NETCARE LIMITED

Audited Consolidated and Separate Annual Financial statements

for the year ended 30 September 2021

2021

Providing YOU with the best and safest care

NETCARE

Contents

Who we are

The Netcare Group is a leading provider of private healthcare services in SA. We provide acute services across our national network of hospitals and are the market leader in acute mental health services. We also provide emergency, cancer care, primary care and renal care services as well as occupational health and wellness services.

Our Netcare promise

While you are in our care we promise you the following:
We promise to care for you, and about you, in a manner that places you and your family at the centre of everything we do. We recognise that you are an individual with unique needs and expectations. We recognise the importance of your family and loved ones in your healing process. We are here to ensure that we provide you with the best and safest care, when you need it and in a way that we would wish for our loved ones.

Netcare Limited

Annual Financial Statements 30 September 2021
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.

How to navigate this report

AP **Accounting policies**
The specific principles, bases, conventions, rules and practices applied by the Group and Company for preparing and presenting financial statements.

EJ **Estimates and judgements**
The complex or subjective judgements that have the most significant effect on amounts recognised, and assumptions and other sources of estimation uncertainty required to be made about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

Directors’ responsibility and approval

The directors of Netcare Limited are responsible for the preparation and integrity of the annual financial statements of the Company and the Group, which have been prepared under the supervision of the Chief Financial Officer, Mr KN Gibson, CA(SA). These annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee (APC), Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council (FRSC), the requirements of the South African Companies Act, No 71 of 2008 (the Companies Act), and the JSE Listings Requirements in line with the accounting policies of the Group, which are supported by prudent judgements and estimates. The Group’s external auditors, Deloitte & Touche, are engaged to express an independent opinion on these financial statements which has been presented on pages 11 to 13.

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

The directors are of the opinion that such accounting and administrative control systems have been maintained during the year, and based on information and explanations from management believe that the system of internal control is adequate for ensuring the:
- Reliability and integrity of financial and operating information;
- Adequate safeguarding, verification and accountability of assets against unauthorised use or disposition; and
- Compliance of established systems with policies, procedures, laws and regulations.

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 directors have considered control deficiencies identified by the internal and external auditors and have concluded that these have not resulted in a material misstatement of these financial statements. The directors have considered the proposed and completed remedial actions in respect of the identified control deficiencies.

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 18 November 2021 and are signed on its behalf by:

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

Sandton

18 November 2021

Chief Executive Officer and Chief Financial Officer responsibility statement

The Directors, whose names are stated below, hereby confirm that:

a) The annual financial statements set out on pages 14 to 97, fairly present in all material respects the financial position, financial performance and cash flows of the issuer in terms of IFRS;
b) No facts have been omitted or untrue statements made that would make the annual financial statements false or misleading;
c) Internal financial controls have been put in place to ensure that material information relating to the issuer and its consolidated subsidiaries have been provided to effectively prepare the financial statements of the issuer; and
d) The internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having applied the combined assurance model pursuant to principle 15 of the King Code. Where we are not satisfied, we have disclosed to the Audit Committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

RH Friedland
Chief Executive Officer

KN Gibson
Chief Financial Officer

Sandton

18 November 2021

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.

CM Vikisi
Company Secretary

Sandton

18 November 2021

Directors' report

for the year ended 30 September 2021

Your directors have pleasure in presenting their report on the consolidated activities of Netcare Limited (the Group) and of Netcare Limited (the Company) for the year ended 30 September 2021.

Nature of business

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

Financial results and review

The 2021 financial year has been impacted by the effects of highly transmissible COVID-19 variants and resultant rolling COVID-19 waves. Despite this, the Group has managed to maintain consistency in the provision of the highest quality care and remain commercially stable. Whilst improvements have been seen in profitability, cash generation and activity, the business has not yet recovered to pre-pandemic levels.

The results for the year have also been impacted by the early termination of the Public Private Partnership (PPP) agreement with the Government of Lesotho and property impairments informed by recent market valuations. Further details of these can be found in note 11 and note 2.8 respectively.

The financial results of the Group are set out on pages 14 to 88 of this report and a segment report is included in note 2.12 to the Group annual financial statements. The Company annual financial statements are presented on pages to 89 to 97.

Subsidiaries, associates and joint ventures

Details of interests in subsidiaries, joint ventures and associates are shown on pages 98 to 101 respectively.

Changes in shareholdings

There were no material changes in the Group to holdings in subsidiaries, associates or joint ventures during the year ended 30 September 2021.

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

Property, plant and equipment and intangible assets

Capital expenditure incurred during the year amounted to R1 144 million (2020: R999 million).

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

Share capital

Authorised and issued

The Company's authorised share capital remained unchanged during the year. The Company issued no shares during the year (2020: nil).

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

Directors' report continued

Shareholding of Company

The issued capital of the Company held by public and non-public entities as at 30 September 2021 was as follows:

	Number of shareholders	Number of shares[1]	% of issued share capital
Public	**26 622**	**1 336 488 115**	**99.94**
Non-public	**2**	**738 038**	**0.06**
Directors	**2**	**738 038**	**0.06**
Total	**26 624**	**1 337 226 153**	**100.00**
Beneficial shareholders holding 5% or more			
Public Investment Corporation on behalf of Government Employee Pension Fund[2]		**296 016 447**	**22.14**
Total		**296 016 447**	**22.14**
Investment management shareholding greater than 5%			
Public Investment Corporation Group		**219 037 313**	**16.38**
Ninety One SA (Pty) Ltd		**75 842 400**	**5.67**
Total		**294 879 713**	**22.05**

1. Number of shares are net of treasury shares.
2. As the treasury shares held by the HPFL B-BBEE scheme carry voting rights, the effective voting power of the Government Employee Pension Fund is 20.7%.

Share incentive schemes

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

Ordinary dividends paid

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

Rm	2021	2020
Final distribution paid		
No final dividend paid (2020: 64.0 cents per share)	—	921
Dividends attributable to treasury shares	—	(61)
Paid to Netcare Limited external shareholders	—	860

Dividends are accrued on the date of declaration. As a result, the final dividend of 34.0 cents per share declared on 18 November 2021, is not reflected in the financial statements for the year ended 30 September 2021.

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, 25 January 2022
Trading ex-dividend commences	Wednesday, 26 January 2022
Record date	Friday, 28 January 2022
Payment date	Monday, 31 January 2022

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

Cents	2021	2020
Interim dividend	—	—
Final dividend	**34.0**	—
	34.0	—

As a result of the high levels of uncertainty due to the effect that COVID-19 has had on the business, the Board made the decision to suspend the interim and final dividend in respect of earnings for FY2020, and the interim dividend in respect of earnings for FY2021.

Directors' report continued

The estimated total cash flow of the final dividend of 34.0 cents per share payable on 31 January 2022, is R455 million.

This amount excludes R35 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	**2021**	2020
Interim dividend	**19**	27
Final dividend	**20**	27
	39	54

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

Directors

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

Executive directors

RH Friedland
KN Gibson

Independent non-executives

MR Bower
T Brewer – Chairperson
B Bulo
L Human
D Kneale
MJ Kuscus
KD Moroka

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

Board diversity

Gender	
Male	5
Female	4
Nationality	
Black South African	4
White South African	4
White Foreign National	1
Independence	
Executive	2
Independent non-executive[1]	7

1. The continued independence of independent non-executive directors that have served for a period of ten years or longer is evaluated, taking into account the factors that may impair their independence. Following the 2020 review, the Board is satisfied that there are no relationships or circumstances likely to affect, or which appear to affect, the judgement of Adv KD Moroka as a director. The Board is also satisfied that the Chairperson of the Board, T Brewer, is independent and free from any conflicts of interest.

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

Company Secretary

The Company Secretary's contact details, and the business and postal addresses of Netcare Limited appear on page 104.

Directors' report continued

Auditors
Deloitte & Touche were appointed as auditors of Netcare Limited and will continue in office in accordance with section 94(7) of the Companies Act of South Africa, No. 71 of 2008. Mr Graeme Berry is the designated audit partner.

Events after the reporting period
Subsequent to year end, Ceres Hospital was closed, effective 31 October 2021. Netcare owns 99.56% of the shares in Ceres Hospital Limited, and it is the intention to sell the hospital to another hospital service provider.

Numerous expressions of interest have been received with respect to the purchase of the hospital. However, none are advanced enough to meet the requirements to classify the hospital as held for sale as at 30 September 2021. The assets are considered recoverable, and the disposal thereof is not expected to have a material impact on the Group's results.

Shareholders are advised that an ordinary dividend of 34.0 cents per share has been declared by the Board of Netcare Limited on 18 November 2021.

On 19 November 2021 the Board appointed Dr Rozett Phillips and Dr Thabi Leoka as independent non-executive directors with effect from 1 January 2022.

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 and Company annual financial statements, which significantly affect the financial position at 30 September 2021 or the results of operations or cash flows for the year then ended.

Going concern
Since the emergence of COVID-19 in South Africa in early March 2020, trading circumstances have changed dramatically, resulting in increased levels of uncertainty prevalent in the global and domestic economies, the healthcare sector and Netcare specifically. This heightened uncertainty has predicated a need to consider, in line with remodelled existing forecasts, the going concern assertion applicable to the Group and Company.

Netcare achieved an improved performance in the current financial year, despite the impact of highly transmissible COVID-19 variants and rolling waves which affected the Group's ability to recover to pre-pandemic levels. Netcare remains in a healthy financial position with acceptable levels of gearing as reflected by its net debt to EBITDA coverage of 2.0 times (pre-IFRS 16) at 30 September 2021. Available cash balances and committed undrawn facilities amount to R5.6 billion which will ensure the availability of liquidity for the foreseeable future. The budget prepared for the 2022 year represents a recovery period as the impact of COVID-19 waves continue to affect profitability, and the Group's strategic projects gather momentum. However, improved profitability and cash generation are expected, with a return to pre-COVID-19 profitability levels expected thereafter within the five-year forecast period. On this basis the Board is confident in the ability of the Group and Company to continue as a going concern for the foreseeable future.

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
- At the annual general meeting of shareholders, the following special resolutions were passed relating to Netcare Limited:
  - General authority to repurchase shares.
  - Approval of non-executive directors' remuneration, for the period 1 October 2020 to 30 September 2021.
  - Specific authority to repurchase shares.

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 consolidated financial statements.

Reportable irregularity
During the financial year, a matter concerning a breach of controls and an unauthorised payment of an immaterial amount, initiated by an executive, was identified through the Group's internal processes. The Board has taken steps to address the matter in line with the Group's internal policies, including drawing the matter to the attention of the external auditors, and the executive involved is no longer in the employ of the Group. The external auditors raised a reportable irregularity with IRBA in terms of section 45 of the Auditing Profession Act, No. 26 of 2005 ("the Act"). The external auditors have subsequently completed their reporting responsibilities in terms of the Act and confirmed in writing their belief that the reportable irregularity is no longer taking place, and that the necessary steps have been taken for the recovery of the loss. Deloitte & Touche have issued an unmodified opinion on the Group's financial statements. The Board mandated management to take necessary remedial actions.

Audit Committee Report

for the year ended 30 September 2021

Introduction

The Audit Committee (the Committee) is pleased to present its report in terms of section 94 of the Companies Act, No 71 of 2008, as amended (the Companies Act), the King IV Report on Corporate Governance for South Africa (King IV) and the JSE Listings Requirements for the financial year ended 30 September 2021. The Committee conducted its duties in accordance with its written terms of reference approved by the Board.

Role of the Audit Committee

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

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

Structure of the Audit Committee

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

Mr M Bower is the Chair of the Committee.

The fees paid to the Committee members for the year ended 30 September 2021 were approved by shareholders at the annual general meeting held on 5 February 2021.

Committee members' attendance is detailed below.

		Committee attendance
M Bower[1]	Audit Committee Chair	3/3
B Bulo[2]		3/3
D Kneale[3]		3/3

1. M Bower BCom (cum laude), BCompt, BCompt (Hons), CA(SA).
2. B Bulo BBuSci Hons, PDGA, CA(SA).
3. D Kneale BA.

Audit Committee report continued

Structure of the Audit Committee continued

The head, or where appropriate the acting head, of Netcare Group Internal Audit as well as Deloitte & Touche, in their capacity as external auditors to Netcare, attended and reported at all the Committee meetings. The Chief Financial Officer and the Chief Executive Officer attend by invitation. The Group risk management function is also represented at the meetings and relevant senior managers attend by invitation. To ensure an integrated and coordinated approach to the risk management process, all members of the Committee are also members of the Risk Committee. Divisional Internal Audit Committee meetings were held on 11 November 2020 and 14 April 2021. Deloitte & Touche, in their capacity as external auditors of Netcare, attended these meetings.

External auditors

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

The Committee approved the terms of engagement, the audit plan and the audit fees payable, as well as the nature and extent of non-audit services which Deloitte & Touche are permitted to provide to Netcare. The Committee also pre-approved, where relevant, proposed contracts with Deloitte & Touche for the provision of non-audit services to the Group. With regards to these services, consideration is given to the nature of the work involved and its potential impact on the independence of Deloitte & Touche in their role as external auditors. No approval is granted for work that may impair, or be perceived to impair, their independence. The fee payable to Deloitte & Touche for the financial year ended 30 September 2021 amounted to R18 million for audit services.

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

Mr Berry's experience and knowledge has been assessed in terms of the JSE Listing Requirements and the Committee is satisfied that it is appropriate. The Audit Committee also acknowledges receipt of section 22 information from Deloitte & Touche relating to the documentation received following the firm’s latest inspection performed by IRBA. The Committee is of the view that the quality of the external audit, with reference to audit quality indicators, is appropriate.

Internal Audit

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

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

Chief Financial Officer

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

Annual financial statements

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

Audit Committee report continued

Key Audit Matter

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

Valuation of the Netcare Public Private Partnerships (PPP) equity accounted investments and receivables:
The Committee was advised that the judgements and estimates applied in determining the impact of the termination of two PPP's was identified as a key audit matter due to the uncertainty of the resolution of the matters under dispute. The Committee is satisfied that the impact of the terminations has been appropriately quantified and disclosed in the annual financial statements.

Reportable Irregularity

The Committee was notified of a reportable irregularity concerning a breach of controls and an unauthorised payment of an immaterial amount, initiated by an executive. The Committee has considered the matter and the actions taken to recover the loss. In addition, the Group's internal audit department was engaged to conduct further specific testing of the control environment, which was confirmed to be adequate and satisfactory.

Approval of Audit Committee Report

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

M Bower
Audit Committee Chair
Sandton

17 November 2021

Independent auditor's report

To the Shareholders of Netcare Limited

Report on the Audit of the Consolidated and Separate Financial Statements

Opinion

We have audited the consolidated and separate financial statements of Netcare Limited (the Group and Company) set out on pages 14 to 101, which comprise the consolidated and separate statements of financial position as at 30 September 2021, and the consolidated and separate statements of profit or loss, consolidated statement of comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Netcare Limited and its subsidiaries as at 30 September 2021, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matter	How the matter was addressed in the audit
Measurement of the Netcare Public Private Partnerships ("PPP") equity accounted investments and receivables	
The Group operated two PPPs across Southern Africa. In the current year both PPPs were terminated with the early termination of the Lesotho PPP being the more material as disclosed in Note 11. As disclosed in note 9.1, the recoverability of the value of the PPP investments and receivables is based on consideration of the assessment of the valuation of the compensation receivable, the expected timing of receipt thereof, the legal considerations as well as the potential of any counter claims. When considering the uncertainty of the resolution of the matters under dispute, the consequent judgements in measurement and the quantitative impact, we have considered this as a key audit matter.	In responding to the identified key audit matter, our audit procedures included the following: • Discussion with management of the facts and circumstances surrounding the early termination of the Group, to evaluate the reasonableness of management's conclusions. • Reading underlying contracts. • Inspection of legal correspondence between Netcare Group related entities and the counterparties. • Inspection of the legal confirmations from the Group's legal counsel. • Assessing the basis of the valuations of the compensation receivable including considerations of the merits of counterclaim (if applicable) and the timing of receivable. • Assessing the valuation of the impairments recognised in the associates and Group companies. • Assessing the disclosure of these matters in the consolidated financial statements. Based on our procedures performed above, we conclude that the measurement and disclosure of the amounts related to the PPPs are appropriate.

Independent auditor's report continued

Other Information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Netcare Limited Consolidated and Separate Annual Financial Statements 2021", which includes the Certificate by the company secretary, the Directors' report, the Audit committee report as required by the Companies Act of South Africa, the Chief Executive Officer and Chief Financial Officer responsibility statement, which we obtained prior to the date of this report, and the Integrated Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report continued

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

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

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

Report on Other Legal and Regulatory Requirements

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

In accordance with our responsibilities in terms of sections 44(2) and 44(3) of the Auditing Profession Act, we report that we have identified a reportable irregularity in terms of the Auditing Profession Act. We have reported such matter to the Independent Regulatory Board for Auditors. The matter pertaining to the reportable irregularity has been described in note 12 to the consolidated and separate financial statements.

