to have an impact on the Group but will be continued to be evaluated.

The following amended standards become applicable to the Group for the financial year ending 30 September 2017 and 2018, and are not expected to have a material impact on the Group:

- IAS 12: Income taxes
- IAS 16: Property, Plant and Equipment
- IAS 27: Separate Financial Statements
- IAS 28: Investment in associates and joint ventures (2011)
- IAS 34: Interim Financial Reporting
- IAS 38: Intangibles
- IFRS 10: Consolidated financial statements,
- IFRS 12: Disclosure of interest in other entities
- Annual Improvement Cycle
  - 2012 – 2014 Cycle
    - IFRS 5: Non-current Assets held for Sale
    - IFRS 7: Financial Instruments
    - IAS 19: Employee Benefits

## Company statement of financial position

AT 30 SEPTEMBER

Rm	Notes	2016	2015
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investment in subsidiaries	2.1	839	835
<b>Total non-current assets</b>		<b>839</b>	835
<b>Current assets</b>			
Amounts owing by subsidiaries	2.1	4 461	4 628
Trade and other receivables	4.1	4	–
Cash and cash equivalents	3.1	35	35
<b>Total current assets</b>		<b>4 500</b>	4 663
<b>Total assets</b>		<b>5 339</b>	5 498
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Ordinary share capital and premium	5.1	4 142	3 924
Other reserves		233	230
Retained earnings		303	683
Equity attributable to ordinary shareholders		4 678	4 837
Preference share capital and premium	5.2	644	644
<b>Total shareholders' equity</b>		<b>5 322</b>	5 481
<b>Current liabilities</b>			
Trade and other payables	4.2	16	17
Taxation payable		1	–
<b>Total current liabilities</b>		<b>17</b>	17
<b>Total equity and liabilities</b>		<b>5 339</b>	5 498

## Company statement of profit or loss

FOR THE YEAR ENDED 30 SEPTEMBER

Rm	Notes	2016	2015
<b>Operating loss</b>	2.2	<b>(2)</b>	(2)
Investment income	3.2	<b>1 020</b>	2 113
<b>Profit before taxation</b>		<b>1 018</b>	2 111
Taxation	2.3	<b>(1)</b>	(1)
Profit after taxation		<b>1 017</b>	2 110
<b>Total comprehensive income for the year</b>		<b>1 017</b>	2 110
Attributable to:			
Ordinary shareholders		<b>965</b>	2 061
Preference shareholders		<b>52</b>	49
		<b>1 017</b>	2 110

## Company statement of cash flows

FOR THE YEAR ENDED 30 SEPTEMBER

Rm	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Cash utilised by operations	2.4	(7)	(1)
Taxation paid	2.5	–	(1)
Dividends paid		(1 345)	(1 272)
Preference dividends paid		(52)	(49)
<b>Net cash from operating activities</b>		<b>(1 404)</b>	<b>(1 323)</b>
<b>Cash flows from investing activities</b>			
Decrease in investments and loans		166	115
Dividends received		1 020	2 113
<b>Net cash from investing activities</b>		<b>1 186</b>	<b>2 228</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		218	152
Restructure of HPFL B-BBEE Trusts		–	3 034
Repurchase of shares		–	(4 067)
<b>Net cash from financing activities</b>		<b>218</b>	<b>(881)</b>
<b>Net increase in cash and cash equivalents</b>		<b>–</b>	<b>24</b>
Cash and cash equivalents at beginning of year		35	11
<b>Cash and cash equivalents at end of year</b>	3.1	<b>35</b>	<b>35</b>

