Netcare Limited

Summarised Audited Group Results

for the year ended 30 September 2020

Who we are

The Netcare Group is a leading provider of private healthcare services in South Africa. 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.

CONTENTS

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.

ONLINE: Available on our investor relations website at **www.netcare.co.za**

Full annual financial statements for the year ended 30 September 2020 are available on our investor relations website at www.netcare.co.za/Netcare-Investor-Relations/Reports/Financial-Results

NETCARE You're in safe hands
NETCARE 082 911 24HR EMERGENCY MEDICAL ASSISTANCE
MEDICROSS MEDICAL CENTRE All the quality care you need.
NATIONAL RENAL CARE
akeso Behavioural Healthcare Group

Commentary

NETCARE LIMITED
(Registration number 1996/008242/06)
JSE ordinary share code: NTC
ISIN: ZAE000011953
JSE preference share code: NTCP
ISIN: ZAE000081121
("Netcare" or the "Group")

Netcare's performance for the year ended 30 September 2020 reflects the impact of COVID-19 with an ongoing focus on the delivery of our strategic objectives

To aid comparability, the commentary that follows excludes the impact of IFRS 16 and exceptional items (comprising a profit on disposal of investment in an associate and a once-off non-cash share-based payment expense on the Broad-based Black Economic Empowerment ("B-BBEE") transaction), unless otherwise indicated.

Salient features

- A strong start to the year offset by the impact of COVID-19 and related lockdown measures
- Group EBITDA declined to R2.1 billion
- Adjusted HEPS declined to 47.6 cents
- R474 million profit (net of taxation) on disposal of investment in UK properties and receipt of related proceeds of R778 million
- Cash resources and committed undrawn facilities of R5.6 billion as at 30 September 2020

Key financial results

Rm	Year ended 30 September 2020[1]	Year ended 30 September 2019	YoY % change	Six months ended 31 March 2020[1]
Revenue	**18 843**	21 589	(12.7)	10 713
Normalised EBITDA[2]	**2 088**	4 388	(52.4)	2 127
Normalised operating profit[2]	**1 303**	3 640	(64.2)	1 738
Profit before taxation[2]	**837**	3 229	(74.1)	1 523
Taxation[2]	**(322)**	(879)	63.4	(442)
Profit after taxation[2]	**515**	2 350	(78.1)	1 081
Exceptional items – net of taxation:				
– Profit on disposal of investment in associate	**474**			
– Share-based payment expense on B-BBEE transaction	**(348)**			(348)
– Realisation of foreign currency translation reserve		128		
Profit for the period	**641**	2 478	(74.1)	733
Adjusted HEPS (cents)	**47.6**	171.2	(72.2)	79.0
ROIC (%)	**6.7**	20.1		18.1

1. *March and September 2020 reported on a pre-IFRS 16 basis. (Please refer to notes 8 and 10 of the summarised audited Group financial statements.)*
2. *"Normalised" to exclude the impact of exceptional items, comprising a net profit on disposal of investment in associate and a once-off non-cash share-based payment expense on B-BBEE transaction.*

Commentary continued

Note:
The accounting policies applied in preparing the audited Group financial statements are consistent in all material respects with those applied in the audited financial statements for the year ended 30 September 2019, except for the adoption of IFRS 16: Leases, which was adopted with effect from 1 October 2019 by applying the modified approach whereby comparative figures for the year ended 30 September 2019 have not been restated. Further detail on the impact of adopting this new accounting statement is set out in Note 8 to the summarised audited Group financial statements, and pro forma financial information presenting the results on a pre-IFRS 16 basis is detailed in Note 10.

Overview

Netcare has been privileged to play a role in supporting our country through the COVID-19 pandemic ("COVID-19" or "the pandemic"). As a leading South African healthcare provider, the pandemic had a material negative impact on Netcare's overall performance for the year ended 30 September 2020. However, the pandemic proved the Group's resilience and agility with the primary offering of consistent, high-quality care maintained, while simultaneously adapting the operating model to respond to the unprecedented circumstances.

In particular, the last seven months of FY2020 was one of the most extraordinary periods in the Group's 23-year history. Since Netcare's first case on 9 March 2020, we have treated 28 016 COVID-19 patients of whom 13 436 were admitted to our hospitals. Of those admitted, 25% were treated in high care or intensive care units. We currently have 312 COVID-19 patients in our hospitals.

From the onset of the COVID-19 pandemic, our primary focus has been on the wellbeing of our patients, staff and doctors.

The Group also benefitted from learnings shared by international healthcare providers who experienced the pandemic earlier. This contributed to improved treatment regimens and better outcomes as it became apparent that not every critical patient needed a ventilator or a critical care bed, and many stable patients could be adequately treated at home. Similarly, the use of different modalities of oxygen delivery, anti-coagulants and steroids at the appropriate time contributed to lower hospital admissions, length of stay and mortality rates.