Deloitte & Touche

Deloitte & Touche
Registered Auditor
Per: Graeme Berry
Partner
19 November 2021

Deloitte & Touche
5 Magwa Crescent
Waterfall City
Waterfall
2090

Group statement of profit or loss

for the year ended 30 September

Rm	Notes	2021	2020
Revenue	2.1	**21 200**	18 843
Cost of sales		**(10 748)**	(9 810)
Gross profit		**10 452**	9 033
Other income		**330**	386
Administrative and other expenses		**(8 518)**	(7 752)
Impairment of financial assets	2.2	**(188)**	(274)
Operating profit before items below		**2 076**	1 393
Profit on disposal of investment in associate		**—**	522
Share-based payment expense on B-BBEE transaction		**—**	(348)
Operating profit	2.2	**2 076**	1 567
Investment income	3.3	**116**	156
Finance costs	3.4	**(903)**	(1 031)
Other financial gains/(losses) – net		**1**	(18)
Attributable (losses)/earnings of associates		**(147)**	20
Attributable earnings of joint ventures		**33**	36
Profit before taxation		**1 176**	730
Taxation	2.4	**(416)**	(291)
Profit for the year		**760**	439
Attributable to:			
Owners of the parent		**730**	392
Preference shareholders		**39**	54
Profit attributable to shareholders		**769**	446
Non-controlling interest		**(9)**	(7)
		760	439
Cents			
Basic earnings per share	2.3	**54.6**	28.3
Diluted earnings per share	2.3	**54.3**	28.1

Group statement of comprehensive income

for the year ended 30 September

Rm	Notes	**2021**	2020
Profit for the year		**760**	439
Items that will not subsequently be reclassified to profit or loss		**(25)**	(14)
Remeasurement of defined benefit obligation		**1**	50
Fair value adjustment on equity investments		**(26)**	(50)
Taxation on items that will not subsequently be reclassified to profit or loss	2.5	**—**	(14)
Items that may subsequently be reclassified to profit or loss		**75**	(55)
Effect of cash flow hedge accounting		**104**	(82)
Amortisation of cash flow hedge accounting reserve	6.3	**103**	86
Change in the fair value of cash flow hedges	6.3	**1**	(168)
Realisation of foreign currency translation reserve		**—**	4
Taxation on items that may subsequently be reclassified to profit or loss	2.5	**(29)**	23
Other comprehensive income for the year	8.5	**50**	(69)
Total comprehensive income for the year		**810**	370
Attributable to:			
Owners of the parent		**780**	323
Preference shareholders		**39**	54
Non-controlling interest		**(9)**	(7)
		810	370

Group statement of financial position

as at 30 September

Rm	Notes	2021	2020
ASSETS			
Non-current assets			
Property, plant and equipment	2.8	**12 915**	12 665
Right of use assets	2.9	**3 600**	3 755
Goodwill	2.11	**1 606**	1 606
Intangible assets	2.10	**200**	198
Investment in joint ventures	9.1	**185**	213
Investment in associates	9.2	**239**	378
Loans and receivables	9.3	**219**	158
Financial assets	6.1	**63**	77
Deferred lease assets		**12**	32
Deferred taxation	2.5	**987**	812
Total non-current assets		**20 026**	19 894
Current assets			
Loans and receivables	9.3	**132**	154
Financial assets	6.1	**4**	—
Inventories	5.2	**640**	1 206
Trade and other receivables	5.1	**3 251**	3 102
Taxation receivable		**112**	138
Cash and cash equivalents	3.2	**1 456**	1 450
Total current assets		**5 595**	6 050
Total assets		**25 621**	25 944
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	8.1	**4 297**	4 297
Treasury shares	8.2	**(3 557)**	(3 851)
Other reserves		**413**	783
Retained earnings		**8 780**	7 894
Equity attributable to owners of the parent		**9 933**	9 123
Preference share capital and premium	8.3	**644**	644
Non-controlling interest	8.4	**12**	32
Total shareholders' equity		**10 589**	9 799
Non-current liabilities			
Long-term debt	3.1	**4 936**	6 761
Long-term lease liabilities		**3 588**	3 546
Financial liabilities	6.2	**32**	64
Post-employment healthcare benefit obligations	4.2	**503**	469
Deferred taxation	2.5	**309**	288
Provisions	7.3	**42**	—
Total non-current liabilities		**9 410**	11 128
Current liabilities			
Trade and other payables	5.3	**3 207**	3 230
Short-term debt	3.1	**1 851**	1 108
Short-term lease liabilities		**508**	499
Financial liabilities	6.2	**38**	115
Taxation payable		**18**	61
Bank overdrafts	3.2	**—**	4
Total current liabilities		**5 622**	5 017
Total equity and liabilities		**25 621**	25 944

Group statement of cash flows

for the year ended 30 September

Rm	Notes	2021	2020
Cash flows from operating activities			
Cash received from customers		**20 702**	18 409
Cash paid to suppliers and employees		**(16 908)**	(16 917)
Cash generated from operations	2.6	**3 794**	1 492
Interest paid on debt		**(441)**	(580)
Interest paid on lease liabilities		**(371)**	(367)
Taxation paid	2.7	**(618)**	(601)
Ordinary dividends paid by subsidiaries		**(19)**	(11)
Ordinary dividends paid		**—**	(860)
Preference dividends paid		**(39)**	(54)
Distribution paid to beneficiaries of the HPFL B-BBEE[1] trusts		**(1)**	(11)
Net cash from operating activities		**2 305**	(992)
Cash flows from investing activities			
Payment for acquisition of interest in associate		**(12)**	—
Payment for acquisition of interest in joint venture		**(9)**	—
Payments for acquisition of property, plant and equipment	2.8	**(1 132)**	(961)
Payments for additions to intangible assets	2.10	**(12)**	(38)
Proceeds on disposal of property, plant and equipment and intangible assets		**36**	38
Proceeds on disposal of investment in associate		**—**	778
Payments for investments and loans		**(105)**	(4)
Interest received		**116**	156
Dividends received		**92**	89
Net cash from investing activities		**(1 026)**	58
Cash flows from financing activities			
Proceeds on disposal of treasury shares		**1**	2
Purchase of ordinary shares		**—**	(251)
Debt raised	3.1.1	**1 000**	3 621
Debt repaid	3.1.1	**(2 108)**	(2 575)
Payment for acquisition of non-controlling interests		**(1)**	(2)
Proceeds from issue of shares to non-controlling interests		**9**	—
Payment of principal elements of lease liabilities		**(170)**	(142)
Net cash from financing activities		**(1 269)**	653
Net increase/(decrease) in cash and cash equivalents		**10**	(281)
Cash and cash equivalents at the beginning of the year		**1 446**	1 727
Cash and cash equivalents at the end of the year		**1 456**	1 446

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

Group statement of changes in equity

for the year ended 30 September

Rm	Ordinary share capital	Treasury shares	Cash flow hedge accounting reserve	Foreign currency translation reserve
Balance at 1 October 2019	4 334	(3 853)	(47)	(4)
Shares purchased and cancelled during the year[1]	(37)	—	—	—
Sale of treasury shares	—	2	—	—
Share-based payment reserve movements	—	—	—	—
Tax recognised in equity	—	—	—	—
Preference dividends paid	—	—	—	—
Ordinary dividends paid[2]	—	—	—	—
Distributions paid to beneficiaries of the HPFL B-BBEE[3] trusts	—	—	—	—
Changes in equity interest in subsidiaries	—	—	—	—
Total comprehensive income for the year	—	—	(59)	4
Profit for the year	—	—	—	—
Other comprehensive income	—	—	(59)	4
Balance at 1 October 2020	**4 297**	**(3 851)**	**(106)**	**—**
Sale of treasury shares	**—**	**2**	**—**	**—**
Transfer[4]	**—**	**292**	**—**	**—**
Share-based payment reserve movements	**—**	**—**	**—**	**—**
Preference dividends paid	**—**	**—**	**—**	**—**
Ordinary dividends paid[2]	**—**	**—**	**—**	**—**
Other reserve movements	**—**	**—**	**—**	**—**
Distributions paid to beneficiaries of the HPFL B-BBEE[3] Trusts	**—**	**—**	**—**	**—**
Tax recognised in equity	**—**	**—**	**—**	**—**
Changes in equity interests in subsidiaries	**—**	**—**	**—**	**—**
Total comprehensive income for the year	**—**	**—**	**75**	**—**
Profit for the year	**—**	**—**	**—**	**—**
Other comprehensive income	**—**	**—**	**75**	**—**
Balance at 30 September 2021	**4 297**	**(3 557)**	**(31)**	**—**
Notes	8.1	8.2		

1. *Refer to note 8.1 for details of the shares purchased and cancelled.*
2. *Refer to note 8.1 for detail of the ordinary dividends paid.*
3. *Health Partners for Life Broad-based Black Economic Empowerment.*
4. *Transfer of treasury shares and share-based payment reserve in respect of vested shares.*

Share-based payment reserve	Retained earnings	Equity attributable to owners of the parent	Preference share capital and premium	Non-controlling interest	Total shareholders' equity
498	8 611	9 539	644	52	10 235
—	(214)	(251)	—	—	(251)
—	—	2	—	—	2
391	—	391	—	—	391
—	(11)	(11)	—	—	(11)
—	—	—	(54)	—	(54)
—	(860)	(860)	—	(11)	(871)
—	(11)	(11)	—	—	(11)
—	1	1	—	(2)	(1)
—	378	323	54	(7)	370
—	392	392	54	(7)	439
—	(14)	(69)	—	—	(69)
889	**7 894**	**9 123**	**644**	**32**	**9 799**
—	**—**	**2**	**—**	**—**	**2**
(471)	**179**	**—**	**—**	**—**	**—**
26	**—**	**26**	**—**	**—**	**26**
—	**—**	**—**	**(39)**	**—**	**(39)**
—	**—**	**—**	**—**	**(19)**	**(19)**
—	**(6)**	**(6)**	**—**	**8**	**2**
—	**(1)**	**(1)**	**—**	**—**	**(1)**
—	**(1)**	**(1)**	**—**	**—**	**(1)**
—	**10**	**10**	**—**	**—**	**10**
—	**705**	**780**	**39**	**(9)**	**810**
—	**730**	**730**	**39**	**(9)**	**760**
—	**(25)**	**50**	**—**	**—**	**50**
444	**8 780**	**9 933**	**644**	**12**	**10 589**
			8.3	8.4	

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NOTES TO THE GROUP ANNUAL FINANCIAL STATEMENTS

Notes to the Group annual financial statements

for the year ended 30 September 2021

1. Accounting framework and critical judgements

1.1 Basis of preparation

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

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

The financial statements are presented in South African Rand (ZAR), the functional currency of the Group and Company and all amounts are rounded to the nearest million, except where otherwise indicated.

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 and investments in equity instruments are measured at fair value (note 6.1); and
- Post-employment healthcare benefit obligations are measured in terms of the projected unit credit method.

Operating activities

The activities of the Group's operating segments are described below:
- **Hospital and emergency services**

This segment is further disaggregated into Hospital and pharmacy operations, covering our private acute hospital network and day clinics, and non-acute services. The non-acute services include emergency medical services, the operation of private mental health clinics, the sale of healthcare products and vouchers and cancer care services.

- **Primary Care**

This segment offers comprehensive primary healthcare services, employee health and wellness services, and administrative services to medical and dental practices.

1.2 Going concern

Since the emergence of COVID-19 in South Africa in early March 2020, trading circumstances have changed dramatically, resulting in increased levels of uncertainty prevalent in the global and domestic economies, the healthcare sector and Netcare specifically. This heightened uncertainty has predicated a need to consider, in line with remodelled existing forecasts, the going concern assertion applicable to the Group and Company.

Netcare achieved an improved performance in the current financial year, despite the impact of highly transmissible COVID-19 variants and rolling waves which affected the Group's ability to recover to pre-pandemic levels. Netcare remains in a healthy financial position with acceptable levels of gearing as reflected by its net debt to EBITDA coverage of 2.0 times (pre-IFRS 16) at 30 September 2021. Cash balances and available committed undrawn facilities amount to R5.6 billion which will ensure the availability of liquidity for the foreseeable future. The budget prepared for the 2022 year represents a recovery period as the impact of COVID-19 waves continue to affect profitability, and the Group's strategic projects gather momentum. However, improved profitability and cash generation is expected, with a return to pre-COVID-19 profitability levels expected thereafter within the five-year forecast period. On this basis the Board is confident in the ability of the Group and Company to continue as a going concern for the foreseeable future.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

1. Accounting framework and critical judgements continued

1.3 Accounting policies

AP

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 2020.The Group has adopted the following interpretations and amendments which have not had a material impact on the current year results:

- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Amendments to References to the Conceptual Framework in IFRS Standards
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

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

No other new, revised or amended standards were implemented during the financial reporting period ended 30 September 2021.

1.4 Critical accounting judgements, estimates and assumptions

EJ

Critical accounting judgements

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

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

Refer to note 2.5, Deferred taxation, note 2.9, Leases, and note 9, Group structure for judgements that have been made in the process of applying the Group's accounting policies in relation to the recognition of deferred tax assets, extension periods on leases and determination of recoverable amounts from terminated Public Private Partnership agreements respectively.

Key sources of estimation uncertainty

Impairment of assets and future cash flows

The Group tests its fixed assets for impairment when indicators of impairment exist. Goodwill is tested for impairment annually. The recoverable amounts of assets (including goodwill), individual cash-generating units (CGUs) and groups of CGUs are based on the Group's best estimate of the future cash flows relating to those assets or CGUs, discounted to reflect the time value of money and the risks specific to the asset, group of assets or leases and contracts under consideration.

Management has incorporated the negative impact of COVID-19 into the cash flow forecasts prepared when testing for impairment on non-financial assets.

The resulting impairment calculations are sensitive to changes in the timing or quantum of future cash flows. Changes in one or more of these inputs to management's estimations could result in reversals of impairment losses, or the recognition of further non-cash impairment charges. Please refer to notes 2.8 and 2.11 for further discussion of the methodology and rationale for selecting these inputs to management's estimations.

1. Accounting framework and critical judgements continued

1.5 Events after the reporting period

Subsequent to year end, Ceres Hospital was closed, effective 31 October 2021. Netcare owns 99.56% of the shares in Ceres Hospital Limited, and it is the intention to sell the hospital to another hospital service provider.

Numerous expressions of interest enquiries have been received with respect to the purchase of the hospital. However, none are advanced enough to meet the requirements to classify the hospital as held for sale as at 30 September 2021. The assets are considered recoverable, and the disposal thereof is not expected to have a material impact on the Group's results.

Shareholders are advised that an ordinary dividend of 34.0 cents per share has been declared by the Board of Netcare Limited on 18 November 2021.

On 19 November 2021 the Board appointed Dr Rozett Phillips and Dr Thabi Leoka as independent non-executive directors with effect from 1 January 2022.

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 annual financial statements, which significantly affect the financial position at 30 September 2021 or the results of operations or cash flows for the year then ended.

2. Investments and returns

2.1 Revenue

AP Revenue is recognised when the Group transfers control of goods and services to the customer.

Revenue is derived from the following major categories:

Rm	Note	2021	2020
Hospital and Emergency services		**20 605**	18 232
Hospital and pharmacy operations		**19 465**	17 239
Normal trading		**19 270**	17 239
Revenue recognised on Lesotho termination	11	**195**	—
Non-acute services		**1 140**	993
Primary Care			
Services		**595**	611
		21 200	18 843

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.1 Revenue continued

AP

Hospital and pharmacy operations' services comprise of ward and theatre fees and the sale of pharmaceutical and other consumables incidental in the provision of hospital services. Revenue is recognised over the period of the patient's stay, as and when the Group meets the performance obligations by rendering the medical and surgical services as per the contract between the Group and the patient, or as pharmaceuticals and consumables are used in the treatment of the patient. Invoices issued are payable on presentation.

Non-acute services include emergency services, mental health, NetcarePlus, allied health and cancer care. In emergency services, which include road and air emergency services, recognition occurs when the recoverability of revenue has been determined to be probable because at the time of delivery of the service, in an emergency situation, the counterparty has not entered into a contract. Revenue is recognised once the contract has been entered into with the patient or their next of kin. Invoices issued are payable on presentation. In NetcarePlus, revenue is recognised from the sale of medical vouchers and prepaid procedures at the point of redemption when the service is provided. The Group recognises revenue when it meets the performance obligations of the contract by rendering the service.

Revenue from Primary Care services is recognised as the administration services to medical and dental practices are performed, or over a period of time as the patient is treated. The Group recognises revenue over the period of the patient's treatment, as and when the Group meets the performance obligations of the contract by rendering the services specified. The administration fees are settled as the underlying practices receive cash from their patients. The practices' invoices to patients are payable on presentation.

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

The disaggregation of revenue above is consistent with the revenue information disclosed for each reportable segment under IFRS 8: *Operating Segments* (refer to note 2.12.2).

2.2 Operating profit

AP

Operating profit is defined as the profit generated from the core business activities of the Group. Operating profit is derived after general and administrative expenses, including impairment of financial assets, have been deducted from gross profit and other income. Operating profit excludes investment income, and is stated before finance costs and other net financial gains/losses are added/deducted. Due to their nature, these items are not classified as being part of the core operating activities of the Group.

Operating profit only includes profit from entities which are controlled by the Group in accordance with IFRS 10: *Consolidated Financial Statements*, and excludes amounts from entities where we share control or have significant influence. The Group therefore does not include its share of earnings/losses of associates and joint ventures in operating profit, as there is no control over the investing, financing and operating decisions of these entities.