## Company statement of changes in equity

FOR THE YEAR ENDED 30 SEPTEMBER

Rm	Ordinary share capital	Ordinary share premium	Share- based payment reserve
<b>Balance at 30 September 2014</b>	15	723	223
Shares issued during the year	–	152	–
Share-based payment reserve movements	–	–	7
Dividends paid	–	–	–
Preference dividends paid	–	–	–
Restructure of HPFL B-BBEE trusts	–	3 034	–
Total comprehensive income for the year	–	–	–
<b>Balance at 30 September 2015</b>	<b>15</b>	<b>3 909</b>	<b>230</b>
Shares issued during the year	–	218	–
Share-based payment reserve movements	–	–	3
Dividends paid	–	–	–
Preference dividends paid	–	–	–
Total comprehensive income for the year	–	–	–
<b>Balance at 30 September 2016</b>	<b>15</b>	<b>4 127</b>	<b>233</b>

Retained earnings	Equity attributable to ordinary shareholders	Preference share capital and premium	Total shareholders' equity
3 960	4 921	644	5 565
–	152	–	152
–	7	–	7
(1 272)	(1 272)	–	(1 272)
–	–	(49)	(49)
(4 066)	(1 032)	–	(1 032)
2 061	2 061	49	2 110
<b>683</b>	<b>4 837</b>	<b>644</b>	<b>5 481</b>
–	<b>218</b>	–	<b>218</b>
–	<b>3</b>	–	<b>3</b>
<b>(1 345)</b>	<b>(1 345)</b>	–	<b>(1 345)</b>
–	–	<b>(52)</b>	<b>(52)</b>
<b>965</b>	<b>965</b>	<b>52</b>	<b>1 017</b>
<b>303</b>	<b>4 678</b>	<b>644</b>	<b>5 322</b>

# 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.

Rm	2016	2015
<b>2. INVESTMENTS AND RETURNS</b>		
<b>2.1 Interest in subsidiaries</b>		
<b>Investment in subsidiaries</b>		
Investments at cost	663	671
Share-based payments arising from the Group's share incentive schemes	176	173
Long-term loans to subsidiaries	–	(9)
	<b>839</b>	835
<b>Amounts owing by subsidiaries</b>		
Included in:		
Current assets	4 461	4 628
<b>Net interest in subsidiaries</b>	<b>5 300</b>	5 463
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.		
<b>2.2 Operating profit</b>		
<b>After charging:</b>		
Directors' emoluments (Refer to the Group financial statements note 4.1 for details)	9	7
<b>2.3 Taxation</b>		
<b>South African normal taxation</b>		
Current year	(1)	(1)
<b>Income tax</b>	<b>(1)</b>	(1)
<b>Total taxation per the statement of profit or loss</b>	<b>(1)</b>	(1)
<b>Reconciliation of effective taxation rate (%)</b>		
South African normal tax rate	28.0	28.0
<b>Adjusted for:</b>		
Exempt income	(28.0)	(28.0)
<b>Effective taxation rate</b>	<b>–</b>	–

Rm	2016	2015
<b>2.4 Cash utilised by operations</b>		
Operating loss	(2)	(2)
<b>Cash utilised by operations before working capital changes</b>	<b>(2)</b>	<b>(2)</b>
Increase in accounts receivable	(4)	–
(Decrease)/increase in accounts payable	(1)	1
	<b>(7)</b>	<b>(1)</b>
<b>2.5 Taxation paid</b>		
Amounts payable at beginning of year	–	–
Charge per the statement of profit or loss	(1)	(1)
Amounts payable at end of year	1	–
	–	(1)
<b>3. FUNDING</b>		
<b>3.1 Cash and cash equivalents</b>		
Cash on hand and balances with banks	<b>35</b>	35
<b>3.2 Investment income</b>		
Dividends received	<b>1 020</b>	2 113
	<b>1 020</b>	2 113
<b>4. WORKING CAPITAL</b>		
<b>4.1 Trade and other receivables</b>		
Other receivables and prepayments	<b>4</b>	–
The carrying values of trade and other receivables are considered to be a close approximation of their fair values. None of the amounts are considered to be past due.		
<b>4.2 Trade and other payables</b>		
Other payables	<b>16</b>	17