Despite this, the year under review can be characterised as a year of two halves with strong trading during the first five months of the financial year offset by the adverse impact of COVID-19 on revenue and costs. It is broadly estimated that the pandemic resulted in a loss to the Group of approximately R3.7 billion in revenues and R2.3 billion in EBITDA.

Group financial review

In the second half of the year, patient days were impacted by the suspension of non-urgent surgery during Levels 5 and 4 of the lockdown and, in particular, during July 2020 when infections peaked, exacerbated by the significant fall in the number of usual seasonal flu or respiratory viral cases. Furthermore, emergency and trauma-related activity also fell dramatically during the initial stages of the lockdown. As lockdown levels eased and COVID-19 admissions reduced, medically necessary and time-sensitive surgeries resumed, which led to a gradual and steady uplift in patient days. However, this was insufficient to counter the falloff in activity in the initial months of the lockdown.

In March 2020, the Group introduced appropriate measures, including relevant training of employees and extensive use of appropriate personal protective equipment ("PPE"), as well as screening and isolating infected patients across our network of facilities. We have continued with an 'abundance of caution' approach to ensure the health and wellbeing of our patients, healthcare workers and doctors.

As a result of the lower patient days, Group revenue declined by 12.7% to R18 843 million (2019: R21 589 million) while normalised EBITDA declined 52.4% to R2 088 million (2019: R4 388 million) and the EBITDA margin contracted to 11.1% from 20.3% in the previous year. Higher costs resulted in negative operating leverage with operating profit down 64.2% to R1 303 million (2019: R3 640 million).

Impairments of financial assets recognised under IFRS 9: *Financial Instruments* increased to R274 million (2019: R123 million) as a result of the detrimental impact of COVID-19 on the broader business environment.

Net interest paid increased marginally to R504 million (2019: R484 million) benefiting from a lower average cost of debt, although applied to higher average debt levels during the year.

Profit before taxation decreased by 74.1% to R837 million (2019: R3 229 million). The taxation charge amounted to R322 million (2019: R879 million) reflecting an effective tax rate of 38.5% (2019: 27.2%). Profit after taxation decreased by 78.1% to R515 million (2019: R2 350 million).

An after tax profit of R474 million was realised on the disposal of the GHG PropCo 2 associate, following the sale of its UK hospital properties, while a once-off non-cash share-based payment expense of R348 million was recognised on the implementation of Netcare's B-BBEE transaction in October 2019 (discussed in more detail below).

Adjusted headline earnings per share ("HEPS") declined 72.2% to 47.6 cents (2019: 171.2 cents).

Cash flow and capital expenditure

As part of its efforts to preserve cash, the Group postponed approximately R800 million of capital expenditure ("capex") earmarked for new and current projects. Other cash preservation measures included reduction in the use of agency staff and suspension of share buybacks and dividends.

Capex on critical strategic projects continued during the year, with total capex investments remaining in line with guidance at R1.0 billion. This included additional COVID-19-related capex of R156 million, expansionary projects amounting to R193 million and CareOn capex of R34 million.

Working capital was well managed despite increased investment in additional inventory reserves, including adequate levels of PPE, drugs and consumables.

As at 30 September 2020, the Group had cash resources and committed, undrawn facilities of R5.6 billion available. The Group's overall cash position was boosted by the proceeds from the disposal of GHG PropCo 2 properties amounting to R778 million.

During November and December 2019, Netcare executed the buyback and cancellation of 12.7 million shares for R251 million at an average price of R19.68 per share.

Netcare B-BBEE transaction

On 15 October 2019, Netcare approved a further allocation of 61 110 000 previously unallocated Netcare shares ("B-BBEE transaction") that were available under its Health Partners For Life ("HPFL") B-BBEE scheme, to 20 370 Netcare employees (excluding executives), of whom 80% are black and 65% are black women ("the Beneficiaries"). Following the scheme's 2015 restructure, all HPFL shares are fully paid up, have no related outstanding debt, and are unencumbered.

The B-BBEE transaction is reflective of Netcare's commitment to the imperative of building a transformed South Africa characterised by values of social and economic equality and broad-based inclusion. This objective has been achieved through the B-BBEE transaction in a manner that both strengthened the ownership component of Netcare's empowerment rating and resulted in a progressively enhanced B-BBEE rating to Level 4 (from Level 5 in 2018 and Level 8 in 2017).

Commentary continued

In terms of the B-BBEE transaction, 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 15 October 2019, with no forfeiture conditions.

Beneficiaries are entitled to 20% of dividends from the date of allocation. After the 10-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.

Financial position

Rm	30 September 2020[1]	30 September 2019
Assets		
Property, plant, equipment, goodwill and intangible assets	**14 469**	14 322
Right of use assets	**3 755**	
Other non-current assets	**1 670**	1 569
Current assets	**6 050**	5 298
Assets classified as held for sale		226
Total assets	**25 944**	21 415
Equity and liabilities		
Total shareholders' equity	**9 799**	10 235
Borrowings	**7 873**	6 846
Lease liability – long and short term	**4 045**	
Other liabilities	**4 227**	4 334
Total equity and liabilities	**25 944**	21 415

1. September 2020 reported on an IFRS 16 basis; September 2019 not restated.

As at 30 September 2020, total assets increased to R25 944 million from R21 415 million in the previous year. This includes the recognition of a right of use asset of R3 755 million under IFRS 16. The right of use asset is offset by the corresponding recognition of total short and long-term lease liabilities of R4 045 million at the year-end.