Revenue, income or expense items that would otherwise be presented within gross profit or operating profit, are separately disclosed and appropriately described when, by virtue of their nature or amount, they require separate disclosure on the statement of profit or loss.

2. Investments and returns continued

2.2 Operating profit continued

Rm	Notes	2021	2020
Operating profit		**2 076**	1 567
After charging:			
Amortisation of intangible assets	2.10	**20**	15
Auditors’ remuneration		**20**	20
Audit fees – current year		**18**	15
Audit fees – prior year		**2**	4
Other services		**—**	1
Depreciation		**1 148**	1 150
Depreciation of property, plant and equipment	2.8	**759**	770
Depreciation of right of use assets	2.9	**378**	367
Amortisation of cash flow hedge accounting reserve		**11**	13
Directors' emoluments		**26**	32
Executive directors paid by subsidiaries			
Basic remuneration, bonuses, retirement and medical benefits	4.1.3	**17**	22
Non-executive directors			
Consulting fees and fees for services as directors	4.1.3	**9**	10
Employee costs (excluding directors’ emoluments)		**7 981**	8 030
Salaries and wages		**7 570**	7 254
Group retirement benefit contributions		**385**	385
Share-based payment expense on B-BBEE[1] transaction		**—**	348
Share-based payment expenses		**26**	43
Impairment of investment in associate		**—**	35
Impairment of property, plant and equipment	2.8	**73**	3
Impairment of right of use assets	2.9	**—**	1
Impairment of financial assets		**188**	274
Movements in expected credit losses and bad debts related to trade and other receivables		**157**	169
Impairment of loans	9.3	**31**	105
Fair value loss on investment		**33**	—
Loss on disposal of property, plant and equipment		**5**	19
Operating lease charges	2.9	**184**	170
Technical, managerial and secretarial services		**1**	2
After crediting:			
Fair value gain on investment[2]		**—**	32
Profit on disposal of property, plant and equipment		**—**	11
Profit on disposal of investments[3]		**—**	522
Property rental income		**313**	285

1. Broad-based Black Economic Empowerment.
2. Included in other income.
3. The investment in associate classified as held for sale was disposed of in the prior year.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

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 net of the Forfeitable Share Plan and HPFL B-BBEE Trust units. 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 into account the free portion if the shares of the Group's outstanding share options and HPFL B-BBEE trust units were exercised and 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 1/2021 issued by the South African Institute of Chartered Accountants (SAICA) as required by the JSE Limited.

AP

Adjusted headline earnings per share is a measurement used by the chief operating decision maker as a key measure of sustainable earnings from trading operations. The calculation of adjusted headline earnings per share excludes non-trading and/or non-recurring items, and is based on the adjusted profit attributable to ordinary shareholders, divided by the weighted average number of ordinary shares in issue during the year. The presentation of adjusted headline earnings is not an IFRS requirement, nor a JSE Listings Requirement.

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

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

Cents	**2021**	2020
Basic earnings per share	**54.6**	28.3
Diluted earnings per share	**54.3**	28.1
Headline earnings/(loss) per share	**61.5**	(3.6)
Diluted headline earnings/(loss) per share	**61.2**	(3.6)
Adjusted headline earnings per share	**67.4**	32.5
Diluted adjusted headline earnings per share	**67.0**	32.3

2. Investments and returns continued

2.3 Earnings per share continued

Million	2021	2020
Weighted average number of ordinary shares		
The weighted average number of ordinary shares used in the calculations is as follows:		
Weighted average number of shares	**1 336**	1 336
Potential dilutive effect of employee share options and HPFL B-BBEE Trust units[1]	**8**	7
Forfeitable Share Plan	**4**	—
HPFL B-BBEE Trust units	**4**	7
Diluted weighted average number of shares	**1 344**	1 343

1. *In the prior year, the forfeitable share plan options and the 2020 allocation of HPFL B-BBEE trust units were not included in the calculation of diluted earnings per share because they were anti-dilutive.*

Rm	2021	2020
Basic earnings per share		
The profit used in the calculation of basic earnings per share is as follows:		
Profit for the year	**760**	439
Adjusted for:		
Dividends paid on shares attributable to the Forfeitable Share Plan and HPFL B-BBEE Trust units	**—**	(14)
Preference shareholders	**(39)**	(54)
Non-controlling interest	**9**	7
Profit for the purposes of basic and diluted earnings per share	**730**	378

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.3 Earnings per share continued

Rm	Gross pre tax and non-controlling interests 2021	Net 2021	Gross pre tax and non-controlling interests 2020	Net 2020
Headline earnings/(loss)				
Headline earnings are determined as follows:				
Earnings used in the calculation of basic earnings per share	**1 146**	**730**	669	378
Adjusted for:				
Recognition of impairment of intangible assets in equity accounted earnings	**13**	**13**	—	—
Recognition of impairment of investment in associate	**—**	**—**	35	35
Realisation of foreign currency translation reserve	**—**	**—**	4	4
Recognition of impairment of property, plant and equipment in operating profit and equity accounted earnings	**75**	**75**	3	3
Recognition of impairment of right of use assets	**—**	**—**	1	1
Loss on disposal of property, plant and equipment	**5**	**4**	19	13
Profit on disposal of property, plant and equipment and intangible assets	**—**	**—**	(11)	(8)
Profit on disposal of investment in associate	**—**	**—**	(522)	(474)
Headline earnings/(loss)	**1 239**	**822**	198	(48)

2. Investments and returns continued

2.3 Earnings per share continued

Rm	Gross pre tax and non-controlling interests 2021	Net 2021	Gross pre tax and non-controlling interests 2020	Net 2020
Adjusted headline earnings				
Adjusted headline earnings are determined as follows:				
Headline earnings/(loss)	**1 239**	**822**	198	(48)
Adjusted for:				
Amortisation of cash flow hedge accounting reserve	**14**	**10**	17	12
Fair value gains on derivative financial instruments	**(3)**	**(2)**	—	—
De-designation of a portion of a hedging instrument	**1**	**1**	16	12
Ineffectiveness losses on cash flow hedges	**1**	**—**	2	1
Reversal of loan impairment	**(11)**	**(11)**	—	—
Recognition of loan impairment	**9**	**9**	105	105
Net impact of Lesotho PPP termination	**35**	**71**	—	—
Associate restructure costs	**—**	**—**	4	3
Restructuring costs incurred by Netcare in respect of BMI Healthcare	**—**	**—**	1	1
Share-based payment expense on B-BBEE transaction	**—**	**—**	348	348
Adjusted headline earnings	**1 285**	**900**	691	434

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.4 Taxation

Rm	2021	2020
South African normal taxation		
Current year	**(621)**	(522)
Prior years	**21**	(4)
	(600)	(526)
Foreign taxation		
Current year	**—**	(7)
Income tax	**(600)**	(533)
South African deferred taxation		
Current year	**190**	229
Prior years	**(6)**	11
	184	240
Foreign deferred taxation		
Current year	**—**	2
Deferred taxation	**184**	242
Total taxation per statement of profit or loss	**(416)**	(291)
Reconciliation of effective taxation rate (%)		
South African normal tax rate	**28.0**	28.0
Adjusted for:		
Deductible temporary differences and assessed losses not recognised	**6.2**	10.0
Net non-taxable income and allowances	**2.2**	2.4
Non-deductible depreciation	**0.1**	1.3
Earnings from associates and joint ventures	**2.7**	(2.1)
Impairments and fair value adjustments	**(0.7)**	4.3
Profit on sale of investment in associate	**—**	(13.7)
Share-based payment expense on B-BBEE transaction	**—**	13.4
Learnership allowances	**(1.1)**	(1.1)
Other[1]	**1.2**	0.3
Prior years' taxation	**(1.2)**	(0.9)
Different trust tax rates	**0.2**	0.4
Effective taxation rate	**35.4**	39.9

1. *None of the items included in other have an impact of greater than 1.0% in either period.*

2. Investments and returns continued

2.4 Taxation continued

Rm	2021	2020
Estimated taxation losses		
Unused tax losses available for set-off against future taxable income	**2 091**	1 452
Utilised in recognised deferred tax assets and liabilities	**1 537**	1 137
Not recognised as a deferred tax asset	**554**	315

2.5 Deferred taxation

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

Rm	Note	2021	2020
Reconciliation of movement			
Balance at beginning of year		**524**	274
Current year charge:			
Per the statement of profit or loss	2.4	**184**	242
Amounts recognised in other comprehensive income		**(29)**	9
Amounts recognised directly in equity		**(1)**	—
Acquisitions		**—**	(1)
Balance at end of year		**678**	524
Comprising:			
Deferred tax assets		**987**	812
Deferred tax liabilities		**(309)**	(288)
		678	524

EJ

The deferred tax assets include amounts relating to two new build hospitals, which are making losses at this stage whilst in the process of ramping up to maturity, which is taking longer than usual due to the impact of COVID-19. The Group has assessed the future profitability of these two entities and concluded that the deferred tax assets arising from deductible temporary differences and tax losses will be recoverable using the estimated future taxable income based on approved business plans and forecasts for the subsidiaries. The forecasts and business plans were benchmarked against existing similar business units to substantiate the likelihood of generating future taxable profits.

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

The unutilised tax loss that is available to set off against future taxable profits includes an amount relating to the Group's largest hospital entity and equates to R1 249 million (tax effect: R350 million). This is the second year in which this company is loss making, largely due to the COVID-19 impact on operations. The company has a long history of profitability and is expected to return to profitability in the 2022 financial year. The raising of the deferred tax asset is based on approved budgets and forecasts.

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

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.5 Deferred taxation

Rm	Balance at beginning of year	Recognised in profit or loss
2021		
Property, plant and equipment	**(302)**	**(43)**
Right of use assets	**(1 051)**	**43**
Lease liability	**1 133**	**14**
Prepayments	**(10)**	**(1)**
Allowance for doubtful debts	**60**	**(18)**
Post-employment benefit obligations	**132**	**10**
Payroll accruals and provisions	**214**	**38**
Calculated tax losses	**319**	**111**
Financial instruments	**47**	**(3)**
Other temporary differences	**(18)**	**33**
	524	**184**

Rm	Balance at beginning of year	Recognised in profit or loss
2020		
Property, plant and equipment	(289)	(13)
Right of use assets	—	(1 051)
Lease liability	—	1 133
Prepayments	(9)	(1)
Allowance for doubtful debts	65	(5)
Post-employment benefit obligations	137	9
Payroll accruals and provisions	212	2
Deferred lease liabilities/derivatives	21	(21)
Calculated tax losses	94	225
Financial instruments	17	7
Other temporary differences	26	(44)
	274	241

Recognised in other comprehensive income	**Recognised directly in equity**	**Balance at end of year**
—	**—**	**(345)**
—	**—**	**(1 008)**
—	**—**	**1 147**
—	**—**	**(11)**
—	**—**	**42**
—	**—**	**142**
—	**—**	**252**
—	**—**	**430**
(29)	**—**	**15**
—	**(1)**	**14**
(29)	**(1)**	**678**

Recognised in other comprehensive income	Recognised directly in equity	Balance at end of year
—	—	(302)
—	—	(1 051)
—	—	1 133
—	—	(10)
—	—	60
(14)	—	132
—	—	214
—	—	—
—	—	319
23	—	47
—	—	(18)
9	—	524

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.6 Cash generated from operations

Rm	Notes	2021	2020
Operating profit		**2 076**	1 567
Adjustments for:			
Amortisation of intangible assets	2.10	**20**	15
Depreciation of property, plant and equipment	2.8	**759**	770
Depreciation of right of use assets	2.9	**378**	367
Amortisation of cash flow hedge accounting reserve		**11**	13
Profit on disposal of property, plant and equipment and intangible assets	2.2	**—**	(11)
Loss on disposal of property, plant and equipment and intangible assets	2.2	**5**	19
Impairment of property, plant and equipment	2.8	**73**	3
Impairment of right of use assets	2.9	**—**	1
Realisation of foreign currency translation reserve		**—**	4
Movements in expected credit losses and bad debts related to trade and other receivables	2.2	**157**	169
Recognition of loan impairments	2.2	**31**	105
(Reversal)/recognition of impairment of associate	2.2	**—**	35
Profit on disposal of investment in associate		**—**	(522)
Share-based payment expense	4.3	**26**	391
Lease remeasurements		**(3)**	—
Fair value losses/(gains) on investments	2.2	**33**	(32)
Other non-cash flow items		**(6)**	(7)
Cash generated from operations before working capital changes		**3 560**	2 887
Increase in trade and other receivables		**(303)**	(434)
Decrease/(increase) in inventories		**566**	(642)
Decrease in trade and other payables		**(29)**	(319)
		3 794	1 492

2.7 Taxation paid

Rm	2021	2020
Amounts receivable at beginning of year (net)	**(77)**	(20)
Charge per the statement of profit or loss (excluding deferred taxation)	**600**	533
Other taxation movements through equity	**1**	11
Amounts receivable at end of year (net)	**94**	77
	618	601

2. Investments and returns continued

2.8 Property, plant and equipment

AP

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

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

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

Where appropriate, the fair value of assets less costs 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 applicable capitalisation rates.

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

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

Land is not depreciated. In prior years and the current year, the residual value of all buildings was considered and determined to be higher than the carrying value. Buildings are therefore no longer depreciated, except for new builds which will depreciate to the estimated residual value. The Group has identified significant components that need to be separately accounted for in 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.

Land and buildings are valued at least every three years to determine fair value for disclosure purposes only. If the valuation indicates that land and buildings are impaired, an impairment charge is recognised immediately in the statement of profit or loss.

The assumptions regarding estimated useful lives for the 2021 financial year were as follows:

Land	Indefinite
Buildings	1 – 55 years
Leasehold improvements	Shorter of the lease term and the asset's useful life
Computer equipment	3 – 5 years
Furniture and equipment	1 – 16 years
Medical equipment	1 – 12 years
Motor vehicles	5 years
Plant and machinery	1 – 20 years

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.8 Property, plant and continued

Rm	Freehold and leasehold land and buildings	Assets under construction	Computer equipment
1 October 2019	9 538	341	196
Additions	33	450	40
Disposals	(14)	(4)	(2)
Depreciation	(120)	—	(94)
Recognition of impairment	(3)	—	—
Transfers to right of use assets	—	—	—
Transfers between categories	306	(319)	7
30 September 2020	9 740	468	147
Additions	**44**	**685**	**49**
Disposals	**(15)**	**(1)**	**(1)**
Depreciation	**(126)**	**—**	**(83)**
Recognition of impairment	**(73)**	**—**	**—**
Transfer from/(to) intangibles	**—**	**1**	**(11)**
Transfers between categories	**358**	**(428)**	**43**
Carrying value at 30 September 2021	**9 928**	**725**	**144**

Substantially all of the Group's assets are owned and used. There are incidental leases for doctors rooms, pathologists, pharmacies and retail stores.

Furniture and equipment	Medical equipment	Motor vehicles	Plant and machinery	Total
154	2 267	31	14	12 541
42	383	7	6	961
(2)	(23)	—	(1)	(46)
(57)	(491)	(5)	(3)	(770)
—	—	—	—	(3)
—	—	(18)	—	(18)
7	4	(2)	(3)	—
144	2 140	13	13	12 665
43	**302**	**8**	**1**	**1 132**
(1)	**(22)**	**—**	**—**	**(40)**
(59)	**(482)**	**(5)**	**(4)**	**(759)**
—	**—**	**—**	**—**	**(73)**
—	**—**	**—**	**—**	**(10)**
(1)	**27**	**—**	**1**	**—**
126	**1 965**	**16**	**11**	**12 915**

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.8 Property, plant and equipment continued

Rm	Cost	Accumulated depreciation and impairments	Carrying value
2021			
Freehold and leasehold land and buildings	**11 443**	**(1 515)**	**9 928**
Assets under construction	**725**	**—**	**725**
Computer equipment	**544**	**(400)**	**144**
Furniture and equipment	**353**	**(227)**	**126**
Medical equipment	**5 322**	**(3 357)**	**1 965**
Motor vehicles	**30**	**(14)**	**16**
Plant and machinery	**25**	**(14)**	**11**
Net carrying value	**18 442**	**(5 527)**	**12 915**
2020			
Freehold and leasehold land and buildings	11 112	(1 372)	9 740
Assets under construction	468	—	468
Computer equipment	652	(505)	147
Furniture and equipment	367	(223)	144
Medical equipment	5 260	(3 120)	2 140
Motor vehicles	25	(12)	13
Plant and machinery	32	(19)	13
Net carrying value	17 916	(5 251)	12 665

Fair value – Land and Buildings

Netcare reflects its property portfolio of 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 R9.9 billion as at 30 September 2021. 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 R22.4 billion as at 30 September 2021. The fair value of properties with operating facilities was determined using the income approach (profit method) or other relevant approach methodologies, and 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 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 fair value is determined based on an estimated amount for which the asset could be exchanged on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing, and where the parties had each acted knowledgeably, prudently and without compulsion. The following material assumptions were made in performing the valuation:

- Capitalisation rate of between 8.50% and 10.75%.
- The valuation exercise has assumed that fair value in continuation of existing use is the highest and best use of the buildings.
- Fair, maintainable operating profit.
- 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 will be properly staffed, stocked and capitalised.
- The properties are valued free and clear of any liens or encumbrances.
- The Group has assumed:
  - There is full compliance with all applicable state and local environmental regulations and laws, and that the site is free of any noxious waste that could affect value.
  - There are no hidden or unapparent conditions of the properties, subsoil or structures that render them more or less valuable.
  - All applicable zoning and use regulations and restrictions have been complied with.
  - All required licenses, certificates of occupancy, consents, or other legislative or administrative authorities from local or national government or private body 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 there is no encroachment or trespass.