**Notes to the Company annual financial statements** continued  
for the year ended 30 September

Rm	2016	2015
<b>5. SHAREHOLDERS INTEREST</b>		
<b>5.1 Ordinary share capital and premium</b>		
Number of shares (million)		
<b>Authorised</b>		
Ordinary shares of 1.0 cent each	<b>2 500</b>	2 500
<b>Issued</b>		
Shares in issue at beginning of year	<b>1 456</b>	1 478
Shares issued during the year	<b>6</b>	95
Shares repurchased during the year		(117)
<b>Shares in issue at end of year</b>	<b>1 462</b>	1 456
Rm		
<b>Authorised</b>		
Ordinary shares of 1.0 cent each	<b>25</b>	25
<b>Issued ordinary share capital</b>		
Balance at beginning and end of year	<b>15</b>	15
<b>Share premium</b>		
Balance at beginning of year	<b>3 909</b>	723
Share premium arising on issue of shares	<b>218</b>	3 666
Restructure of HPFL B-BBEE Trusts		(480)
<b>Balance at end of year</b>	<b>4 127</b>	3 909
<b>Total issued ordinary share capital and premium</b>	<b>4 142</b>	3 924
Refer to note 8.1 of the notes to the Group annual financial statements for further details.		
<b>5.2 Preference share capital</b>		
<b>Authorised</b>		
10 million (2015: 10 million) variable rate, cumulative, non-redeemable, non-convertible preference shares of 50.0 cents each.	<b>5</b>	5
<b>Issued</b>		
7 million (2015: 7 million) preference shares in issue at beginning and end of year.	<b>3</b>	3
<b>Share premium</b>		
Balance at beginning and end of year	<b>641</b>	641
<b>Total issued preference share capital and premium</b>	<b>644</b>	644
<b>6. CONTINGENT LIABILITIES</b>		
<b>Financial guarantees</b>		
> Guarantee covering the obligations of pathologists to a banking institution following the sale of Ampath.	<b>–</b>	45
> The Company has provided a cross deed of suretyship in favour of various other beneficiaries which cover the unutilised facilities granted to various subsidiaries.	<b>300</b>	300
> The Company has provided unlimited suretyship in favour of various financial institutions which covers the unutilised facilities granted to a subsidiary institutions.	<b>800</b>	1 800

Rm 2016 2015

## 7. GROUP STRUCTURE

### 7.1 Related parties

#### Related party transactions

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

Details of loan balances with 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	<b>1 020</b>	1 603
> Netcare Hospitals Proprietary Limited	-	470
> Netcare Hospital Group Proprietary Limited	-	40

Management fees received:

> Netcare Hospitals Proprietary Limited	<b>9</b>	7
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### 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
<b>Direct</b>		
Netcare Holdings Proprietary Limited	Holding Company	South Africa
<b>Indirect</b>		
Clindeb Investments Proprietary Limited	Financing	South Africa
BMI Healthcare Ltd	Investment holding	United Kingdom
GHG 1 Limited trading as BMI Healthcare	Hospital/healthcare services	United Kingdom
General Healthcare Group Limited	Hospital/healthcare services	United Kingdom
General Healthcare Mixer Partnership LLP	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	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

1. Netcare's direct shareholding in these entities is 53.72% (2015: 53.72%). There is an Employee Benefit Trust that holds unallocated equity interests set aside for GHG management. Netcare is required to consolidate this trust under IFRS10: Consolidated Financial Statements, increasing Netcare's effective ownership (i.e. direct and indirect interests). When equity interests in the trust are allocated or forfeited, this will have an impact on Netcare's effective shareholding.