Total shareholders' equity decreased to R9 799 million from R10 235 million, largely due to lower operating profit and the repurchase and cancellation of shares during the year.

The Group's return on invested capital amounted to 18.1% at the end of March 2020. In the second half, adverse trading conditions resulted in a decline for the full year to 6.7% from 20.1% last year.

As at 30 September 2020, Group net debt (exclusive of IFRS 16 lease liabilities) increased to R6 423 million (2019: R5 114 million). The net debt to normalised EBITDA ratio of 3.1 times was above the prescribed covenants of 2.75 times and the Group has secured waivers of its covenant testing for the September 2020 and March 2021 periods. EBITDA/net interest was 4.1 times, in line with the prescribed covenants.

The increase in net debt during FY2020 is due to lower operating profit in conjunction with ongoing capital expenditure, tax, the 2019 final dividend payment, and share buybacks effected in November and December 2019. These items amounted to R2 711 million (2019: R4 308 million). This outflow was partially offset by receipt of the proceeds from the sale of the UK properties.

Divisional review

Hospital and emergency services

The segment's revenue declined by 12.7% to R18 250 million (2019: R20 904 million). As previously reported, for the six months ended 31 March 2020, total patient days declined by 2.6%, which comprised a 3.2% decline in acute hospital patient days, offset by a 2.9% growth from Akeso Clinics.

From March 2020, activity in our hospitals was impacted by the various lockdown alert levels as well as the internal measures taken to balance capacity and demand for COVID-19 beds, especially in our critical care units.

The responsible resumption of medically necessary and time-sensitive surgery commenced at the beginning of May 2020 in line with the easing of lockdown levels. Following the further easing of the lockdown in June 2020 to Level 3, hospitalisation of COVID-19 patients increased, as well as admissions of trauma patients and patients requiring urgent surgery. However, during the height of the pandemic in July 2020, we temporarily suspended elective surgery on a case-by-case basis where critical bed capacity was constrained. August and September 2020 were transitional months characterised by the further easing of the national lockdown to Level 2, but offset to some degree by public and school holidays, and a reduction in COVID-19 admissions.

As such total patient days for the full financial year declined by 19.8%, comprising a 19.6% decline in acute hospital patient days and a 21.2% decline in Akeso patient days.

In the first five months of the financial year, our average full week acute hospital occupancy amounted to 62.5% and 67.7% on weekdays. However, full week occupancy levels ended the year at 52.5% (2019: 66.0%), with weekday occupancies of 56.2% compared to 71.6% in the prior year. Acute revenue per patient day increased by 8.7%, primarily due to a higher mix of more severe admissions.

In line with the acute business, trading activity in Akeso was adversely impacted in the second half as lockdown measures and the suspension of group therapy sessions necessitated a shift to outpatient treatment for the majority of patients. Overall occupancy for the year was 55.0% (2019: 71.6%).

The average length of stay for COVID-19 patients requiring admission at the start of the pandemic was 22 days and has now declined to approximately seven days. The blended overall average length of stay for COVID-19 patients was 10.4 days. Overall, we have seen an increase in the total average length of stay at 4.27 days compared with 3.88 days in FY2019.

Normalised EBITDA for the segment decreased by 52.0% to R2 052 million from R4 273 million in 2019, with EBITDA margin contracting to 11.2% from 20.4%. Additional costs of R300 million were incurred as a result of the pandemic. The impact of rental concessions granted in respect

Commentary continued

of doctors' rooms, imaging and diagnostics, coffee shops and retail pharmacies, as well as lost parking revenues amounted to R78 million during FY2020. In addition, during the year R15 million was spent on the CareOn electronic patient record project, R22 million on the development of a data platform and analytics capabilities, while R63 million was invested in new business development initiatives. Normalised EBITDA margins, excluding the estimated impact of IFRS 16 and COVID-19, as well as these central costs were marginally lower than the prior year.

Within hospital and pharmacy operations, EBITDA margins during the pre-COVID-19 period (October 2019 to February 2020) were in line with guidance of 20.5%, assisted by cost-saving initiatives. Full-year EBITDA margins of 12.3%, before CareOn, data enablement and new business development costs, were negatively affected by the loss in activity and subsequent negative operating leverage experienced during the pandemic.

In line with Netcare's strategy of improving asset utilisation, 56 underutilised acute hospital beds were converted to high demand disciplines during the year of which 42 beds converted in the first half of FY2020. Of the 100 beds transferred from Rand Hospital to Netcare Milpark Hospital, 48 beds were opened in mid-September 2019 and the remaining 52 beds were commissioned in January 2020.