2. Investments and returns continued

2.8 Property, plant and equipment continued

Fair value – Land and Buildings continued

Relationship of unobservable inputs to fair value

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

EJ

Impairment losses recognised in the year

An impairment loss is recognised to the extent by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use. In the current period, certain properties have been impaired to their fair value less costs of disposal as the recoverable amount.

The key assumptions used in the fair value calculations are described earlier in this note.
The key assumptions used in the value in use calculations are as follows:

- Latest management budgets for the period from 1 October 2021 to 30 September 2022 and forecasts through to 30 September 2026, using key assumptions concerning caseload volume, payroll and case mix, tariff changes, general inflation, staffing cost movements, the impact of COVID-19 and the recovery and normalisation of activity levels.
- Capitalisation rates range between 8.5% – 10.75% per annum.

Based on the updated calculations of fair value less costs to sell, the recoverable amounts for two acute hospitals and a mental health facility were lower than their carrying values. The impairment of the two acute hospitals arises from the anticipated closure of these facilities due to the relocation of their operations to a single new hospital from 2022. There were no indicators of impairment for these facilities in the prior year, as plans were under consideration to convert them into specialised healthcare centres. However, changes in outlook arising from the impact of two further COVID-19 waves during 2021, conversion costs and operational and regulatory requirements, challenged the viability of these specialised facilities and it has been decided not to pursue these plans.

In addition, the recoverable amounts of two mental health clinics, determined on a value in use basis, were lower than their carrying values.

Impairment losses totalling R73 million (2020: R3 million), recorded in administrative and other expenses, were recognised across the five properties reducing their combined carrying values to R236 million.

Borrowing costs

Borrowing costs of R21 million (2020:R19 million) were capitalised during the year and are included in "Additions". These costs have also been reflected under investing activities in the statement of cash flows. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation range from prime to prime less 1% on the majority of the properties.

Security

No items of property, plant and equipment are encumbered as security for debt (2020: Rnil).

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.9 Leases

AP

The Group's leasing activities and accounting treatment
The Group leases property, vehicles and aircraft. Rental contracts range from one year to 30 years with extension options available.The extension period has been included in the lease term on contracts where the Group is reasonably certain it will exercise the option to extend. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants.

EJ

Critical judgements in determining the lease term
Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Factors considered when determining whether an extension will be exercised include:

- the importance of the leased asset to the Group's operations;
- contractual terms and conditions for the optional period;
- the specialised nature of leased assets – buildings are outfitted specifically for use as hospitals and medical facilities and cannot be readily used for alternate operations;
- significant leasehold improvements undertaken or expected to be undertaken during the term of the lease;
- costs relating to the termination of the lease; and
- the Group's past practice regarding the period over which the leased asset has been occupied/used.

AP

Measurement of lease liabilities
Lease liabilities are initially measured at the net present value of the lease payments, including payments to be made under reasonably certain extension options. The lease payments are discounted using the incremental borrowing rate (IBR). The IBR is determined using a 3-month JIBAR swap rate adjusted for the following:

- credit spread;
- the term of the lease; and
- the risk associated with the category and location of the leased asset.

Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period.

Certain leases have variable lease payments which are linked to movements in the consumer price index (CPI). The lease liability on CPI-linked leases is initially recognised using the CPI rate on the commencement date of the lease. Subsequently, the lease liability is remeasured prospectively when there is a change in future lease payments resulting from a subsequent change in CPI.

Measurement of right of use assets
Right of use assets are initially measured at the initial amount of the corresponding lease liability.

Subsequently, right of use assets are depreciated over the shorter of the useful life of the leased assets and the lease term on a straight-line basis.

The Group applies IAS 36: *Impairment of Assets* to determine whether a right of use asset is impaired and accounts for any impairment loss accordingly. The Group assesses the economic viability of the leased asset and where the leased asset is a component of a larger cash-generating unit (CGU), the viability of the CGU. 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.

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

- The latest management budgets for the period from 1 October 2021 to 30 September 2022 and forecasts through to 30 September 2026, using key assumptions concerning caseload volume, payor and case mix, tariff changes, general inflation, staffing cost movements, the impact of COVID-19 and the recovery and normalisation of activity levels.

2. Investments and returns continued

2.9 Leases continued

Rm	Properties	Vehicles	Aircraft	Total
Balance at 1 October 2019	3 828	49	55	3 932
Additions	170	31	42	243
Depreciation	(306)	(30)	(31)	(367)
Recognition of impairment	(1)	—	—	(1)
De-recognition	(30)	(6)	(16)	(52)
Balance at 30 September 2020	**3 661**	**44**	**50**	**3 755**
Additions	**13**	**22**	**48**	**83**
Depreciation	**(316)**	**(30)**	**(32)**	**(378)**
De-recognition	**—**	**(4)**	**(38)**	**(42)**
Modifications	**164**	**3**	**15**	**182**
Balance at 30 September 2021	**3 522**	**35**	**43**	**3 600**

AP

Low value leases
Leases for assets which have a value less than R100 000 are considered to be low value leases and are not accounted for under IFRS 16, as permitted by the standard. The payments relating to these leases are recognised as an expense on the accrual basis.

Short term leases
Leases with lease terms of less than twelve months are deemed to be short term in nature. As permitted by IFRS 16, these lease payments are expensed over the lease term.

Variable and activity-based rentals
Leases in which the rental is based on usage with no fixed charge are excluded from IFRS 16. These agreements include the rental of oncology equipment, medical equipment, document storage, printers and PABX systems, and the payments relating to these leases are recognised as an expense on the accrual basis.

Lease expenses recognised in the statement of profit or loss under IFRS 16

Rm	**2021**	2020
Short-term leases	**48**	38
Low-value leases	**37**	19
Variable and activity-based rentals	**99**	115
COVID-19 related rent concession credits	**—**	(2)
Total	**184**	170

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.9 Leases continued

Maturity analysis of undiscounted lease payments

Rm	Total	< 1 year	1 – 5 years	> 5 years
Property	**9 362**	**480**	**1 862**	**7 020**
Vehicles	**41**	**20**	**21**	**—**
Aircraft	**46**	**32**	**14**	**—**
Total 2021	**9 449**	**532**	**1 897**	**7 020**

Maturity analysis of undiscounted lease payments (restated)

Rm	Total	< 1 year	1 – 5 years	> 5 years
Property	9 789	443	2 165	7 181
Vehicles	83	33	50	—
Aircraft	88	33	55	—
Total 2020	9 960	509	2 270	7 181

During the current period, it was identified that the previously reported maturity analysis of undiscounted lease payments was overstated due to the inadvertent and incorrect inclusion of lease contracts which were still under negotiation as at 30 September 2020.

Management has restated the comparative 2020 maturity analysis of undiscounted lease payments to correctly reflect future lease payments on lease contracts which the Group had entered into and had been finalised as at 30 September 2020.

2.10 Intangible assets

AP

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

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

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

The assumptions regarding estimated useful lives for the 2021 financial year were as follows:

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

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

The closing balance of development expenditure in 2021 includes software related to CareOn (electronic patient health records), as well as clinical intellectual property in the mental health division.

2. Investments and returns continued

2.10 Intangible assets continued

Rm	Management contracts and other	Software	Development expenditure	Total
2021				
Net carrying value				
Cost	**63**	**220**	**89**	**372**
Accumulated amortisation and impairment losses	**(18)**	**(152)**	**(2)**	**(172)**
	45	**68**	**87**	**200**
Movement in the carrying value				
Carrying value at 1 October 2020	**41**	**64**	**93**	**198**
Additions	**—**	**7**	**5**	**12**
Amortisation	**(2)**	**(16)**	**(2)**	**(20)**
Transfers from property, plant and equipment	**—**	**10**	**—**	**10**
Transfers between categories	**6**	**3**	**(9)**	**—**
Carrying value at 30 September 2021	**45**	**68**	**87**	**200**
2020				
Net carrying value				
Cost	55	200	93	348
Accumulated amortisation and impairment losses	(14)	(136)	—	(150)
	41	64	93	198
Movement in the carrying value				
Carrying value at 1 October 2019	43	69	63	175
Additions	—	8	30	38
Amortisation	(2)	(13)	—	(15)
30 September 2020	41	64	93	198

No borrowing costs were capitalised during the 2021 and 2020 years.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.11 Goodwill

Rm	2021	2020
Net carrying value		
Cost	**1 639**	1 639
Accumulated impairment losses	**(33)**	(33)
	1 606	1 606

There were no movements in the carrying value of goodwill in the current year.

AP

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

Goodwill is considered for impairment annually.

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

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

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

Rm	2021	2020
Hospital operations	**511**	511
Primary Care operations	**159**	159
Mental health operations	**936**	936
	1 606	1 606

2. Investments and returns continued

2.11 Goodwill continued

EJ

Hospital, Primary Care and mental health operations

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

- The future projected cash flows are based on management's forecast for the five-year period from 1 October 2021 to 30 September 2026. Key assumptions applied in the cash flow forecasts include activity and tariff changes, salary increases and inflation. The forecasts have also considered the impact of COVID-19 on the business, and each CGU expects to recover to pre-COVID-19 levels at different stages over the forecast period.
- A pre-tax weighted average cost of capital (WACC) for Hospital operations of 13.8% (2020: 15.7%), Primary Care operations of 12.9% (2020: 13.5%) and for mental health of 14.5% (2020: 14.7%) has been calculated.
- The pre-tax WACC has been informed by the Group post-tax WACC of 12.0% (2020: 12.0%). This post-tax WACC has been calculated by an independent entity based on current market assessments of the optimal capital structure, cost of debt and cost of equity.
- Long-term growth rate of 4.9% (2020: 5.1%).

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

Management have considered COVID-19 and the measures taken to control it in arriving at estimates of future cash flows and discount rates used in determining the value for each CGU.

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

Assumption	Approach used to determine values
Activity	Average annual growth rate over the five-year forecast period is based on past performance and management's expectations of healthcare market development. Slower growth is expected in the earlier years as the business recovers from the impact of COVID-19. Towards the end of the forecast period, activity is bolstered by the impact of certain strategic initiatives.
Tariff changes	Guidance obtained from the Netcare Tariff Committee, based on past experience with funders and the outcome of ongoing tariff negotiations, taking into consideration both historic and forward looking average inflation rates.
Salary increases	Management forecasts salary cost increases based on the current structure of the business, adjusting for inflationary increases but not reflecting any possible future restructuring or cost saving measures.
Inflation	Management forecast inflation using guidance obtained from local banks on their long term inflation forecasts for the country.
Growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. In the current period this represents the long-term inflation outlook using guidance from our in-house actuary. Due to current economic uncertainty and the possible long-term impact of COVID-19, we have assumed growth equal to inflation into perpetuity. Once the benefits of our various strategic initiatives are proven they will be incorporated into long-term forecasts and this growth will be reassessed.
Pre-tax discount rates	Reflect specific risks relating to the relevant segments.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

2. Investments and returns continued

2.12 Segment report

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

2.12.1 Measurement of segment performance and allocation of resources

AP

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

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

2.12.2 Segment report – 2021

Rm	Hospital and pharmacy operations	Non-acute services	Hospital and Emergency services	Primary Care	Inter-segment elimination[1]	Group
Statement of profit or loss						
Revenue	19 465	1 152	20 617	595	(12)	21 200
EBITDA[2]	3 040	80	3 120	124	—	3 244
Depreciation and amortisation	(896)	(184)	(1 080)	(88)	—	(1 168)
Operating profit	2 144	(104)	2 040	36	—	2 076
Additional segment information						
Impairment of property, plant and equipment	(57)	(16)	(73)	—	—	(73)

1. Relates to revenue earned in the Hospital and Emergency services segment.
2. Earnings before interest, tax, depreciation and amortisation.

2. Investments and returns continued

2.12 Segment report continued

Segment report – 2020

Rm	Hospital and pharmacy operations	Non-acute services	Hospital and Emergency Services	Primary Care	Inter-segment elimination[1]	Group
Statement of profit or loss						
Revenue	17 239	1 011	18 250	611	(18)	18 843
EBITDA[2] – before items below	2 362	103	2 465	93	—	2 558
Depreciation and amortisation	(885)	(177)	(1 062)	(103)	—	(1 165)
Operating profit – before items below	1 477	(74)	1 403	(10)	—	1 393
Profit on disposal of investment in associate	522	—	522	—	—	522
Share-based payment expense on B-BBEE[3] transaction	(348)	—	(348)	—	—	(348)
Operating profit	1 651	(74)	1 577	(10)	—	1 567
Additional segment information						
Impairment of property, plant and equipment	—	(3)	(3)	—	—	(3)

1. *Relates to revenue earned in the Hospital and Emergency services segment.*
2. *Earnings before interest, tax, depreciation and amortisation.*
3. *Broad-based Black Economic Empowerment.*

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

3. Funding

3.1 Debt

AP All borrowings are measured at amortised cost.

3.1.1 Long-term debt

Rm	2021	2020
Total debt	**6 787**	7 869
Short-term portion	**(1 851)**	(1 108)
Non-current portion	**4 936**	6 761
Comprising:		
Unsecured liabilities at amortised cost		
Promissory notes and commercial paper in issue	**5 280**	5 236
Bank loans	**1 502**	2 628
Other	**5**	5
	6 787	7 869

Rm Terms of repayment	Effective interest rate at 30 September 2021	2021	2020
Promissory notes and commercial paper in issue			
Repayable on maturity on: 19 March 2022 24 March 2022 10 June 2022 29 September 2022 15 February 2023 12 June 2023 7 December 2023 19 March 2024 12 December 2024 25 March 2025	5.0% – 5.6%	**5 280**	5 236
Bank and Other			
Repayable on maturity on: 30 November 2022 23 January 2023 21 January 2025	5.2% – 5.3%	**1 507**	2 633
		6 787	7 869

3. Funding continued

3.1 Debt continued

3.1.1 Long-term debt continued

Maturity profile[1]

Rm	Total	< 1 year	1 – 2 year	2 – 3 years	3 – 4 years	> 4 years
2021	**7 417**	**2 178**	**2 314**	**1 681**	**1 244**	**—**
2020	8 736	1 481	3 106	2 251	651	1 247

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

Undrawn borrowing facilities

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

Rm	2021	2020
Committed facilities		
Facilities expire:		
Within 1 year	**3 205**	3 705
Between 1 and 2 years	**950**	—
After 2 years or more	**—**	450
	4 155	4 155
Uncommitted facilities		
Facilities expire:		
Within 1 year	**2 220**	2 264
Total facilities	**6 375**	6 419

Debt reconciliation

Rm	Long-term debt	Short-term debt	Total
1 October 2020	**6 761**	**1 108**	**7 869**
Cash flows:			
Repayment of debt	**(499)**	**(1 609)**	**(2 108)**
Proceeds of debt raised	**1 000**	**—**	**1 000**
Non-cash:			
Accrued interest	**—**	**26**	**26**
Transfer between categories	**(2 326)**	**2 326**	**—**
30 September 2021	**4 936**	**1 851**	**6 787**

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

3. Funding continued

3.1 Debt continued

3.1.1 Long-term debt continued

Debt reconciliation continued

Rm	Long-term debt	Short term debt	Total
1 October 2019	5 061	1 780	6 841
Cash flows:			
Repayment of debt	(1 077)	(1 498)	(2 575)
Proceeds of debt raised	3 372	249	3 621
Non-cash:			
Transfer between categories	(577)	577	—
Reclassification in terms of IFRS 16	(18)	—	(18)
30 September 2020	6 761	1 108	7 869

3.2 Cash and cash equivalents and bank overdrafts

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

Rm	2021	2020
Cash on hand and balances with banks	**1 456**	1 450
Bank overdrafts	**—**	(4)
	1 456	1 446
Included in cash and cash equivalents is restricted cash:		
HPFL B-BBEE trusts	**348**	354
Netcare Foundation (Non-profit company)	**8**	5

In terms of the foundation documents of these entities, the cash is only able to be used for the purposes of these entities.

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

3.3 Investment income

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

Rm	2021	2020
Interest on bank accounts and other	**116**	156

3. Funding continued

3.4 Finance costs

AP

Finance costs comprise interest expenses on borrowings, interest on lease liabilities, amortisation of the cash flow hedge accounting reserve and post-employment benefit plan interest costs which are recognised in profit or loss. All borrowing costs are recognised in profit or loss using the effective interest method, unless the borrowing costs are directly attributable to the acquisition, construction or production of qualifying assets, in which case they are capitalised to property, plant and equipment. Following the adoption of IFRS 16 in the prior year, a portion of the amortisation of the cash flow hedge reserve relating to the inflation rate swap instrument is realised through interest.