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 the following subsidiary has a significant non-controlling interest:

### GHG 1 Limited trading as BMI Healthcare

The directors consider the 43% non-controlling interest of BMI Healthcare to be material both qualitatively and quantitatively. A loss of R666 million (2015: R27 million) of the Group's total non-controlling interest loss of R671 million (2015: R22 million) was attributable to BMI Healthcare for the year ended 30 September 2016. The non-controlling interest reserve relating to BMI Healthcare amounted to R2 157 million at 30 September 2016 (2015: R3 299 million). Netcare has majority representation on the board of directors. However, the BMI Healthcare partnership agreement requires that certain reserved transactions and decisions are subject to investor majority consent. The rights of BMI Healthcare's minority shareholders are protective of their interest in their investment, and do not result in a loss of control for Netcare.

The General Healthcare Mixer Partnership is disclosed separately in the list of subsidiaries. It is purely a holding entity and there is no material difference in the results of this entity and those of BMI Healthcare. There were no other material non-controlling interests identified.

### GHG 1 Limited trading as BMI Healthcare – Material non-controlling interest:

Name of subsidiary	Place of incorporation and principal place of business
GHG 1 Limited trading as BMI Healthcare	United Kingdom

Issued ordinary share capital (Thousands)	Effective Group holding %		Investment (Rm)		Loans to subsidiaries (Rm)	
	2016	2015	2016	2015	2016	2015
R120	<b>100</b>	100	<b>663</b>	663	<b>4 428</b>	4 428
R1	<b>100</b>	100	–	–	<b>18</b>	183
£17 600	<b>57<sup>1</sup></b>	57 <sup>1</sup>	–	–	–	–
	<b>57<sup>1</sup></b>	57 <sup>1</sup>	–	–	–	–
£10 000	<b>57<sup>1</sup></b>	57 <sup>1</sup>	–	–	–	–
£540 000	<b>57<sup>1</sup></b>	57 <sup>1</sup>	–	–	–	–
R2	<b>100</b>	100	<b>13</b>	12	–	–
R4	<b>100</b>	100	–	–	–	–
	<b>100</b>	100	<b>151</b>	148	–	–
	<b>100</b>	100	–	–	–	–
	<b>100</b>	100	–	–	–	–
	<b>100</b>	100	<b>2</b>	2	–	–
	<b>80</b>	80	–	–	–	–
			<b>10</b>	10	<b>15</b>	17
			<b>839</b>	835	<b>4 461</b>	4 628
					<b>4 461</b>	4 628

Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests (Rm)		Accumulated non-controlling interest (Rm)	
2016	2015	2016	2015	2016	2015
<b>43%</b>	43%	<b>(666)</b>	(27)	<b>2 157</b>	3 299

**Annexure A – Interest in subsidiaries** continued

Summarised financial information in respect of the Group's subsidiary that has a material non-controlling interest is set out below.

The summarised financial information below represents amounts before intragroup eliminations.

Rm	30 September	
	2016	2015
<b>GHG 1 Limited trading as BMI Healthcare</b>		
Current assets	<b>3 834</b>	4 412
Non-current assets	<b>8 862</b>	10 465
Current liabilities	<b>(4 107)</b>	(4 731)
Non-current liabilities	<b>(5 073)</b>	(4 268)
Equity attributable to owners of the Company	<b>3 516</b>	5 878
Non-controlling interests	<b>(2 157)</b>	(3 299)
Revenue	<b>18 838</b>	16 422
Expenses	<b>(20 351)</b>	(16 480)
<b>Loss for the year</b>	<b>(1 513)</b>	(58)
Loss attributable to owners of the Company	<b>(847)</b>	(31)
Loss attributable to non-controlling interests	<b>(666)</b>	(27)
<b>Loss for the year</b>	<b>(1 513)</b>	(58)
Other comprehensive income attributable to owners of the Company	<b>(634)</b>	313
Other comprehensive income attributable to non-controlling interests	<b>(480)</b>	422
<b>Other comprehensive income for the year</b>	<b>(1 114)</b>	735
Total comprehensive income attributable to owners of the Company	<b>(1 481)</b>	282
Total comprehensive income attributable to the non-controlling interests	<b>(1 146)</b>	395
<b>Total comprehensive income for the year</b>	<b>(2 627)</b>	677
Dividends paid to non-controlling interests	–	–
Net cash inflow from operating activities	<b>1 044</b>	547
Net cash outflow from investing activities	<b>(528)</b>	(594)
Net cash outflow from financing activities	<b>(336)</b>	(98)
<b>Net cash inflow/(outflow)</b>	<b>180</b>	(145)