Netcare continues to attract specialists, and a net 82 doctors were granted admission rights over the year to support service offerings across the network of hospitals.

Primary care

Effective 1 October 2019, 15 Medicross day clinics were integrated into the Hospital operations. The results of these day clinics are therefore included in Hospital and pharmacy operations. In order to aid comparability, the 2019 results have been restated.

Primary Care revenue decreased by 12.8% to R611 million (2019: R701 million) due to a sharp reduction in patient visits in the second half of FY2020, along with the rationalisation of seven previously loss-making Medicross clinics. Underlying revenue decline (excluding rationalised clinics) amounted to 6.0%. There has been a steady improvement in activity levels since the severe COVID-19 impact experienced in April 2020, and the division turned EBITDA positive from June 2020.

EBITDA reduced to R36 million (2019: R108 million) due to lower activity levels brought about by the pandemic which more than offset the benefits of the clinic rationalisation, while the EBITDA margin contracted to 5.9% (2019: 15.4%) primarily due to the fixed cost component within the cost base.

Strategic update

Globally, the delivery of healthcare is increasingly being transformed by the digitisation of processes and clinical records as well as the intelligent application of data. The COVID-19 pandemic has heightened awareness and demand for access to clinical data across the globe. Netcare's core focus on digital enablement and data analytics was a critical enabler during the pandemic. While the short term operating environment remains unclear, our long-term strategy remains relevant. The strategy appropriately accounts for external trends and shifts in consumer behaviour underpinned by the goal of achieving a sustainable competitive advantage by providing person-centred health and care that is digitally enabled and data-driven.

Digitisation and data enablement

In September 2020, we successfully resumed certain key strategic projects and various person-centred health and care initiatives to enhance our business, particularly the Group-wide digitisation strategy and the core CareOn project – all of which were put on hold during the pandemic. The Group has spent R120 million to date on digitisation initiatives across its entire ecosystem, and plans to spend a further R335 million (including CareOn) over the next two years in completing a Group-wide digital transformation.

The CareOn project aims to implement fully mobile digitised patient and clinical records. Its design and development were completed during August 2019. The solution also includes full digital integration of medical equipment in wards and theatres, pathology laboratories, radiology and blood banks, providing doctors with 24-hour access to full patient records from any location within or outside the hospital. Remote access by clinicians is only available in a handful of hospitals worldwide. The solution is integrated with IBM Watson Micromedex, which allows automated drug dosage and interaction checks to improve medication safety. This initiative is the first of its kind in South Africa, delivering the highest level of medication safety to our patients. The CareOn

project has achieved a number of other 'first in South Africa' accomplishments, including digital e-scripting, the first to be approved by the Pharmacy Council of South Africa, voice-to-text note dictation and handwriting recognition, computerised physician order entry (end to end electronic ordering and receipt of clinical services) and CPD-accredited online training, all in a paperless environment.

The pilot at Netcare Milpark Hospital was successfully launched on 1 September 2019 and further roll-out was postponed due to COVID-19. As the Western Cape recovered sooner from the surge, roll-out to three hospitals in the Western Cape was initiated in September 2020.

The delays due to COVID-19 have resulted in an extension of the project implementation timetable, which has been achieved with no financial penalties. We still anticipate a successful roll out across our entire network of hospitals by the end of 2022. Notably, despite a slight delay, the project remains well within budget. The total capex spend on this project is expected to be R369 million over 10 years, with R34 million being incurred in FY2020.

COVID-19 accelerated the need for telemedicine which enables clinicians to continue providing care and virtual consultations to patients without exposing themselves, their patients and staff to avoidable risks. In a post COVID-19 world, the adoption of telemedicine is likely to grow, and to this end, Netcare has developed an innovative telemedicine solution. The technology employed, Netcare VirtualCare, is accessible through any modern web browser. It allows for a dial-in option for patients who do not have access to data and facilitates integration into the electronic health record systems being rolled out. The solution was deployed during the pandemic in Medicross, to our hospital specialists, Akeso and Netcare Occupational Health. Netcare VirtualCare was awarded second place in the BCX Digital Innovation awards for 2020.

Promoting access to healthcare

In order to promote healthcare access, affordability and inclusion, Netcare has established an Innovative Products division, NetcarePlus, aimed at developing healthcare solutions focused on solving for the needs of households that are employed but do not have adequate healthcare cover. We aim to provide certainty of care in an innovative way by utilising the Netcare ecosystem, as well as a newly created NetcarePlus Trusted Partner network. The launch of our NetcarePlus vouchers in August 2020 has enhanced our reach into this segment of the market, and we expect to launch further innovative healthcare products and solutions during FY2021.

Commentary continued

Expanding the Netcare ecosystem

We have also launched Netcare appointmed™ on a national basis, which is a convenient medical booking service designed to assist with the booking of medical appointments. In addition, we have acquired a 40% stake in ICAS which is a behavioural risk management company that provides a suite of mental health, work-life and wellness services to organisations and their employees on a large scale.