Rm	Note	**2021**	2020
Interest on bank loans and other		**189**	208
Interest expense on lease liabilities		**371**	367
Interest on promissory notes		**284**	404
Total funding finance costs		**844**	979
Amortisation of cash flow hedge accounting reserve		**3**	4
Post-employment benefit plan finance costs	4.2.1	**56**	48
		903	1 031

4. Our people

4.1 Remuneration of directors and prescribed officers

4.1.1 Interests of directors

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

Number of shares	1 October 2020[1]	**Options exercised**	**Disposed**	**30 September 2021**	**Directly[2]**
Executive directors					
RH Friedland	122 252	**253 390**	**(119 989)**	**255 653**	**255 653**
KN Gibson	426 005	**108 115**	**(51 196)**	**482 924**	**482 924**
	548 257	**361 505**	**(171 185)**	**738 577**	**738 577**

1. The information in this column is consistent with 30 September 2020.
2. The direct shares held are beneficial.

An associate of D Kneale holds 12 000 ordinary shares directly.

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

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

At the date of this report, these interests in ordinary and preference shares remain unchanged.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

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 2021:

Number of options	Grant date	1 October 2020	Exercised	30 September 2021
Executive directors				
KN Gibson	2 Oct 2006	1 041	—	**1 041**
Weighted average exercise price		12.34		**12.34**
Prescribed officers				
CE Grindell	25 Oct 2005	1 200	—	**1 200**
Weighted average exercise price		6.42		**6.42**
		2 241	—	**2 241**

No share options were granted in 2021 (2020: Nil).

2 241 Health Partners for Life share options had vested as at 30 September 2021 (2020: 2 241).

Forfeitable share plan

The following forfeitable shares were held by directors and prescribed officers at 30 September 2021:

Number of options	Grant date	1 October 2020	Shares forfeited during the year	Exercised (sold and retained)	30 September 2021	Market price at exercise date (Rands)	Gain arising on exercise (R'000)
Executive directors	FSP 2: 20 January 2016						
RH Friedland[1]		951 670	**(179 252)**	**(253 390)**	**519 028**	**15.33**	**3 884**
KN Gibson[2]		406 452	**(76 414)**	**(108 115)**	**221 923**	**15.33**	**1 657**
Prescribed officers	FSP 3: 20 January 2018						
T Akaloo[3]		137 500	**(18 750)**	**(31 250)**	**87 500**	**15.39**	**481**
J du Plessis		323 688	**(60 206)**	**(85 613)**	**177 869**	**15.33**	**1 312**
C Grindell		165 109	**(24 798)**	**(41 686)**	**98 625**	**15.39**	**642**
S Mhlongo[4]		114 584	**(98 959)**	**(15 625)**	**—**	**15.15**	**237**
WN van der Merwe		210 817	**(32 791)**	**(50 944)**	**127 082**	**15.36**	**783**
		2 309 820	**(491 170)**	**(586 623)**	**1 232 027**		**8 996**

1. *RH Friedland exercised 253 390 (2020: 187 530) share options during the year in terms of the Forfeitable Share Plan.*
2. *KN Gibson exercised 108 115 (2020: 79 802) share options during the year in terms of the Forfeitable Share Plan.*
3. *T Akaloo was designated as a prescribed officer in FY2021.*
4. *S Mhlongo resigned on 31 March 2021.*

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

Refer to note 4.3.1 for more details on the forfeitable shares.

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 ended 30 September 2021, are set out below:

Executive directors

R'000	Salary	Short-term contributions	Retirement fund contributions	Guaranteed package	Bonuses[1]	Total	Fair value of options granted[2]
2021							
RH Friedland	**9 747**	**29**	**828**	**10 604**	**—**	**10 604**	—
KN Gibson	**5 039**	**29**	**442**	**5 510**	**618**	**6 128**	—
	14 786	**58**	**1 270**	**16 114**	**618**	**16 732**	**—**
2020							
RH Friedland	9 421	28	798	10 247	5 000	15 247	—
KN Gibson	4 869	28	426	5 323	1 825	7 148	—
	14 290	56	1 224	15 570	6 825	22 395	—

1. *Incentive bonuses paid in the current year relating to financial performance of the previous financial year.*
2. *Grant date fair value of options granted in the current period.*

Non-executive directors

Fees for services as directors

R'000	2021	2020
MR Bower	**1 399**	1 388
T Brewer	**2 117**	2 113
B Bulo	**1 243**	1 182
L Human	**1 133**	943
D Kneale[1]	**1 176**	849
MJ Kuscus	**1 182**	1 178
KD Moroka	**990**	990
N Weltman[2]	**—**	1 446
	9 240	10 089

1. *Appointed effective 1 January 2020.*
2. *Retired effective 30 September 2020.*

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

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	Short-term contributions	Retirement fund contributions	Guaranteed package	Bonuses[1]	Total	Fair value of options granted[2]
2021							
T Akaloo[3]	**3 412**	**29**	**298**	**3 739**	**374**	**4 113**	**—**
J du Plessis	**4 606**	**29**	**373**	**5 008**	**753**	**5 761**	**—**
C Grindell	**3 209**	**29**	**282**	**3 520**	**525**	**4 045**	**—**
S Mhlongo[4]	**1 462**	**14**	**128**	**1 604**	**285**	**1 889**	**—**
WN van der Merwe	**3 858**	**29**	**331**	**4 218**	**289**	**4 507**	**—**
	16 547	**130**	**1 412**	**18 089**	**2 226**	**20 315**	**—**
2020							
J du Plessis	4 448	28	359	4 835	2 000	6 835	—
C Grindell	3 101	28	271	3 400	1 250	4 650	—
S Mhlongo	2 820	28	246	3 094	600	3 694	2 160
WN van der Merwe	3 489	28	305	3 822	1 450	5 272	—
	13 858	112	1 181	15 151	5 300	20 451	2 160

1. *Incentive bonuses paid in the current year relating to financial performance of the previous financial year.*
2. *Grant date fair value of options granted in the current period.*
3. *T Akaloo was designated as a prescribed officer in FY2021.*
4. *S Mhlongo resigned effective 31 March 2021.*

4.2 Post-employment healthcare benefit obligations

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

Remeasurement losses are recognised in other comprehensive income.

Rm	2021	2020
Post-employment healthcare benefits	**503**	469

4. Our people continued

4.2 Post-employment healthcare benefit obligations continued

4.2.1 Post-employment healthcare benefits

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

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

Details of the defined benefit obligations are set out below.

Valuation

Last actuarial valuation performed by PwC (SA)	30 September 2021
Valuation method adopted	Projected unit credit method

%	Note	2021	2020
Principal actuarial assumptions			
Net discount rate		**4.0**	4.6
Subsidy inflation		**7.1**	7.1
Rm			
Actuarial obligation of amounts recognised in the statement of financial position			
Unfunded obligation		**503**	469
Reconciliation of defined benefit obligation to amounts recognised in the statement of financial position			
Liability at beginning of year		**469**	487
Current service cost		**8**	10
Interest cost	3.4	**56**	48
Benefits paid		**(29)**	(26)
Remeasurement gains		**(1)**	(50)
Change in financial assumptions		**36**	(50)
Experience variance		**(37)**	—
Liability at end of year		**503**	469
Post-employment healthcare costs recognised in the statement of profit or loss			
Service cost		**8**	10
Interest cost		**56**	48
Total cost recognised in profit or loss		**64**	58
Amount recognised in other comprehensive income			
Remeasurement on the defined benefit liability		**(1)**	(50)
Taxation		**—**	14
Net actuarial gains recognised in other comprehensive income		**(1)**	(36)

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 R75 million to the post employment subsidy in 2022 (2021: R80 million).

The duration of the obligation is approximately 11 years.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

4. Our people continued

4.2 Post-employment healthcare benefit obligations continued

4.2.1 Post-employment healthcare benefits continued

Sensitivity Analysis

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

Rm	Change in service cost	Change in interest cost	Change in accrued liability
1% increase in inflation	2	6	59
1% decrease in inflation	(1)	(6)	(50)
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%			(48)
Net discount rate increase of 1.0%			57

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

The scheme exposes the Group to a number of risks:

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

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

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

4. Our people continued

4.3 Share-based payments

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

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

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

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

Rm	Notes	**2021**	2020
Equity-settled			
Netcare Limited Forfeitable Share Plan 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. For the performance shares, the probability of achieving the performance condition is used to determine the expense in each reporting period. Vesting conditions, including performance conditions, are taken into account by adjusting the number of forfeitable shares so that the amount recognised for services received as consideration for the forfeitable shares granted, will be based on the number of forfeitable shares that eventually vest. The fair value model and the assumptions used to determine the fair value are detailed in note 4.3.1.	4.3.1	**26**	43
Health Partners for Life (B-BBEE transaction) The beneficiaries of the Health Partners for Life Trusts hold Trust units which entitle them to the economic benefits linked to the value of a specified number of Netcare shares over a vesting period. The total amount to be expensed over the vesting period is determined with reference to the fair value of the units at grant date and is expensed on a straight-line basis over the vesting period. The fair value is determined by using the Trinomial model and the assumptions used to determine the fair value are detailed in note 4.3.2. In the prior year, Netcare approved a further allocation of 61 110 000 previously unallocated Netcare shares to 20 370 Netcare employees. A once-off, non-cash share-based payment expense of R348 million was recognised relating to this allocation.	4.3.2	**—**	348
		26	391

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

4. Our people continued

4.3 Share-based payments continued

The 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	2021	2020
Shares allotted	**214 405 594**	212 295 415
Share options granted	**3 865 040**	7 136 859
Unallocated share options	**4 540 643**	3 379 003
	222 811 277	222 811 277

4.3.1 Netcare Limited Forfeitable Share Plan

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

Participants are entitled to receive dividends, but are not entitled to any voting rights prior to vesting. Participants will not have their votes taken into account at a general/annual general meeting for the purpose of resolutions proposed in terms of the JSE Listings Requirements.

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

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

Vesting periods of shares issued

Number of shares issued	2021	2020
Within 1 year	**2 443 589**	3 104 001
Within 1 – 2 years	**1 421 451**	2 545 121
Within 2 – 3 years	**—**	1 487 737
	3 865 040	7 136 859

4. Our people continued

4.3 Share-based payments continued

4.3.1 Netcare Limited Forfeitable Share Plan continued

Analysis of award dates and prices of shares

Grant date	Outstanding at 1 October 2020	Granted	Grant date fair value in Rands	Forfeited	Exercised	Outstanding at 30 September 2021
Retention shares						
20 January 2018	1 738 890	—		(34 013)	(875 728)	829 149
29 June 2018	54 706	—		(9 428)	(22 637)	22 641
21 September 2018	13 334	—		—	(6 666)	6 668
4 December 2018	3 334	—		—	(1 666)	1 668
28 January 2019	20 334	—		—	—	20 334
30 January 2019	3 334	—		—	(1 666)	1 668
4 February 2019	10 000	—		—	(5 000)	5 000
25 October 2019	145 836	—		(20 834)	(62 498)	62 504
13 January 2020	41 667	—		—	(20 833)	20 834
1 June 2020	83 334	—		—	(41 666)	41 668
1 October 2020	—	15 000	13.31	—	(5 000)	10 000
	2 114 769	15 000		(64 275)	(1 043 360)	1 022 134
Performance shares						
20 January 2016	540 838	—		(270 405)	(270 433)	—
24 February 2016	7 196	—		(3 598)	(3 598)	—
30 March 2017	10 010	—		(5 004)	(5 006)	—
16 April 2018	835	—		(417)	(418)	—
20 January 2018	3 776 048	—		(666 756)	(672 835)	2 436 457
29 June 2018	67 913	—		(11 317)	(11 320)	45 276
21 September 2018	20 000	—		(3 333)	(3 333)	13 334
4 December 2018	5 000	—		(833)	(833)	3 334
28 January 2019	30 500	—		(5 083)	(5 083)	20 334
30 January 2019	5 000	—		(833)	(833)	3 334
4 February 2019	15 000	—		(2 500)	(2 500)	10 000
25 October 2019	281 250	—		(113 537)	(46 877)	120 836
13 January 2020	137 500	—		(22 916)	(22 917)	91 667
1 June 2020	125 000	—		(20 833)	(20 833)	83 334
1 October 2020	—	15 000	13.31	—	—	15 000
	5 022 090	15 000		(1 127 365)	(1 066 819)	2 842 906
	7 136 859	30 000		(1 191 640)	(2 110 179)	3 865 040

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

4. Our people continued

4.3 Share-based payments continued

4.3.1 Netcare Limited Forfeitable Share Plan continued

Analysis of award dates and prices of shares continued

2 110 179 forfeitable shares had vested at 30 September 2021 and were exercised during the 2021 financial year (2020: 1 898 025).

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

EJ

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

The share issue cost expensed during the year amounted to R26 million (2020: R43 million). The expected unrecognised share-based payment expense relating to non-vested share issues amounts to R10 million (2020: R29 million).

EJ

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

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

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

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

4.3.2 Health Partners for Life (B-BBEE transaction)

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

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

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

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

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

4. Our people continued

4.3 Share-based payments continued

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

The details of the Trusts are as follows:

The Patient Care and Passionate People Trust

In the prior year, Netcare approved a further allocation of 61 110 000 previously unallocated Netcare shares that were available under the HPFL scheme, to 20 370 Netcare employees (excluding executives), of which 80% are black and 65% are black women (the Beneficiaries). A non-cash share-based payment expense of R348 million was recorded on the date of the allocation.

In terms of the allocation, each Beneficiary received an equal allotment of 3 000 shares funded through a notional interest-bearing debt structure with a waiting period of ten years. The allocation was made at R13.94 per share, being a 20% discount to the 15-day VWAP on the allocation date, with no forfeiture conditions. Beneficiaries are entitled to 20% of dividends from the date of allocation. After the ten year waiting period, the value of the shares less any outstanding notional funding balance at that time will be delivered to Beneficiaries in the form of Netcare shares.

Beneficiaries are entitled to Netcare shares 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, reduced by dividends received.

The Physician Partnerships Trust

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

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

The Mother and Child Trust

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

The Healthy Lifestyle Trust

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

Details of the Trust units at 30 September 2021 are:

Trust	Shares allocated to trust 1 Oct 2020	**Disposals during the year**	**Shares allocated to trust 30 Sep 2021**	**Units in issue**	**Units converted**	**Available**
The Patient Care and Passionate People Trust	66 413 186	**(2 028)**	**66 411 158**	**65 800 768**	**(331 916)**	**278 474**
The Physician Partnerships Trust	14 108 257	**(36 093)**	**14 072 164**	**7 645 150**	**(1 248 924)**	**5 178 090**
The Mother and Child Trust	9 916 737	**—**	**9 916 737**	**—**	**—**	**9 916 737**
The Healthy Lifestyle Trust	5 105 097	**—**	**5 105 097**	**—**	**—**	**5 105 097**
	95 543 277	**(38 121)**	**95 505 156**	**73 445 918**	**(1 580 840)**	**20 478 398**

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

4. Our people continued

4.3 Share-based payments continued

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

The Healthy Lifestyle Trust continued

Movement in the number of units was as follows:

	The Patient Care and Passionate People Trust	Weighted average debt allocation	The Physician Partnerships Trust	Weighted average debt allocation	Total
Balance at 1 October 2020	65 893 222	14.74	7 811 150	9.77	73 704 372
Exercised	**(91 414)**	**10.52**	**(166 000)**	**9.33**	**(257 414)**
Forfeited	**(1 040)**	**10.00**	**—**	**—**	**(1 040)**
Balance at 30 September 2021	**65 800 768**	**14.75**	**7 645 150**	**9.78**	**73 445 918**

- The range of the debt allocation per share for units outstanding at year-end is R10.00 to R28.85 per share for the Patient Care and Passionate People Trust.
- The range of the debt allocation per share for units outstanding at year-end is R9.33 to R21.58 for the Physicians Partnerships Trust.
- The weighted average share price at the date of exercise of shares exercised during the year was R14.04 for the Patient Care and Passionate People Trust, and R14.71 for the Physician Partnerships Trust.
- Vested options of the old allocations of Patient Care and Passionate People Trust and Physician Partnerships Trust units are exercisable until the earlier of 30 September 2055 or when the trusts are terminated by the Trustees.
- The contractual life of the new allocation of Patient Care and Passionate People Trust units granted in the prior year is 10 years from the date of allocation (15 October 2019).

4.4 Key management personnel

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

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

Remuneration of key management personnel

Remuneration paid to key management personnel is as follows:

R'000	2021	2020
Exco[1]		
Salaries and allowances	**49 458**	54 667
Short term benefits	**276**	318
Retirement fund contributions	**4 214**	4 268
Bonuses and termination payments	**6 248**	19 875
Fair value of options granted[2]	**7 739**	15 393
	67 935	94 521

1. 2021 – 12 posts on average (2020: 13 posts).
2. The fair value of options granted is the annual expense determined in accordance with IFRS 2.