#### Acquisition of subsidiaries during the year

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

- > Acquired 74% shareholding in Chrisal Proprietary Limited effective 1 October 2015.
- > Acquired 74% shareholding in Dormex Proprietary Limited effective 1 October 2015.
- > Acquired 70% shareholding in Kimberley Narkokliniek Proprietary Limited effective 1 October 2015.
- > Acquired 70% shareholding in Aztostep Proprietary Limited effective 1 October 2015.
- > Acquired 60% shareholding in Masiluleke Medical Group Proprietary Limited effective 12 February 2016.
- > Acquired 80% shareholding in Detox – ZA Proprietary Limited effective 29 February 2016.
- > Acquired 100% shareholding in Medicross Kingsway Propco Proprietary Limited effective 1 March 2016.
- > Acquired 100% shareholding in Medicross Kingsway Sub Acute Proprietary Limited effective 1 March 2016.
- > Acquired 74% shareholding in Kalahari Katarak on Oog Sentrum Proprietary Limited effective 15 April 2016.
- > Acquired 70% shareholding in Centurion Sub-Actue Facility Proprietary Limited effective 31 August 2016.

#### Disposal of subsidiaries during the year

During the current year, the Group disposed of the following subsidiary :

- > 100% shareholding in Prime Med Administrators Proprietary Limited, effective 13 October 2015.

#### Change in the Group's ownership interest in an associate to a subsidiary

- > Acquired an additional 49% shareholding in BMI Sussex Diagnostics Limited effective 30 September 2016.
-

## 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		Carrying value (Rm)	
		2016	2015	2016	2015
Basfour 2463 (Proprietary) Limited	South Africa	50	50	–	–
National Renal Care Proprietary Limited	South Africa	50	50	124	115
Netcare Parklands Linac Joint Venture Proprietary Limited	South Africa	50	50	8	9
Olivedale Clinic Oncology Centre Proprietary Limited	South Africa	50	50	5	5
Rand Clinic Oncology Centre Proprietary Limited	South Africa	50	50	11	10
Waterberg Lodge Proprietary Limited	South Africa	50	50	1	–
Netcare Unitas Linac Joint Venture Proprietary Limited	South Africa	50	50	6	4
BMI Southend Private Hospital Limited	United Kingdom	50	50	2	1
BMI Imaging Clinic Limited	United Kingdom	50	50	13	27
Meriden Hospital Advanced Imaging Centre Limited <sup>1</sup>	United Kingdom	50	50	7	8
The Thornbury Radiosurgery Centre Limited <sup>2</sup>	United Kingdom	50	50	14	18
<b>Total interest in joint ventures</b>	Note 9.1			<b>191</b>	197
Loans included in:					
Trade and other receivables (note 5.1/9.1)				<b>30</b>	11
Trade and other payables (note 5.3/9.1)				<b>(115)</b>	(122)
				<b>(85)</b>	(111)

Year end dates other than 30 September

1. 31 December

2. 31 March

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

Rm	30 September	
	2016	2015
Aggregate information of joint ventures that are not individually material		
The Group's share of profit for the year	<b>57</b>	48
The Group's share of other comprehensive income for the year	–	–
<b>The Group's share of total comprehensive income for the year</b>	<b>57</b>	48
<b>Aggregate carrying amount of the Group's interests in these joint ventures</b>	<b>191</b>	197