While some of our new initiatives are still in the embryonic stage of development, we are confident that these projects will enhance our core business and seamlessly integrate into our unique ecosystem.

Capital management

In the short term, our focus remains on preserving cash, and we will responsibly resume key capital projects that were postponed in H2 2020. However, our established long term capital management policies remain in place, and we will continue to maintain an optimal capital structure, with a disciplined approach to the allocation and measurement of capital returns. Once the operating environment normalises, we will continue our philosophy of an asset-light strategy, only investing in strategic projects which will drive revenue growth and ensure operational excellence and cost-efficiency.

We will continue to manage the business through the cycle, and future investments will only be made to expand our business when the return exceeds the cost of capital. If attractive opportunities are unavailable, excess capital will be distributed to shareholders in the form of share buybacks or special dividends.

Our overarching capital management policy is to maintain a healthy balance sheet with a safe level of debt and to retain an investment-grade credit rating while reducing the cost of capital. In the short term, our net debt/EBITDA ratio may continue to be impacted by the volatility in case-mix in our acute hospitals. As a precautionary measure, we have extended our waiver on debt covenants to March 2021.

Outlook

As we emerge from the initial COVID-19 surge, it is evident that the virus will remain a threat until an effective vaccine is available. In the meantime, we will have to live with the potential dangers of COVID-19, and the maintenance of non-pharmaceutical measures, such as the wearing of masks, frequent hand sanitising and the practice of social distancing, remain of critical importance.

In line with global trends, a relaxation of lockdown measures and COVID-19 fatigue may result in a second wave of infections. The sudden rise in cases in the Eastern Cape is a sober reminder of this. However, our experience of bed demand during the initial surge and reduced lengths of stay due to more effective treatment modalities, suggest that any potential second wave should not place hospital capacity under constraint. Our digital systems, policies and procedures and changes in ways of working should allow us to continue to operate our facilities without major disruption through a potential second wave. Netcare's preparations position the business well to deal with the impact of further outbreaks and the business has sufficient bed and oxygen capacity, adequate medication and PPE availability, appropriate doctor and nursing staff resources, as well as access to funding. As a result, whilst the demand for, and provision of, healthcare services will remain fluid

over the next few months, we do not foresee wide-scale suspension of elective surgery and activity over the short term.

Nevertheless, over the next six months, hospital occupancy and margins may be impacted by changes in volume and case-mix. This will be determined by the timing and pattern of the COVID-19 recovery, as well as increased costs of risk mitigation measures that are essential in delivering healthcare in these circumstances.

Trading update

In September 2020, we saw the most robust non-COVID-19 activity since the start of the pandemic. A month-on-month increase of 10.8% was reported in acute hospital patient days in October 2020. We continue to see a steady improvement in average acute occupancy levels and our current average weekday occupancy is trending at approximately 57.0%.

We have seen significant improvement in the performance in Akeso since September 2020, and occupancy is currently at 66.0%.

Guidance

COVID-19 and the subsequent response measures have exposed the interconnectedness of the healthcare sector, public policy and the economy. Looking ahead, it is likely that the current economic downturn will continue, which could result in a potential decline in medical scheme membership.

The business is better placed to deal with the impacts of a potential second wave, allowing for a far more measured and nuanced response, which will not require the designation of our entire network for the treatment of COVID-19.

We expect further improvement in activity levels across the first half of FY2021, with patient volumes stabilising at more normalised levels into the second half. In line with improving occupancy levels, we expect EBITDA margins to improve off a low base.

We expect some COVID-19 related costs to continue in FY2021, although this is likely to be a significantly lower percentage of revenue than this year. Furthermore, following the move to lockdown Level 1 and the resultant increased activity, we expect normalisation in parking revenues and rental concessions granted to doctors, pharmacies and other third parties.

The lockdown measures have resulted in significant job losses across South Africa. Although our financial performance has been adversely impacted, we believe that job preservation in South Africa is absolutely critical to support the country's inclusive economic growth strategy and have implemented job preservation strategies across our Group. At the same time, we will continue to manage our cost base with clearly defined targeted efficiency initiatives within this new construct.

Capital expenditure for FY2021 of R1.2 billion is anticipated, including spend of approximately R400 million on the Netcare New Alberton Hospital, R30 million on CareOn, R70 million to upgrade our hospital Wi-Fi and firewall systems, as well as R30 million on the new 36-bed Akeso facility in Richards Bay due to open towards the end of FY2021. An estimated R40 million will be invested during FY2021 in the new 72-bed Akeso facility in Port Elizabeth, which will be completed in September 2022.

Netcare's strategy to deliver a sustainable competitive advantage is firmly back on track and the business will continue to manage its capital structure and allocation decisions in line with its established framework.

Dividend

In light of the ongoing uncertainty, our current focus on cash preservation as well as bank covenant waivers prohibiting dividend payments, the Board has decided not to declare a final dividend.