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

5. Working capital

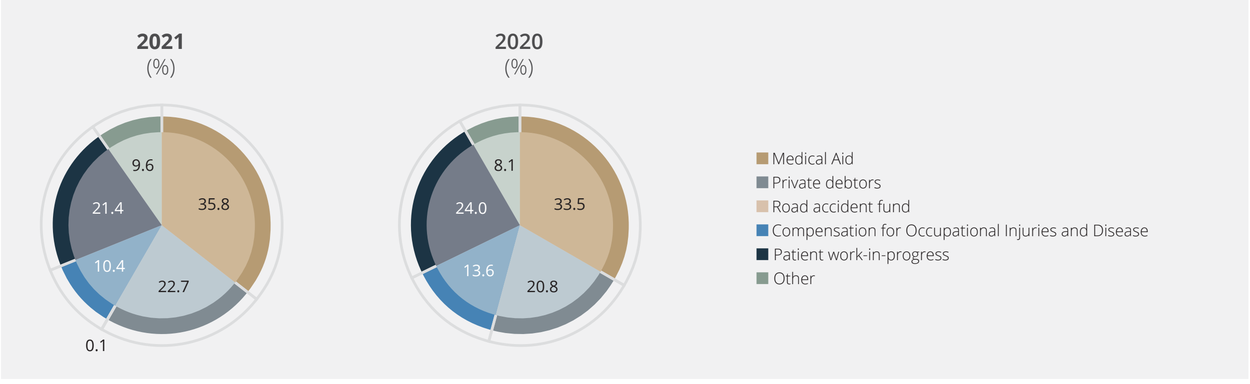
5.1 Trade and other receivables

AP

Trade receivables are amounts due from customers for services rendered and goods sold in the ordinary course of business and are measured at amortised cost. The Group's exposure to credit risk relating to trade and other receivables is disclosed in note 6.4.3.2.

Rm	Note	2021	2020
Trade receivables		**3 182**	2 962
Loss allowance		**(394)**	(435)
Net trade receivables		**2 788**	2 527
Prepaid expenses		**102**	105
Joint venture receivables (refer to Annexure B)	9.1	**27**	18
Current portion of deferred lease assets		**14**	15
Other debtors		**320**	437
		3 251	3 102

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



Notes to the Group annual financial statements continued

for the year ended 30 September 2021

5. Working capital continued

5.1 Trade and other receivables continued

Impairment

AP

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

Trade and other receivables are written off when there is no reasonable expectation of recovery. Debtors written off are subject to administration activities under the Group's debtor collection procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

The following table details the gross and net carrying amount of trade receivables per category:

2021	Gross carrying amount Rm	Loss allowance Rm	Net carrying amount Rm
Medical aid	**1 011**	**(13)**	**998**
Private	**907**	**(274)**	**633**
Road accident fund	**5**	**(4)**	**1**
Compensation for Occupational Injuries and Disease	**345**	**(54)**	**291**
Patient work-in-progress	**598**	**—**	**598**
Other	**316**	**(49)**	**267**
	3 182	**(394)**	**2 788**

2020	Gross carrying amount Rm	Loss allowance Rm	Net carrying amount Rm
Medical aid	865	(19)	846
Private[1]	828	(302)	526
Compensation for Occupational Injuries and Disease	377	(33)	344
Patient work-in-progress	606	—	606
Other[1]	286	(81)	205
	2 962	(435)	2 527

1. *Estate late and handed over accounts were disclosed under Other in 2020. These have been reallocated from Other to Private for consistency with the current year presentation.*

5. Working capital continued

5.1 Trade and other receivables continued

Impairment continued

EJ

Medical aid

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

Private patients

Credit risk for private patients is mitigated by taking an appropriate deposit calculated with specific regard to the services expected to be provided. Credit risk is assessed as being higher for private patients who haven't paid a deposit, admissions due to an emergency, or balances transferred from medical aid debtors as they were not covered by medical insurance. To determine the probability of default that would approximate the risk of the private book balances, data analysis around the credit risk of these private individuals would need to be performed. The Group has determined that it would be of undue cost and effort to perform this analysis and, as such, significant judgement supported by observation of external reporting, as permitted by IFRS 9, has been applied in determining this rate. The Group has used the Experian Composite Index on defaults and has applied a probability of default of 4.03% to private patients. This rate has decreased from 5.86% in 2020. Cases which present significant credit risk are assessed using the relevant factors which have an impact on credit risk. In certain cases, the expected credit loss rate can be up to 100%. Also included in the private category of trade debtors are the estate late accounts and handed over accounts. Estate late accounts are deemed recoverable for up to three years. Thereafter, they are provided for in full. Handed over accounts have been handed over to debt collectors for recovery. These are then deemed to be recoverable for two years. Thereafter, handed over accounts are provided for in full.

Compensation for Occupational Injuries and Disease (COID)

Based on past default experience and the current financial position of COID, the probability of default has been assessed as low (0.01%). Cases which present a greater than normal level of credit risk are assessed specifically using the relevant factors of the particular case to determine the expected credit loss rate. In certain cases, the expected credit loss rate can be up to 100%.

Patient work-in progress (PIP)

This category refers to patients who have not been discharged and patients who have been discharged but not yet billed. The provision raised against this category is immaterial.

Other

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

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

5. Working capital continued

5.1 Trade and other receivables continued

Impairment continued

The movement in loss allowances on trade and other receivables is as follows:

Rm	2021	2020
Balance at beginning of year	**435**	322
Impairment losses recognised	**194**	283
Impairment losses reversed	**(35)**	(6)
Amounts written off as uncollectible	**(197)**	(157)
Amounts recovered during the year	**(3)**	(7)
Balance at end of year	**394**	435

5.2 Inventories

AP

Inventories, comprising pharmaceuticals and medical consumables (including PPE), 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	2021	2020
Medical and pharmaceutical merchandise	**382**	536
Personal protective equipment (PPE)	**182**	610
Crockery, cutlery, linen, soft furnishings and other consumables	**76**	60
	640	1 206

The cost of inventories recognised as an expense during the year was R5 949 million (2020: R5 804 million). Inventories carried at net realisable value amount to Rnil (2020: Rnil). There were no write-downs of inventories during the year to net realisable value (2020: Rnil).

5. Working capital continued

5.3 Trade and other payables

AP

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.

The directors consider that the carrying amount of the trade and other payables approximate their fair value.

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

Rm	Note	2021	2020
Trade payables		**1 076**	1 050
Leave pay		**406**	416
Bonuses		**354**	306
VAT payable		**114**	128
Joint venture payables (Refer to Annexure B)	9.1	**41**	1
Accrued expenses		**581**	662
Claims incurred but not reported		**11**	12
Other payables[1]		**624**	655
		3 207	3 230

1. Other payables includes debtors balances in credit. In 2020, the VAT payable was disclosed as part of Other payables. This has been reallocated to its own line to improve the usefulness of the disclosure.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

6. Financial management

Hedge accounting

AP

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

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

The swap instruments carried by the Group have followed a process of matching the risks. The Group applies the hedge accounting requirements in IAS 39 as permitted by IFRS 9.

At inception, the Group documents the relationship between the hedging instrument and the hedged item along with its risk management objectives and its strategy for undertaking various hedge transactions. The Group documents whether the hedging instrument is effective on an ongoing basis against changes in fair values and cash flows. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item.

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

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

If the hedge is no longer considered effective, the Group considers 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, judgement is made on whether the hedged interest payments on the debt are considered more likely than not to occur. To the extent that these underlying hedged cash flows are not considered more likely than not to occur, then a portion of the hedge reserve is reclassified to profit or loss.

6.1 Financial assets

Rm	Notes	2021	2020
Derivative financial instruments			
Interest rate swaps	6.4.2	**4**	—
Non-derivative financial instruments			
Investment in Cell Captive	6.4.2	**4**	37
Investment in equity instruments[1]	6.4.2	**59**	40
Founders Factory Africa		**50**	25
SA SME Fund		**9**	9
CareConnect		**—**	6
Included in:			
Non-current assets		**63**	77
Current assets		**4**	—
		67	77

1. The Group designates investments in equity instruments held at fair value through other comprehensive income.

6. Financial management continued

6.2 Financial liabilities

Rm	Note	2021	2020
Derivative financial instruments			
Interest rate swaps		**40**	140
Inflation rate swaps		**19**	29
Written put option over non-controlling interest		**11**	10
	6.4.2	**70**	179
Included in:			
Non-current liabilities		**32**	64
Current liabilities		**38**	115
		70	179

6.3 Analysis of movements in swap instruments

Rm	2021 Interest rate swaps	2021 Inflation rate swaps	2021 Total	2020 Interest rate swaps	2020 Inflation rate swaps	2020 Total
Recognised in profit or loss						
De-designation of a portion of a hedging instrument[1]	**(1)**	**—**	**(1)**	(16)	—	(16)
Hedge ineffectiveness[1]	**(1)**	**—**	**(1)**	(2)	—	(2)
Reclassification into profit or loss[2]	**(88)**	**(14)**	**(102)**	(53)	(17)	(70)
	(90)	**(14)**	**(104)**	(71)	(17)	(88)
Recognised in other comprehensive income						
Fair value movements	**(1)**	**—**	**(1)**	160	8	168
Reclassification into profit or loss	**(89)**	**(14)**	**(103)**	(69)	(17)	(86)
	(90)	**(14)**	**(104)**	91	(9)	82
Cash flow hedge reserve						
Gross	**32**	**11**	**43**	122	25	147
Deferred tax	**(9)**	**(3)**	**(12)**	(34)	(7)	(41)
Net	**23**	**8**	**31**	88	18	106

1. Amounts included in other financial losses – net in the statement of profit or loss.
2. Amounts included in interest and depreciation.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

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 measured at amortised cost and the amounts recognised in the statement of financial position.

AP

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

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

Financial assets

Investment in Cell Captive

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

Investments in Founders Factory Africa, the SA SME Fund and CareConnect

These investments in equity are designated at fair value through other comprehensive income at inception. These instruments are not considered core to the Group, and any fair value movements are not reflective of the operating activities of the Group. This designation was therefore considered appropriate. The fair value is derived from the estimated liquidation values of the net assets of the entities (not based upon a forced liquidation valuation approach).

Financial liabilities

Derivative financial liabilities

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

Other financial liabilities

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

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.2 Fair value hierarchy

EJ

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

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

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

Rm	Notes	Level 2	Level 3	Total
2021				
Derivative financial assets				
Interest rate swaps		**4**	**—**	**4**
Non-derivative financial assets				
Investment in Cell Captive		**4**	**—**	**4**
Investment in equity instruments		**—**	**59**	**59**
	6.1	**8**	**59**	**67**
Derivative financial liabilities				
Interest rate swaps		**40**	**—**	**40**
Inflation rate swaps		**19**	**—**	**19**
Written put option over non-controlling interest		**—**	**11**	**11**
	6.2	**59**	**11**	**70**
2020				
Non-derivative financial assets				
Investment in Cell Captive		37	—	37
Investment in equity instruments		—	40	40
	6.1	37	40	77
Derivative financial liabilities				
Interest rate swaps		140	—	140
Inflation rate swaps		29	—	29
Written put option over non-controlling interest		—	10	10
	6.2	169	10	179

The Group has no financial instruments measured at fair value categorised as Level 1. The movement in financial instruments measured under Level 3 is as follows:

	Equity instruments	Written put option
Balance at 1 October 2020	**40**	**10**
Additional investment	**46**	**—**
Fair value (losses)/gains recognised in other comprehensive income	**(27)**	**1**
Balance at 30 September 2021	**59**	**11**

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.2 Fair value hierarchy continued

EJ

Non-derivative financial assets – Level 2
Investment in Cell Captive

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.

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

Non-derivative financial assets – Level 3
Investments in Founders Factory Africa, the SA SME Fund and CareConnect

The valuations are based on the estimated liquidation values determined for the net assets on the balance sheet of each entity. The main objective of these entities is the investment in start-up businesses. Given the difficulty in obtaining reliable forward-looking cash flow forecasts for these types of new businesses, it is challenging to determine a reliable fair value for the underlying investments. This is the reason for using a liquidation basis approach to our valuation.

Fair value gains and losses on the investments in Founders Factory Africa, the SA SME Fund and CareConnect are accounted for in other comprehensive income.

Derivative financial liabilities – Level 2
The analysis of the values applicable to financial instruments measured at fair value is performed by qualified independent experts, with the exception of the put option which is valued internally (see below). The effectiveness test and valuations were performed as at 30 September 2021.

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

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.2 Fair value hierarchy continued

The valuation inputs and assumptions

Interest rate swaps

EJ

- Zero coupon perfect fit swap instrument curve as at 30 September 2021 was used to determine the relevant floating interest rates.
- Standard interest rate swap instrument valuation methodology was used.

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

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

Inflation rate swaps

- Forecast and historic Consumer Price Index (CPI) metrics were provided by independent sources.
- Zero coupon perfect fit swap instrument curve as at 30 September 2021 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.

In the prior year the Group adopted IFRS 16: *Leases,* resulting in a change in the accounting treatment applied to the lease contract hedged with the inflation rate swap instrument. The methodology applied in releasing the effective portion of the change in the fair value of the hedging instrument deferred in the hedging reserve to profit or loss was therefore amended in the prior reporting period. The accounting treatment should present the economic effect of the hedging relationship in profit or loss over the period of the hedge.

In order to achieve this result, the depreciation charge on the right of use asset will remain constant on an annual basis, recalculated from the effective value of the right of use asset based on the fixed escalation hedge cash flows arising from the hedging instrument. This will be achieved by the periodic release of amounts from the hedging reserve to profit and loss to achieve the "target depreciation" in profit or loss at every reporting date.

In addition, based on the recalculated fixed escalation rate of the hedged cash flows, the effective interest rate of the structure should be calculated based on the original incremental borrowing rate used. An additional release from the hedging reserve is therefore made on a periodic basis to ensure that the total interest expense in profit or loss amounts to the recalculated interest amount.

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

Derivative financial liability – Level 3

Written put option instrument

The fair value of the put option is based on the following formula: annual rent of the entity in which shares will be purchased when the option is exercised, divided by 10% yield (before tax) divided by 100 to derive the value per percentage shareholding. As at 30 September 2021, the annual rental was obtained from the entity and the fair value of the put option was calculated using the formula above. The fair value of the put option is therefore directly impacted by fluctuations in the annual rent of the entity. An increase of 1% in rent will result in an increase of 1% in the fair value of the put option. A decrease of 1% in rent will result in a decrease of 1% in the fair value of the put option.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.3 Financial risk management

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

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

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

6.4.3.1 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 interest rate risk and applies hedge accounting where the effectiveness criteria are met.

The Group's interest rate policy is to target a 50/50 ratio between variable and fixed rate funding instruments over a rolling 12-month period.

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 R17 million (2020: R24 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 2021, the Group had 8 (2020: 6) fixed-for-floating interest rate swap instrument contracts and 2 (2020: 2) inflation rate swap instrument contracts. The inflation rate swap instruments hedge the inflationary increases in certain lease contracts. The fair value of the inflation rate swap instruments is determined at each reporting date.

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.3 Financial risk management continued

6.4.3.1 Interest rate risk continued

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

Rm	2021	2020
Interest rate swaps		
Carrying amount of interest rate swap assets	**4**	—
Carrying amount of interest rate swap liabilities	**(40)**	(140)
Notional amount	**3 395**	3 095
Rate (%) – fixed	**3.5% – 7.8%**	6.4% – 7.8%
Maturity date	**2021 – 2023**	2021 – 2023
Change in fair value of the hedged item	**(90)**	91
Inflation rate swaps		
Carrying amount of inflation rate swap liabilities	**(19)**	(29)
Notional amount	**32**	32
Maturity date	**2020 – 2022**	2020 – 2022
Change in fair value of the hedged item	**(15)**	(1)

The critical terms of the hedging instrument and the hedged item are closely aligned. Therefore significant hedging ineffectiveness is not expected to occur.

In addition to the above, profits of R104 million (2020: losses of R82 million) resulting from the fair value movement in the interest rate swap instruments designated as cash flow hedges, as well as amortisation of a portion of the cash flow hedge reserve in the inflation rate swap instruments, were recognised in other comprehensive income and included in the cash flow hedge accounting reserve. The Group's ability to apply hedge accounting is determined on a year-by-year basis and is subject to developments in the financial markets.

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

Derivative financial liabilities	Movement in the interest/inflation rate (%)	Increase/ (decrease) in equity (Rm)
2021		
Interest rate swaps		
	Increase of 1%	**22**
	Decrease of 1%	**(22)**
Inflation rate swaps		
	Increase of 1%	**—**
	Decrease of 1%	**—**
2020		
Interest rate swaps		
	Increase of 1%	38
	Decrease of 1%	(39)
Inflation rate swaps		
	Increase of 1%	1
	Decrease of 1%	(2)

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.3 Financial risk management continued

6.4.3.2 Credit Risk

The Group has a comprehensive credit risk policy which is updated on a regular basis. Considerable resources, expertise and controls are in place to ensure efficient and effective management of credit risk. The Group is exposed predominantly to settlement risk on transactions involving the non-simultaneous exchange of value where the Group honours its obligations to deliver value, and the counterparty does not.

Information on the creditworthiness of customers is supplied by independent rating agencies where available. If not available, the Group uses other publicly available information and its own trading records to rate its customers and counterparties. The Group assesses credit risk using historic information and past default experience as well as future expectations of the probability of default using predicted economic and market conditions and expected financial performance of the counterparty to the financial asset. A default on a financial asset is when a counterparty fails to make contractual payments and/or enter into alternative payment arrangements, with little or no intention and/or ability to make payment. This assessment will differ per trade receivable category. The Group is not exposed to concentration risk as a large proportion of debtor balances are with medical aid funds which have been determined to have low probabilities of default. The Group's maximum exposure to credit risk is equal to the carrying amount of the instrument.