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

## Annexure C – Investment in associated companies

Company	Place of incorporation and principal place of business	Portion of ownership interests and voting power held by the Group		Carrying value (Rm)	
		2016	2015	2016	2015
Community Hospital Management Proprietary Limited	South Africa	25	25	9	4
Nalithemba Proprietary Limited	South Africa	50	50	272	287
Kokstad Private Hospital Proprietary Limited	South Africa	30	30	12	10
Gamma Knife Proprietary Limited <sup>1</sup>	South Africa	34	–	56	–
Botle Facilities Management Proprietary Limited	Lesotho	40	40	26	19
Tsepong Proprietary Limited	Lesotho	40	40	121	125
BMI Sussex Diagnostics Limited <sup>2</sup>	United Kingdom	–	49	–	9
GHG PropCo 2 entities	United Kingdom	57	57	190	188
Three Shires Hospital Limited <sup>3</sup>	United Kingdom	50	50	35	26
<b>Total investment in associated companies</b>				<b>721</b>	<b>668</b>

1. Acquisition of 33.8% shareholding in Gamma Knife Proprietary Limited on 1 August 2016.

2. Additional shareholding of 49% was acquired on 30 September 2016, resulting in BMI Sussex Diagnostics Limited now being held as a subsidiary

Year end dates other than 30 September

3. 31 March

Where the above entities' financial year-ends are not in line with that of the Company, financial information has been obtained from published information or unaudited management accounts as appropriate.

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

**Annexure C – Investment in associated companies** continued**Material investment in associates: GHG PropCo 2:**

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 R100 million, and the value of the investment in associates at 30 September 2016 was R721 million.

Based on events in recent history, most notably the deconsolidation of GHG PropCo 2, the directors consider the investment in the entity to be qualitatively material. The entity is relevant to the users of the financial statements due to the specialised hospital assets that they own, the long-term lease obligations pursuant to which BMI Healthcare operates its business, and the high levels of secured debt funding attributable to these entities.

There are certain background facts and circumstances applicable to the GHG Property Businesses that require highlighting in order for users of the financial statements to fully understand the relevance of these entities to the Netcare Group. These are set out below.

In 2006, Netcare, together with private equity partners (“the GHG Investors”), acquired the General Healthcare Group (GHG) in the UK.

In 2008, GHG acquired eight additional hospitals from Nuffield (two of these hospital properties were sold in the 2011 financial year). These businesses were separated into two distinct enterprises, being the hospital operating company that was integrated into BMI Healthcare and a series of eight separate property and property holding companies (collectively GHG PropCo 2). The GHG PropCo 2 properties raised third party non-recourse debt under a separate borrowing facility (the GHG PropCo 2 facility) secured by the shares in the eight separate property and property holding companies and by the property asset held by each property company. The GHG PropCo 2 facility is ring-fenced from the BMI Healthcare facility.

The BMI Healthcare facility and the GHG PropCo 2 facility have no recourse to Netcare or any of Netcare’s South African subsidiaries or operations.

During the 2013 financial year, following careful consideration of certain changes and circumstances relating to Netcare’s interest in the GHG Property Businesses, the Netcare Board concluded that it was no longer appropriate to continue consolidating the GHG Property Businesses in Netcare’s Group financial statements.

With effect from 16 November 2012, Netcare has accounted for GHG PropCo 2 as investments in associates, as it still has significant influence over these entities. The information below has been provided to enable the users of the financial statements to obtain an understanding of the financial status of the GHG Property Businesses.

The information has been obtained from the unaudited management accounts as at 30 September 2016.

**Material associates:**

Name of associate	Place of incorporation and principal place of business	Principal activity	Proportion of ownership interests and voting power held by the Group	
			2016 <sup>1</sup>	2015 <sup>1</sup>
GHG PropCo 2 entities <sup>2</sup>	United Kingdom	Property owning	<b>57%</b>	57%

1. Netcare’s direct shareholding in these entities is 53.72% (2015: 53.72%). There is an Employee Benefit Trust that holds unallocated equity interests set aside for GHG management. Netcare is required to consolidate this trust under IFRS10: Consolidated Financial Statements, increasing Netcare’s effective ownership (i.e. direct and indirect interests). When equity interests in the trust are allocated or forfeited, this will have an impact on Netcare’s effective shareholding.