Acknowledgement and thanks

We are extremely grateful and proud of our team's response and the role that we have played in treating patients during this crisis. We pay tribute to, and thank, our staff and doctors for their unwavering dedication and commitment to treating patients and their consistent daily acts of courage and compassion during this challenging time. On behalf of everyone at Netcare, we express our heartfelt and sincere condolences to the families of our nine doctors and 20 nurses and support staff members lost through the pandemic.

Commentary continued

Change in directorship

Mr David Kneale was appointed as an independent non-executive director of the Board on 1 January 2020 and has been appointed as chairperson of the Remuneration Committee and member of the Audit and Nomination committees.

Mr Norman Weltman retired from the Board of Netcare with effect from 30 September 2020. Norman has been an independent non-executive director of the Board for over 11 years, during which time he successfully served in various capacities, including as chairperson of the Risk Committee and as a member of the Audit, Remuneration, Consistency of Care and Tariff committees. Prior to joining the Board as an independent non-executive director, Norman served for 12 years as an executive director of both Netcare and Clinic Holdings (prior to its acquisition by Netcare). The Board and management of Netcare wish to express their sincere gratitude and heartfelt appreciation to Norman for his invaluable contribution to the business during many years of distinguished service and wish him well in his retirement.

Change in Company Secretary

Following the resignation of Ms Lynelle Bagwandeen, the Board is pleased to announce the appointment of Mr Charles Vikisi as Group Company Secretary and General Counsel with effect from 1 September 2020.

The Board and management of Netcare welcome Mr Kneale and Mr Vikisi and look forward to their significant insights and contributions.

On behalf of the Board

Thevendrie Brewer
Chairperson

Richard Friedland
Chief Executive Officer

Keith Gibson
Chief Financial Officer

Sandton

19 November 2020

Disclaimer

Any forward-looking statements incorporated in these financial results have not been audited or reviewed by our external auditors.

Independent auditor's report on summarised financial statements

To the shareholders of Netcare Limited

Opinion

The summarised consolidated financial statements of Netcare Limited, which comprise the summarised consolidated statement of financial position as at 30 September 2020, the summarised consolidated statement of profit or loss, the summarised consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and related notes, are derived from the audited consolidated financial statements of Netcare Limited for the year ended 30 September 2020.

In our opinion, the accompanying summarised consolidated financial statements are consistent, in all material respects, with the audited consolidated financial statements of Netcare Limited, in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, set out in note 1 to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summary financial statements.

Other Matter

We have not audited future financial performance and expectations by management included in the accompanying summarised consolidated financial statements and accordingly do not express any opinion thereon.

Summarised consolidated Financial Statements

The summarised consolidated financial statements do not contain all the disclosures required by the International Financial Reporting Standards and the requirements of the Companies Act of South Africa as applicable to annual financial statements. Reading the summarised consolidated financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited consolidated financial statements of Netcare Limited and the auditor's report thereon.

The Audited consolidated Financial Statements and Our Report Thereon

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 20 November 2020. That report also includes the communication of other key audit matters as reported in the auditor's report of the audited financial statements.

Directors' Responsibility for the Summarised consolidated Financial Statements

The directors are responsible for the preparation of the summarised consolidated financial statements in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports, set out in note 1 to the summarised consolidated financial statements, and the requirements of the Companies Act of South Africa as applicable to summarised financial statements.

The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council, and to also, as a minimum, contain the information required by IAS 34, Interim Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on whether the summarised consolidated financial statements are consistent, in all material respects, with the consolidated audited financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Deloitte & Touche
Registered Auditors
Per: Graeme Berry
Partner
20 November 2020

5 Magwa Crescent
Waterfall City
Waterfall
2090

Summarised Group statement of profit or loss

for the year ended 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	Notes	**2020**	2019
Revenue		**18 843**	21 589
Cost of sales		**(9 810)**	(10 653)
Gross profit		**9 033**	10 936
Other income – excluding items below		**386**	446
Administrative and other expenses – excluding items below[1]		**(7 752)**	(7 619)
Impairment of financial assets[1]		**(274)**	(123)
Operating profit before items below		**1 393**	3 640
Profit on disposal of investment in associate		**522**	—
Share-based payment expense on B-BBEE transaction		**(348)**	—
Realisation of foreign currency translation reserve		**—**	128
Operating profit	2	**1 567**	3 768
Investment income		**156**	172
Finance costs	3	**(1 031)**	(656)
Other financial losses – net		**(18)**	(2)
Attributable earnings of associates		**20**	29
Attributable earnings of joint ventures		**36**	46
Profit before taxation		**730**	3 357
Taxation	4	**(291)**	(879)
Profit for the year		**439**	2 478
Attributable to:			
Owners of the parent		**392**	2 393
Preference shareholders		**54**	54
Profit attributable to shareholders		**446**	2 447
Non-controlling interest		**(7)**	31
		439	2 478
Cents			
Basic earnings per share		**28.3**	176.7
Diluted earnings per share		**28.1**	175.0
Dividend per share		**—**	111.0