Credit risk arises on the following financial instruments:

	Note	Internal credit rating	Basis applied to loss allowance
Cash and cash equivalents	3.2	Low credit risk	Twelve month loss allowance
Trade receivables	5.1	Assessed per category of trade receivables. Refer to note 5.1 for further detail	Lifetime loss allowance (simplified approach)
Loans to associates and joint ventures	9.1 9.2	Assessed on an individual basis	Assessed on an individual basis
Loans and receivables	9.3	Assessed on an individual basis	Assessed on an individual basis

EJ

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

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

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

Loans and receivables are assessed on an individual basis to determine the loss allowance. For counterparties which have been determined to have low credit risk, a twelve month loss allowance has been raised. For counterparties with significant credit risk, a life time loss allowance has been raised.

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

6. Financial management continued
6.4 Financial instruments and risk management continued
6.4.3 Financial risk management continued
6.4.3.3 Liquidity risk

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

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

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

Rm	< 1 year	1 – 5 years	Total
2021			
Trade and other payables[1]	**2 334**	**—**	**2 334**
Interest rate swaps	**35**	**7**	**42**
Inflation rate swaps	**11**	**9**	**20**
	2 380	**16**	**2 396**
2020			
Trade and other payables[1]	2 381	—	2 381
Interest rate swaps	95	54	149
Inflation rate swaps	9	22	31
Bank overdrafts	4	—	4
	2 489	76	2 565

The maturity analysis of long-term debt is disclosed in note 3.1.1 and the maturity analysis of lease liabilities is disclosed in note 2.9.

1. Value Added Tax, leave pay and bonus accruals are not defined as financial instruments and have been excluded from trade and other payables.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

6. Financial management continued

6.4 Financial instruments and risk management continued

6.4.3 Financial risk management continued

6.4.3.4 Capital management

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

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

Investments will be made to expand and digitise the business when the expected economic returns exceed the cost of capital. If opportunities that generate economic profits are unavailable, excess capital will be distributed to shareholders in the form of share buybacks or special dividends.

The Group's dividend policy is designed to ensure payment of a sustainable income to its investors. Within its investment framework, the Group is of the view that under normal economic conditions it can safely distribute 50% to 70% of future adjusted headline earnings to shareholders while maintaining safe levels of debt and an investment – grade credit rating. The distribution range is reviewed by the Board before approving shareholder distributions, after considering the economic conditions and liquidity position of the Group.

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 that require certain ratios, which are calculated with reference to pre-IFRS 16 numbers, to be met.

The Group has set medium-term targets for pre-IFRS 16 net debt to EBITDA of less than 2.0x and a pre-IFRS 16 interest cover ratio (being EBITDA/net interest) of greater than 5.0x. These targets more conservative than the banking covenant requirements, which require a pre-IFRS 16 net debt to EBITDA of less than 2.75x and a pre-IFRS 16 interest cover ratio of greater than 4.0x. The pre-IFRS 16 net debt to EBITDA and interest cover ratios for the year have improved compared to 2020, which was adversely affected by the impact of COVID-19, and are as follows:

Pre-IFRS 16 (estimate)

Rm	**2021**	2020
Debt	**6 787**	7 869
Cash and cash equivalents	**(1 456)**	(1 446)
Net debt	**5 331**	6 423
EBITDA	**2 652**	2 088
Net debt to EBITDA (times)[1]	**2.0**	3.1
Interest cover (times)	**6.4**	2.6

1. *In the prior year, the Group secured covenant waivers relating to the September 2020 and March 2021 covenant tests. Due to the improved performance in the current year, no further waiver is required and the covenants are comfortably met.*

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

7. Contingent liabilities, commitments and provisions

7.1 Contingent liabilities

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

7.1.1 Financial guarantees

Rm	2021	2020
Guarantee covering the obligation of an associate company	**—**	11
Guarantees in favour of municipalities and other beneficiaries	**24**	24

The expected credit losses on guarantees are not material.

7.1.2 Litigation

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

7.2 Commitments

7.2.1 Capital expenditure commitments to be incurred

Rm	2021	2020
Authorised and contracted for		
Intangible assets	**—**	7
Land and buildings	**245**	395
Plant and equipment	**7**	4
Computer equipment	**93**	—
Medical equipment	**165**	21
Other (including furniture and fittings)	**8**	3
Equity investments	**83**	130
Authorised but not yet contracted for		
Intangible assets	**—**	29
Land and buildings	**512**	295
Plant and equipment	**121**	73
Computer equipment	**323**	—
Medical equipment	**247**	222
Other (including furniture and fittings)	**25**	223
	1 829	1 402
This expenditure will be financed from internally generated funds and existing banking facilities.		
To be expended:		
Within 1 year	**1 521**	1 247
Over 1 year	**308**	155
	1 829	1 402

The commitment for equity investments represents a contribution of £2 million per year for the next two years, relating to our ongoing investment in Founders Factory Africa. This is subject to Founders Factory Africa investing in five accelerator and two incubator businesses per annum.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

7. Contingent liabilities, commitments and provisions continued

7.2 Commitments continued

7.2.2 Operating lease commitments as lessee

As permitted under IFRS 16, the Group has elected to recognise lease expenses for short term and low value leases instead of capitalising these leases on the statement of financial position. The Group has the following short-term lease commitments at the end of the reporting period:

Rm	**2021**	2020
Short term lease commitments		
Within 1 year	**4**	4

7.2.3 Operating lease arrangements as lessor

The Group has entered into operating leases as the lessor for property and equipment. Rentals are payable by the lessees on a monthly basis. The table below shows the undiscounted lease payments to be received after the reporting date. Equipment rentals are low in value and are not material to the Group.

Rm	**2021**	2020
Property		
Within 1 year	**157**	180
1 – 5 years	**197**	243
>5 years	**3**	2
	357	425

7.3 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 using historical trends.

	2021
Legal claims	**42**
These claims are underwritten by our insurers, and we have recognised an equal and opposite receivable at 30 September 2021.	
Included in:	
Non-current loans and receivables	**42**
Non-current provisions	**(42)**
	—

The carrying amount of provisions is analysed as follows:

	Legal claims
Balance at 30 September 2020	**—**
Amounts provided	**42**
Balance at 30 September 2021	**42**

In the prior year, the provision and the corresponding receivable of R20 million were disclosed net in error.

8. Shareholders' interests

8.1 Ordinary share capital

Number of shares (million)	2021	2020
Authorised		
Ordinary shares of 1.0 cent each	**2 500**	2 500
Issued		
Shares in issue at beginning of year	**1 439**	1 452
Shares cancelled during the year	**—**	(13)
Shares in issue at end of year	**1 439**	1 439
Treasury shares		
Treasury shares at beginning of year	**(104)**	(107)
Sale of treasury shares	**2**	3
Treasury shares at end of year	**(102)**	(104)
Total issued ordinary shares (net of treasury shares)	**1 337**	1 335
Treasury shares are held as follows:		
HPFL B-BBEE Trusts	**96**	96
Forfeitable Share Plan	**6**	8

Rm	2021	2020
Authorised		
Ordinary shares of 1.0 cent each	**25**	25
Issued ordinary share capital		
Balance at beginning of year	**4 297**	4 334
Share buy-back	**—**	(37)
Balance at end of year	**4 297**	4 297

Ordinary dividends paid

Details of the ordinary dividends paid for the year are as follows (also see directors report on page 5):

Rm	2021	2020
Final distribution paid		
No final dividend paid (2020: 64.0 cents per share)	**—**	921
Dividends attributable to treasury shares	**—**	(61)
Paid to Netcare Limited external shareholders	**—**	860

Dividends are accrued on the date of declaration. As a result, the final dividend of 34.0 cents per share, declared on 18 November 2021, is not reflected in the financial statements for the year ended 30 September 2021.

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, 25 January 2022
Trading ex-dividend commences	Wednesday, 26 January 2022
Record date	Friday, 28 January 2022
Payment date	Monday, 31 January 2022

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

8. Shareholders' interests continued

8.1 Ordinary share capital continued

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

Cents	2021	2020
Final distribution paid		
Interim dividend	**—**	—
Final dividend	**34.0**	—
	34.0	—

As a result of the high levels of uncertainty due to the effect that COVID-19 has had on the business, the Board made the decision to suspend the interim and final dividend in respect of earnings for FY2020, and the interim dividend in respect of earnings for FY2021.

The estimated total cash flow of the final dividend of 34.0 cents per share payable on 31 January 2022, is R455 million.

This amount excludes R35 million attributable to treasury shares.

8.2 Treasury shares

Rm	2021	2020
Balance at beginning of year	**(3 851)**	(3 853)
Transfer	**292**	—
Sale of treasury shares	**2**	2
Balance at end of year	**(3 557)**	(3 851)

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

During the year 38 121 (2020: 105 615) 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. Treasury shares held by the employees do not carry voting rights prior to vesting. Treasury shares are deducted from the number of shares in issue and the dividends paid to employees on these shares are deducted from the earnings used in the calculation of earnings per share.

Share-based payments

Details of 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. Shareholders' interests continued

8.3 Preference share capital and premium

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

Rm	2021	2020
Authorised		
10 million (2020: 10 million) variable rate, cumulative, non-redeemable, non-convertible preference shares of 50.0 cents each	**5**	5
Issued		
7 million (2020: 7 million) preference shares in issue at beginning and end of year	**3**	3
Share premium		
Balance at beginning and end of year	**641**	641
Total issued preference share capital and premium	**644**	644

Preference dividends

The preference dividends paid for the year are:

Rm	2021	2020
Interim dividend	**20**	27
Final dividend	**19**	27
	39	54

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

8.4 Non-controlling interest

Rm	2021	2020
Balance at beginning of year	**32**	52
Dividends paid	**(19)**	(11)
Movements in equity interest in subsidiaries	**—**	(2)
Other reserve movements	**8**	—
Total comprehensive income for the year	**(9)**	(7)
	12	32

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

8. Shareholders' interests continued

8.5 Other comprehensive income

Rm	Gross	Tax	Other comprehensive income	Non-controlling interest	Net attributable to owners of the parent
2021					
Remeasurement gain on defined benefit plans	**1**	**—**	**1**	**—**	**1**
Effect of cash flow hedge accounting	**104**	**(29)**	**75**	**—**	**75**
Remeasurement of equity investments	**(26)**	**—**	**(26)**	**—**	**(26)**
	79	**(29)**	**50**	**—**	**50**
2020					
Remeasurement gain on defined benefit plans	50	(14)	36	—	36
Effect of cash flow hedge accounting	(82)	23	(59)	—	(59)
Remeasurement of equity investments	(50)	—	(50)	—	(50)
Realisation of foreign currency translation reserve	4	—	4	—	4
	(78)	9	(69)	—	(69)

9. Group structure

Investment in associates and joint ventures

AP

Associates and joint ventures are accounted for using the equity method and are recognised initially at cost. 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.

EJ

Netcare's Public Private Partnership (PPP) agreement in Lesotho was terminated with effect from August 2021, while its Eastern Cape PPP arrangement was cancelled in November 2020. Determination of the recoverable value of Netcare's PPP investments and loans requires the application of judgement, particularly with respect to the nature and timing of compensation receivable under the respective contractual arrangements, certain of which are under dispute. In determining the recoverable amounts, management considers all facts and circumstances, taking cognisance of legal advice concerning contractual rights, the merits of potential claims and counter claims (if any) and estimates of the duration of dispute resolution processes.

9.1 Investment in joint ventures

Rm	Notes	2021	2020
Investments at cost[1]		**50**	39
Share of post-acquisition reserves		**135**	174
Carrying value of shares		**185**	213
Trade and other receivables	5.1	**27**	18
Trade and other payables	5.3	**(41)**	(1)

1. *Effective 01 April 2021, Netcare acquired a 50% shareholding in Netcare Digital Proprietary Limited for R9 million.*

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

9. Group structure continued

9.2 Investment in associates

Rm	2021	2020
Investments at cost net of accumulated impairments	**42**	24
Share of post-acquisition reserves	**(25)**	145
Carrying value of shares	**17**	169
Loans	**222**	209
	239	378

In the current year the Group recognised R159 million in attributable losses from associates as a result of the early termination of the Public Private Partnership agreement with the Government of Lesotho. Refer to note 11 for detail.

The loans to associate companies are carried at amortised cost and are unsecured, bearing interest at 12.6%, and are repayable up to three years.

Rm	2021	2020
Non-current assets	**222**	209

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

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

9.3 Loans and receivables

AP Loans and other non-current receivables are carried at amortised cost.

Rm	2021	2020
Included within:		
Non-current assets	**219**	158
Current assets	**132**	154
	351	312

Included in current loans and receivables are current associate loans of R63 million (2020: R88 million). The majority of loans and receivables are unsecured. These loans and receivables bear interest at between 0.0% and 12.0% and are repayable on demand or up to eight years.

AP The Group applies IFRS 9 when providing for loss allowances on loans and receivables, including loans to associates. Each loan balance is separately assessed as they each have a different risk profile. Credit risk is determined using past information and experience with the counterparties, as well as expectations of the future recoverability of amounts due. Factors which are considered when assessing the past and future risk associated with each counterparty include an analysis of their current financial position, adjusted for factors that are specific to them, general economic conditions in which they operate and an assessment of both the current as well as the forecast direction of macro-economic conditions at the reporting date. Loss allowances are reviewed at the end of each reporting period.

The movement in loss allowances on loans and receivables, including associate loans, is as follows:

Rm	2021	2020
Balance at beginning of year	**144**	39
Impairment losses recognised	**31**	105
Balance at end of year	**175**	144

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

9. Group structure continued

9.3 Loans and receivables continued

The following table details the gross and net carrying amount of loans and receivables:

Rm	Gross carrying amount	Loss allowance	Net carrying amount
Included within:			
Loans and receivables – non-current and current	330	(42)	288
Associate loans – non-current and current	418	(133)	285
	748	(175)	573

9.4 Related parties

AP Related party transactions constitute the transfer of resources, services or obligations between parties related to the Group. 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 employees. The employer-subsidised portion of medical aid contributions payable by members has been included in employee costs.

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

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

Rm	Nature of revenue	2021	2020
Medicross Healthcare Group Proprietary Limited	Healthcare services	1	1
Netcare Hospitals Proprietary Limited	Healthcare services	290	266
Netcare Pharmacies Proprietary Limited	Dispensary services	69	71
Akeso Clinics Proprietary Limited	Administration fee	4	4
Netcare 911 Propriety Limited	Capitation fee	6	6
		370	348

Government Employee Pension Fund

At 30 September 2021, the Government Employee Pension Fund (GEPF) holds more than 20% of the voting rights in Netcare Limited, and are therefore presumed to have significant influence.

The Group has the following balances with the GEPF as at 30 September 2021, with detail of the associated transactions also included:

Rm	2021
Right of use asset	11
Lease liability – long term	(11)
Lease liability – short term	(3)
Depreciation on right of use asset	(2)
Interest on lease liability	(1)

9. Group structure continued

9.4 Related parties continued

Transactions with joint ventures and associates

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

2021

Rm	Associates	Joint Ventures
Interest received	**—**	**1**
Interest paid	**(1)**	**(3)**
Asset rental income	**26**	**12**
Admin fee income	**15**	**—**
Utilities, water and effluent recoveries	**2**	**—**
Employee wellness services	**(4)**	**—**
Property rental received	**3**	**—**
Dividends received	**25**	**67**
Impairment of loans	**(31)**	**—**

2020

Rm	Associates	Joint Ventures
Interest received	1	2
Interest paid	(1)	(4)
Asset rental income	23	21
Admin fee income	18	—
Utilities, water and effluent recoveries	—	(5)
Employee wellness services	(4)	—
Dividends received	7	82
Impairment of loans	(63)	—

Balances with joint ventures and associates

The Group has the following loan balances outstanding with joint ventures and associates as at 30 September 2021:

2021

Rm	Associates[1]	Joint Ventures[2]
Loans receivable – gross	**439**	**27**
Loans receivable – loss allowance	**(133)**	**—**
Loans payable	**(21)**	**(41)**
Guarantee	**—**	**—**

1. The majority of loans receivable are unsecured, bear interest at Prime and are repayable on demand.
2. The majority of loans receivable are unsecured, bear interest at Prime less 0.5% and are repayable on demand.

2020

Rm	Associates[1]	Joint Ventures[2]
Loans receivable – gross	423	18
Loans receivable – loss allowance	(102)	—
Loans payable	(13)	(1)
Guarantee	11	—

1. The majority of loans receivable are unsecured, bear interest at Prime and are repayable on demand or up to 29 years and 11 months from date of origination.
2. The majority of loans receivable are unsecured, bear interest at Prime less 0.5% and are repayable on demand or up to 29 years and 11 months from date of origination.

Notes to the Group annual financial statements continued

for the year ended 30 September 2021

10. New issued standards not yet effective

Certain new accounting standards, amendments to standards and interpretations have been published that are not mandatory for 30 September 2021 reporting periods. None have been early adopted by the Group.