2. Refer to note 9.2 for the rationale surrounding accounting for GHG PropCo 2 as an associate even though Netcare holds 57% of the shares (2015: 57%).

**GHG PropCo 2:**

The results below are taken from the unaudited management accounts as at 30 September 2016, are prepared in terms of IFRS, and are shown at 100% before intergroup eliminations.

Rm	30 September	
	2016	2015
<b>GHG PropCo 2</b>		
Current assets	127	87
Non-current assets	977	1 153
Current liabilities	(28)	(33)
Non-current liabilities	(805)	(950)
Total equity	271	257
Revenue	153	127
Profit for the year	63	12
Other comprehensive income for the year	–	–
<b>Total comprehensive income for the year</b>	<b>63</b>	<b>12</b>
Reconciliation of the above summarised financial information to the carrying amount of the interest in GHG PropCo 2 recognised in the consolidated financial statements:		
Net assets of the associate	271	257
Proportion of the Group's ownership interest in GHG PropCo2	57%	57%
<b>Group's interest in GHG PropCo 2</b>	<b>154</b>	<b>147</b>
Fair value adjustment at acquisition of associate including translations of foreign currency	36	41
<b>Carrying amount of the Group's interest in GHG PropCo 2</b>	<b>190</b>	<b>188</b>
<b>Aggregate information of associates that are not individually material</b>		
The Group's share of profit for the year	64	59
The Group's share of other comprehensive income for the year	–	–
<b>The Group's share of total comprehensive income for the year</b>	<b>64</b>	<b>59</b>
<b>Aggregate carrying amount of the Group's interests in these associates</b>	<b>531</b>	<b>480</b>