1. *Impairment of financial assets is re-presented on the face of the statement of profit or loss. This is for disclosure comparability and enhancement purposes. The value disclosed in administrative and other expenses in the prior year was reduced as a result.*

Summarised Group statement of comprehensive income

for the year ended 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	2020	2019
Profit for the year	**439**	2 478
Items that will not subsequently be reclassified to profit or loss	**(14)**	66
Remeasurement of defined benefit obligation	**50**	91
Fair value adjustment on equity investments	**(50)**	—
Taxation on items that will not subsequently be reclassified to profit or loss	**(14)**	(25)
Items that may subsequently be reclassified to profit or loss	**(55)**	(161)
Effect of cash flow hedge accounting	**(82)**	(44)
Amortisation of the cash flow hedge accounting reserve	**86**	5
Change in the fair value of cash flow hedges	**(168)**	(49)
Effect of translation of foreign entities	**–**	(1)
Realisation of foreign currency translation reserve	**4**	(128)
Taxation on items that may subsequently be reclassified to profit or loss	**23**	12
Other comprehensive income for the year	**(69)**	(95)
Total comprehensive income for the year	**370**	2 383
Attributable to:		
Owners of the parent	**323**	2 298
Preference shareholders	**54**	54
Non-controlling interest	**(7)**	31
	370	2 383

Summarised Group statement of financial position

at 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	Notes	2020	2019
ASSETS			
Non-current assets			
Property, plant and equipment		**12 665**	12 541
Right of use assets	8	**3 755**	—
Goodwill		**1 606**	1 606
Intangible assets		**198**	175
Equity-accounted investments, loans and receivables	5	**749**	1 024
Financial assets	6	**77**	5
Deferred lease assets		**32**	28
Deferred taxation		**812**	512
Total non-current assets		**19 894**	15 891
Current assets			
Loans and receivables	5	**154**	122
Inventories		**1 206**	564
Trade and other receivables		**3 102**	2 837
Taxation receivable		**138**	43
Cash and cash equivalents		**1 450**	1 732
		6 050	5 298
Assets classified as held for sale		**—**	226
Total current assets		**6 050**	5 524
Total assets		**25 944**	21 415
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital		**4 297**	4 334
Treasury shares		**(3 851)**	(3 853)
Other reserves		**783**	447
Retained earnings		**7 894**	8 611
Equity attributable to owners of the parent		**9 123**	9 539
Preference share capital and premium		**644**	644
Non-controlling interest		**32**	52
Total shareholders' equity		**9 799**	10 235
Non-current liabilities			
Long-term debt	7	**6 761**	5 061
Long-term lease liabilities		**3 546**	—
Financial liabilities	6	**64**	44
Post-employment healthcare benefit obligations		**469**	487
Deferred lease liabilities		**—**	54
Deferred taxation		**288**	238
Total non-current liabilities		**11 128**	5 884
Current liabilities			
Trade and other payables		**3 230**	3 462
Short-term debt	7	**1 108**	1 780
Short-term lease liabilities		**499**	—
Financial liabilities	6	**115**	26
Taxation payable		**61**	23
Bank overdrafts		**4**	5
Total current liabilities		**5 017**	5 296
Total equity and liabilities		**25 944**	21 415

Summarised Group statement of cash flows

for the year ended 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	2020	2019
Cash flows from operating activities		
Cash received from customers	**18 409**	21 890
Cash paid to suppliers and employees	**(16 917)**	(17 002)
Cash generated from operations	**1 492**	4 888
Interest paid on debt	**(580)**	(602)
Interest paid on lease liabilities	**(367)**	—
Taxation paid	**(601)**	(967)
Ordinary dividends paid by subsidiaries	**(11)**	(21)
Ordinary dividends paid	**(860)**	(1 454)
Special dividends paid	**—**	(542)
Preference dividends paid	**(54)**	(54)
Distribution paid to beneficiaries of the HPFL B-BBEE[1] trusts	**(11)**	(26)
Net cash from operating activities	**(992)**	1 222
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(961)**	(1 378)
Additions to intangible assets	**(38)**	(51)
Proceeds on disposal of property, plant and equipment and intangible assets	**38**	193
Proceeds on disposal of investment in associate	**778**	—
Payments for investments and loans	**(4)**	(66)
Interest received	**156**	172
Dividends received	**89**	8
Cash and cash equivalents of businesses deconsolidated	**—**	(3)
Net cash from investing activities	**58**	(1 125)
Cash flows from financing activities		
Proceeds on disposal of treasury shares	**2**	22
Purchase of ordinary shares	**(251)**	(458)
Debt raised	**3 621**	2 748
Debt repaid	**(2 575)**	(2 050)
Acquisition of non-controlling interests	**(2)**	—
Proceeds from issue of shares to non-controlling interests	**—**	3
Payment of principal elements of lease liabilities	**(142)**	—
Net cash from financing activities	**653**	265
Net (decrease)/increase in cash and cash equivalents	**(281)**	362
Cash and cash equivalents at the beginning of the year	**1 727**	1 365
Cash and cash equivalents at the end of the year	**1 446**	1 727
Consisting of:		
Cash on hand and balances with banks	**1 450**	1 732
Bank overdrafts	**(4)**	(5)
	1 446	1 727