These standards, amendments to standards and interpretations are not expected to have a significant impact on the Group's financial statements:

Standards and Amendments	Annual periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7 and IFRS 16 Interest Rate Benchmark Reform – Phase 2	1 January 2021
Amendments to IFRS 3 – References to Conceptual Framework	1 January 2022
Amendments to IAS 16 – Proceeds before Intended Use	1 January 2022
Amendments to IAS 37 – Onerous Contracts – cost of fulfilling a contract	1 January 2022
Annual improvements on IFRS 1, IFRS 9 and IFRS 16 2018 – 2020	1 January 2022
Amendments to IAS 1 – Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies	1 January 2023
Amendments to IAS 8 – Definition of Accounting Estimates	1 January 2023
Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023

11. Lesotho Public Private Partnership Termination

In light of the early termination of the Lesotho Public Private Partnership agreement by the Government of Lesotho, effective 31 August 2021, and ongoing uncertainty with regard to the resolution of matters under dispute, the Group has impaired its Lesotho-related investments, including investments in associates and loans to associates, as detailed in the table below. The associates' earnings have also recognised the impairment impacts of the early termination. Further detail on the judgements and estimates used to calculate the recoverable amounts is included in note 9.

Rm	2021
Line items impacted on the statement of profit or loss	
Revenue	**195**
Impairment of financial assets	**(71)**
Operating profit	**124**
Attributable losses of associates (primarily related to impairment of debtors)	**(159)**
Profit before taxation	**(35)**
Taxation	**(36)**
Profit for the year	**(71)**

12. Reportable irregularity

During the financial year, a matter concerning a breach of controls and an unauthorised payment of an immaterial amount, initiated by an executive, was identified through the Group's internal processes. The Board has taken steps to address the matter in line with the Group's internal policies, including drawing the matter to the attention of the external auditors, and the executive involved is no longer in the employ of the Group. The external auditors raised a reportable irregularity with IRBA in terms of section 45 of the Auditing Profession Act, No. 26 of 2005 ("the Act"). The external auditors have subsequently completed their reporting responsibilities in terms of the Act and confirmed in writing their belief that the reportable irregularity is no longer taking place and that the necessary steps have been taken for the recovery of the loss. Deloitte & Touche have issued an unmodified opinion on the Group's financial statements. The Board mandated management to take necessary remedial actions.

Company statement of profit or loss

for the year ended 30 September

Rm	Notes	**2021**	2020
Revenue	2.2	**20**	1 172
Other income		**—**	1
Administrative and other expenses		**(4)**	—
Operating profit		**16**	1 173
Profit before taxation		**16**	1 173
Taxation	2.3	**—**	—
Profit after taxation		**16**	1 173
Total comprehensive income for the year		**16**	1 173
Attributable to:			
Ordinary shareholders		**(23)**	1 119
Preference shareholders		**39**	54
		16	1 173

Company statement of financial position

as at 30 September

Rm	Notes	2021	2020
ASSETS			
Non-current assets			
Investment in subsidiaries	2.1	**4 942**	837
Total non-current assets		**4 942**	837
Current assets			
Amounts owing by subsidiaries	2.1	**161**	4 314
Cash and cash equivalents	3.1	**37**	15
Total current assets		**198**	4 329
Total assets		**5 140**	5 166
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital	4.1	**4 254**	4 254
Other reserves		**—**	232
Retained earnings		**238**	26
Equity attributable to ordinary shareholders		**4 492**	4 512
Preference share capital and premium	4.2	**644**	644
Total shareholders' equity		**5 136**	5 156
Current liabilities			
Amounts owing to subsidiaries	2.1	**1**	2
Other payables		**3**	8
Total current liabilities		**4**	10
Total equity and liabilities		**5 140**	5 166

Company statement of cash flows

for the year ended 30 September

Rm	Notes	**2021**	2020
Cash flows from operating activities			
Cash generated from operations	2.4	**11**	1 174
Dividends paid – ordinary dividend		**—**	(921)
Preference dividends paid		**(39)**	(54)
Net cash flow from operating activities		**(28)**	199
Cash flows from investing activities			
Decrease in loans		**50**	52
Net cash flow from investing activities		**50**	52
Cash flows from financing activities			
Payments for ordinary shares purchased		**—**	(251)
Net cash flow from financing activities		**—**	(251)
Net increase in cash and cash equivalents		**22**	—
Cash and cash equivalents at the beginning of the year		**15**	15
Cash and cash equivalents at the end of the year	3.1	**37**	15

Company statement of changes in equity

for the year ended 30 September

Rm	Ordinary share capital	Share-based payment reserve
Balance at 1 October 2019	4 291	231
Share buyback during the year	(37)	—
Ordinary dividends paid	—	—
Preference dividends paid	—	—
Total comprehensive income for the year	—	1
Balance at 30 September 2020	4 254	232
Preference dividends paid	**—**	**—**
Share-based payment reserve movements	**—**	**3**
Transfer[1]	**—**	**(235)**
Total comprehensive income for the year	**—**	**—**
Balance at 30 September 2021	**4 254**	**—**

1. Transfer of treasury shares and share-based payment reserve in respect of vested shares.

Retained earnings	Equity attributable to ordinary shareholders	Preference share capital and premium	Total shareholders' equity
42	4 564	644	5 208
(214)	(251)	—	(251)
(921)	(921)	—	(921)
—	—	(54)	(54)
1 119	1 120	54	1 174
26	4 512	644	5 156
—	**—**	**(39)**	**(39)**
—	**3**	**—**	**3**
235	**—**	**—**	**—**
(23)	**(23)**	**39**	**16**
238	**4 492**	**644**	**5 136**

Notes to the company annual financial statements

for the year ended 30 September

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

Refer to the Group annual financial statements.

2. Investments and returns

2.1 Interest in subsidiaries

Rm	2021	2020
Investment in subsidiaries		
Investments at cost	**4 768**	663
Share-based payments arising from the Group's share incentive schemes	**174**	174
	4 942	837
Amounts owing by/(to) subsidiaries		
Included in:		
Current assets	**161**	4 314
Current liabilities	**(1)**	(2)
Net interest in subsidiaries	**5 102**	5 149

Subsidiaries are funded by way of equity from the holding company as well as interest-free loans. These loans are unsecured and there are no fixed terms of repayment, however we expect payment within the next 12 months. Management have assessed and concluded that expected credit losses on these loans are not significant. During the year, the company subscribed for additional shares in a subsidiary as part of a Group wide refinancing project. A loan owed by the subsidiary was used as settlement for the newly acquired shares.

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

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

2.2 Revenue

Rm	2021	2020
Dividends received	**20**	1 172

Dividends received are accounted for on the date of declaration.

2. Investments and returns continued

2.3 Taxation

Rm	2021	2020
South African normal taxation		
Current year	—	—
Income tax	—	—
Total taxation per the statement of profit or loss	—	—
Reconciliation of effective taxation rate (%)		
South African normal tax rate	28.0	28.0
Adjusted for:		
Non-deductible expenses[1]	7.0	—
Exempt income – dividends	(35.0)	(28.0)
Effective taxation rate	—	—

1. The Company's effective tax rate is 0% because all of its revenue is exempt dividend income and therefore its expenses are not tax deductible.

2.4 Cash generated by operations

Rm	2021	2020
Operating profit	16	1 173
Cash generated by operations before working capital changes	16	1 173
(Decrease)/increase in accounts payable	(5)	1
	11	1 174

3. Funding

3.1 Cash and cash equivalents

Rm	2021	2020
Cash on hand and balances with banks	37	15

Notes to the company annual financial statements continued

for the year ended 30 September

4. Shareholders' Interest

4.1 Ordinary share capital

Number of shares (million)	2021	2020
Authorised		
Ordinary shares of no par value	**2 500**	2 500
Issued		
Shares in issue at beginning of year	**1 439**	1 452
Share buyback	**—**	(13)
Shares in issue at end of year	**1 439**	1 439
Rm		
Authorised		
Ordinary shares of no par value	**25**	25
Issued ordinary share capital		
Balance at beginning of year	**4 254**	4 291
Share buyback	**—**	(37)
Balance at end of year	**4 254**	4 254

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

4.2 Preference share capital

Rm	2021	2020
Authorised		
10 million (2020: 10 million) variable rate, cumulative, non-redeemable, non-convertible preference shares of 50.0 cents each	**5**	5
Issued		
7 million (2020: 7 million) preference shares in issue at beginning and end of year	**3**	3
Share premium		
Balance at beginning and end of year	**641**	641
Total issued preference share capital and premium	**644**	644

5. Contingent liabilities

5.1 Financial guarantees

Rm	2021	2020
The Company has provided unlimited suretyship in favour of various financial institutions which covers the facilities granted to subsidiaries.	**6 752**	7 858

The expected credit losses on guarantees are not material.

6. Group structure

6.1 Related parties

Rm	2021	2020
Related party transactions		
Various transactions were entered into by the Company during the year with related parties.		
Details of loan balances with subsidiaries are disclosed in Annexure A.		
The following is a summary of transactions with related parties during the year:		
Dividends received:		
• Netcare Holdings Proprietary Limited	**20**	1 172
Management fees received:		
• Netcare Hospitals Proprietary Limited	**9**	10
Non-executive directors fees	**(9)**	(10)

6.2 Key management personnel

Refer to note 4.1 of the Group annual financial statements.

7. Events after reporting period

On 19 November 2021 the Board appointed Dr Rozett Phillips and Dr Thabi Leoka as independent non-executive directors with effect from 1 January 2022.

The directors are not aware of any 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 2021 or the results of its operations or cash flows for the year then ended.

Annexure A – Interest in subsidiaries

Principal subsidiaries	Nature of business	Place of incorporation
Direct		
Netcare Holdings Proprietary Limited	Holding Company	South Africa
Indirect		
Clindeb Investments Limited	Financing	South Africa
Medicross Healthcare Group Proprietary Limited	Primary healthcare services	South Africa
Netcare Hospitals Proprietary Limited	Hospital/healthcare services	South Africa
Netcare 911 Proprietary Limited	Property owning	South Africa
Netcare Hospital Group Proprietary Limited	Investment holding	South Africa
Netcare Property Holdings Proprietary Limited	Property owning	South Africa
Netcare Pharmacies Proprietary Limited	Pharmaceutical services	South Africa
Other		South Africa

Loans to subsidiaries disclosed in:

Current assets in the Company statement of financial position

Current liabilities in the Company statement of financial position

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

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

There were no significant acquisitions, disposals or changes in holdings related to subsidiaries during the year.

	Effective Group holding %		Investment (Rm)		Loans to/(from) subsidiaries (Rm)	
Issued ordinary share capital (thousands)	**2021**	2020	**2021**	2020	**2021**	2020
R120	**100**	100	**4 768**	663	**—**	4 105
R1	**100**	100	**—**	—	**158**	203
R2	**100**	100	**13**	13	**—**	—
	100	100	**151**	151	**2**	6
	100	100	**—**	—	**—**	—
	100	100	**—**	—	**—**	—
	100	100	**—**	—	**—**	—
	100	100	**—**	—	**—**	—
			10	10	**—**	(2)
			4 942	837	**160**	4 312
					161	4 314
					(1)	(2)

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)	
		2021	2020	**2021**	2020
National Renal Care Proprietary Limited	South Africa	**50**	50	**165**	198
Netcare Digital Proprietary Limited	South Africa	**50**	—	**7**	—
Netcare Parklands Linac Joint Venture Proprietary Limited	South Africa	**50**	50	**10**	10
Olivedale Clinic Oncology Centre Proprietary Limited	South Africa	**45**	45	**5**	5
Waterberg Lodge Proprietary Limited	South Africa	**50**	50	**(2)**	*
Total investment in joint ventures	Note 9.1			**185**	213
Loans included in:					
Trade and other receivables (note 5.1/9.1)				**27**	18
Trade and other payables (note 5.3/9.1)				**(41)**	(1)
				(14)	**17**

Amount below R1 million.

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

Rm	30 September **2021**	2020
Aggregate information of joint ventures that are not individually material		
The Group's share of profit and total comprehensive income for the year	**33**	36
Aggregate carrying amount of the Group's interests in these joint ventures	**185**	213

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

Annexure C – Investment in associates

Company	Place of incorporation and principal place of business	Portion of ownership interests and voting power held by the Group		Carrying value (Rm)	
		2021	2020	**2021**	2020
Community Hospital Management Proprietary Limited	South Africa	**25**	25	**14**	14
Nalithemba Proprietary Limited	South Africa	**50**	50	**128**	154
Kokstad Private Hospital Proprietary Limited	South Africa	**30**	30	**24**	20
Gamma Knife Proprietary Limited	South Africa	**27**	27	**11**	8
Ismatype Proprietary Limited	South Africa	**30**	30	**2**	2
Botle Facilities Management Proprietary Limited	Lesotho	**40**	40	**23**	45
Tsepong Proprietary Limited	Lesotho	**40**	40	**—**	112
Elsitron Proprietary Limited	South Africa	**30**	30	**(1)**	(1)
ICAS Employee and Organisation Enhancement Services Southern Africa Proprietary Limited[1]	South Africa	**40**	40	**39**	24
Dosimeter Services Proprietary Limited	South Africa	**49**	49	**(1)**	—
Total investment in associates				**239**	378

1. *Year-end of 31 December.*

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

Material investment in associates

The directors do not consider any of the investments in associates to be quantitatively and qualitatively material to the Group.

Rm	**2021**	2020
Aggregate information of associates that are not individually material		
The Group's share of (loss)/profit and total comprehensive income for the year	**(147)**	20
Aggregate carrying amount of the Group's interests in these associates	**239**	378

There are R82 million of unrecognised losses relating to associates in the current year (2020: Rnil).

Annexure D – Analysis of shareholders

	Number of shareholders	Percentage of shareholders	**Number of shares in issue[1]**	Percentage of issued share capital
Shareholder Spread				
1 – 1 000	13 765	51.70	**2 732 277**	0.21
1 001 – 50 000	11 521	43.27	**84 515 312**	6.32
50 001 – 100 000	415	1.56	**29 601 817**	2.21
100 001 – 10 000 000	908	3.41	**760 211 435**	56.85
10 000 001 and above	15	0.06	**460 165 312**	34.41
Total	26 624	100.00	**1 337 226 153**	100.00
Distribution of shareholders per category				
Individuals	23 123	86.85	**88 334 870**	6.61
Private Companies	536	2.01	**69 993 382**	5.23
Nominees and Trusts	1 475	5.54	**18 336 572**	1.37
Banks and Brokerage Firms	68	0.26	**24 889 819**	1.86
Insurance Companies	123	0.46	**62 511 496**	4.68
Pension Funds and Medical Aid Schemes	614	2.31	**497 738 564**	37.22
Collective Investment Schemes and Mutual Funds	685	2.57	**575 421 450**	43.03
Total	26 624	100.00	**1 337 226 153**	100.00
Public and non-public shareholdings				
Public	26 622	99.99	**1 336 488 115**	99.94
Non-public	2	0.01	**738 038**	0.06
Total	26 624	100.00	**1 337 226 153**	100.00

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

	Number of shares in issue[1]	Percentage of issued share capital
Beneficial shareholders holding 5% or more		
Public Investment Corporation on behalf of Government Employee Pension Fund[2]	**296 016 447**	22.14
Total	**296 016 447**	22.14
Investment Manager Top 10		
Public Investment Corporation Group	**219 037 313**	16.38
Ninety One SA (Pty) Limited	**75 842 400**	5.67
Visio Capital Management (Pty) Limited	**58 086 464**	4.34
Old Mutual Investment Group (South Africa) (Pty) Limited	**57 625 924**	4.31
The Vanguard Group, Inc.	**50 375 980**	3.77
Foord Asset Management (Pty) Limited	**49 471 384**	3.70
Truffle Asset Management (Pty) Limited	**42 891 206**	3.21
Laurium Capital (Pty) Ltd	**42 529 648**	3.18
Allan Gray Proprietary Limited	**35 268 214**	2.64
BlackRock Institutional Trust Company, N.A.	**34 101 066**	2.55
Total	**665 229 599**	49.75
Beneficial Owner Top 10		
Public Investment Corporation Limited	**306 190 592**	22.90
Norges Bank Investment Management (NBIM)	**55 983 284**	4.19
Alexander Forbes Investments	**45 927 232**	3.43
Old Mutual Life Assurance Company SA	**27 428 882**	2.05
Eskom Pension and Provident Fund	**22 463 924**	1.68
Vanguard Total International Stock Index Fund	**19 616 216**	1.47
Vanguard Emerging Markets Stock Index Fund (US)	**19 480 471**	1.46
Truffle Sanlam Collective Investments SA Equity Fund	**14 790 032**	1.11
Caisse de Depot et Placement du Quebec	**11 830 211**	0.88
Foord Balanced Fund	**11 262 019**	0.84
Total	**534 972 863**	40.01
Geographic Ownership		
South Africa	**972 350 202**	72.71
International	**364 875 951**	27.29
Total	**1 337 226 153**	100.00

1. *Number of shares in issue net of treasury shares.*
2. *As the treasury shares held by the HPFL B-BBEE scheme carry voting rights, the effective voting power of the Government Employee Pension Fund is 20.7%.*

Corporate information

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

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

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Deloitte and Touche

Principal bankers
RMB Private Bank
Nedbank Limited

Selected websites
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www.netcare911.co.za
www.medicross.co.za
www.nrc.co.za
www.akeso.co.za

Shareholders' diary

Annual general meeting	4 February 2022	
Reports		
Interim results announcement	May	
Final results announcement	November	
Dividends		
Ordinary dividend		
	Declared	**Paid**
Interim	May	June
Final	November	January
Preference dividend		
Interim	April	May
Final	October	November

Disclaimer

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

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

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

Bastion

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