## Annexure D – Analysis of shareholders

	Number of shareholders	Percentage of shareholders	Number of shares in issue <sup>1</sup>	Percentage of issued share capital
<b>Shareholder Spread</b>				
1 – 1 000	9 280	46.75	<b>3 093 633</b>	0.23
1 001 – 50 000	9 101	45.85	<b>65 638 483</b>	4.84
50 001 – 100 000	401	2.02	<b>28 694 779</b>	2.12
100 001 – 10 000 000	1 052	5.30	<b>785 864 215</b>	57.94
10 000 001 and above	16	0.08	<b>472 975 725</b>	34.87
<b>Total</b>	<b>19 850</b>	<b>100.00</b>	<b>1 356 266 835</b>	<b>100.00</b>
<b>Distribution of shareholders per category</b>				
Individuals	16 285	82.05	<b>77 141 229</b>	5.68
Private Companies	347	1.75	<b>19 431 020</b>	1.43
Nominees and Trusts	1 265	6.37	<b>28 658 951</b>	2.11
Banks and Brokerage firms	112	0.56	<b>59 619 166</b>	4.40
Insurance Companies	96	0.48	<b>143 063 177</b>	10.55
Pension Funds and Medical Aid Schemes	665	3.35	<b>430 163 571</b>	31.72
Collective Investment Schemes and Mutual Funds	1 080	5.44	<b>598 189 721</b>	44.110
<b>Total</b>	<b>19 850</b>	<b>100.00</b>	<b>1 356 266 835</b>	<b>100.00</b>
<b>Public and non-public shareholdings</b>				
Public	19 845	99.97	<b>1 343 788 893</b>	99.08
Non-public	5	0.03	<b>12 477 942</b>	0.92
Directors <sup>2</sup>	4	0.02	<b>10 395 176</b>	0.77
Retirement funds	1	0.01	<b>2 082 766</b>	0.15
<b>Total</b>	<b>19 850</b>	<b>100.00</b>	<b>1 356 266 835</b>	<b>100.00</b>
<b>Beneficial shareholders holding 5% or more</b>				
Public Investment Corporation Limited			<b>253 627 285</b>	18.70
Allan Gray Various Funds			<b>75 346 467</b>	5.56
<b>Total</b>			<b>328 973 752</b>	<b>24.26</b>
<b>Investment Manager Top 10</b>				
Public Investment Corporation Limited			<b>202 377 407</b>	14.92
Allan Gray Proprietary Limited			<b>127 067 059</b>	9.37
Old Mutual plc			<b>107 164 975</b>	7.90
Prudential Portfolio Managers			<b>72 246 734</b>	5.33
Liberty Holdings Limited (STANLIB)			<b>58 626 685</b>	4.32
The Vanguard Group, Inc.			<b>47 713 790</b>	3.52
Sanlam Limited			<b>46 521 352</b>	3.43
Coronation Fund Managers Limited			<b>44 379 283</b>	3.27
Abax Investments Proprietary Limited			<b>43 153 624</b>	3.18
Visio Capital Management Proprietary Limited			<b>42 105 338</b>	3.10
<b>Total</b>			<b>791 356 247</b>	<b>58.34</b>
<b>Beneficial Owner Top 10</b>				
Public Investment Corporation Limited			<b>253 627 285</b>	18.70
Old Mutual Life Assurance Company SA			<b>44 323 004</b>	3.27
Liberty Life Association of Africa Limited			<b>37 411 648</b>	2.76
Investment Solutions Limited			<b>32 965 023</b>	2.43
Allan Gray Balanced Fund			<b>30 526 887</b>	2.25
Government of Norway			<b>27 809 968</b>	2.05
GIC Private Limited			<b>27 674 198</b>	2.04
Vanguard Emerging Markets Stock Index Fund (US)			<b>23 624 319</b>	1.74
Allan Gray Equity Fund			<b>20 291 249</b>	1.50
Sanlam Life Insurance Limited			<b>20 116 104</b>	1.48
<b>Total</b>			<b>518 369 685</b>	<b>38.22</b>
<b>Geographic Ownership</b>				
South Africa			<b>1 029 085 526</b>	75.88
International			<b>327 181 309</b>	24.12
<b>Total</b>			<b>1 356 266 835</b>	<b>100.00</b>

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

1996/008242/06

### BUSINESS ADDRESS AND REGISTERED OFFICE

Netcare Limited  
76 Maude Street (corner West Street)  
Sandton 2196  
Private Bag X34, Benmore 2010  
Telephone: +27 (0) 11 301 0000

### COMPANY SECRETARY

Lynelle Bagwandeen  
Telephone: +27 (0) 11 301 0265  
lynelle.bagwandeen@netcare.co.za

### INVESTOR RELATIONS

ir@netcare.co.za  
www.netcareinvestor.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

### SELECTED WEBSITES

www.netcare.co.za  
www.netcareinvestor.co.za  
www.netcare911.co.za  
www.medicross.co.za  
www.primecure.co.za  
www.nrc.co.za  
www.ghg.co.uk  
www.bmihealthcare.co.uk

### JSE INFORMATION

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

### SPONSOR

Deutsche Securities (SA) Proprietary Limited  
A non-bank member of the Deutsche Bank Group  
3 Exchange Square  
87 Maude Street  
Sandton 2196

### TRANSFER SECRETARIES

Trifecta Capital Services Proprietary Limited  
Trifecta Capital House  
31 Beacon Road  
Florida-North, 1709  
South Africa  
email: netcare@trifectacapital.com  
tel no: 0860 222 213

### AUDITORS

Grant Thornton Johannesburg

### PRINCIPAL BANKERS

Nedbank Limited

## Shareholders' diary

### ANNUAL GENERAL MEETING

3 February 2017

### REPORTS

Interim results announcement  
Final results announcement

May  
November

### DIVIDENDS

#### Ordinary dividend

Interim  
Final

#### Declared

May  
November

#### Paid

July  
January

#### Preference dividend

Interim  
Final

April  
October

May  
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.



You're in safe hands

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