1. *Health Partners for Life broad-based black economic empowerment.*

Summarised Group statement of changes in equity

for the year ended 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	Ordinary share capital	Treasury shares	Cash flow hedge accounting reserve
Balance at 1 October 2018	4 391	(3 871)	(15)
Shares purchased and cancelled during the year[1]	(57)	—	—
Sale of treasury shares	—	18	—
Reclassification of reserves	—	—	—
Share-based payment reserve movements	—	—	—
Reclassification of investment fair value reserve to retained earnings	—	—	—
Tax recognised in equity	—	—	—
Preference dividends paid	—	—	—
Ordinary dividends paid	—	—	—
Special dividends paid	—	—	—
Written put option over non-controlling interest	—	—	—
Distributions to beneficiaries of the HPFL B-BBEE[2] trusts	—	—	—
Changes in equity interest in subsidiaries	—	—	—
Total comprehensive income for the year	—	—	(32)
Profit for the year	—	—	—
Other comprehensive income	—	—	(32)
Balance at 1 October 2019	**4 334**	**(3 853)**	**(47)**
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	**—**	**—**	**—**
Distributions to beneficiaries of the HPFL B-BBEE[2] trusts	**—**	**—**	**—**
Changes in equity interest in subsidiaries	**—**	**—**	**—**
Total comprehensive income for the year	**—**	**—**	**(59)**
Profit for the year	**—**	**—**	**—**
Other comprehensive income	**—**	**—**	**(59)**
Balance at 30 September 2020	**4 297**	**(3 851)**	**(106)**

1. *The Group purchased 12.7 million shares (2019: 19.2 million shares) at an average price of R19.68 (2019: R24.11) per share. The shares have subsequently been cancelled and now form part of authorised shares not issued.*
2. *Health Partners for Life Broad-based Black Economic Empowerment.*

Foreign currency translation reserve	Other reserves	Retained earnings	Equity attributable to owners of the parent	Preference share capital and premium	Non-controlling interest	Total share-holders' equity
112	538	8 526	9 681	644	50	10 375
—	—	(401)	(458)	—	—	(458)
—	—	3	21	—	—	21
13	—	(13)	—	—	—	—
—	50	—	50	—	—	50
—	(90)	90	—	—	—	—
—	—	(9)	(9)	—	—	(9)
—	—	—	—	(54)	—	(54)
—	—	(1 454)	(1 454)	—	(21)	(1 475)
—	—	(542)	(542)	—	—	(542)
—	—	(9)	(9)	—	—	(9)
—	—	(30)	(30)	—	—	(30)
—	—	(9)	(9)	—	(8)	(17)
(129)	—	2 459	2 298	54	31	2 383
—	—	2 393	2 393	54	31	2 478
(129)	—	66	(95)	—	—	(95)
(4)	**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)**
4	**—**	**378**	**323**	**54**	**(7)**	**370**
—	**—**	**392**	**392**	**54**	**(7)**	**439**
4	**—**	**(14)**	**(69)**	**—**	**—**	**(69)**
—	**889**	**7 894**	**9 123**	**644**	**32**	**9 799**

Headline earnings

for the year ended 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	2020	2019
Reconciliation of headline earnings		
Profit for the year	**439**	2 478
Adjusted for:		
Dividends paid on shares attributable to the Forfeitable Share Plan and HPFL B-BBEE[1] trust units	**(14)**	(16)
Preference shareholders	**(54)**	(54)
Non-controlling interest	**7**	(31)
Profit for the purposes of basic and diluted earnings per share	**378**	2 377
Adjusted for:		
Net loss on disposal of investments in subsidiaries	**—**	25
Profit on disposal of investment in associate	**(522)**	—
Net loss/(profit) on disposal of property, plant and equipment and intangibles	**8**	(64)
Recognition of impairment of right of use assets	**1**	—
Realisation of foreign currency translation reserve	**4**	(128)
Recognition of impairment of investment in associate	**35**	5
Recognition of impairment of property, plant and equipment	**3**	7
Tax effect of headline adjusting items	**45**	9
Headline (loss)/earnings	**(48)**	**2 231**

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

Headline earnings continued

for the year ended 30 September

Rm	2020	2019
Adjusted headline earnings		
Headline (loss)/earnings	(48)	2 231
Adjusted for:		
Amortisation of cash flow hedge accounting reserve	17	5
De-designation of a portion of a hedging instrument	16	—
Recognition of loan impairment	105	19
Health Market Inquiry	—	34
Share-based payment expense on B-BBEE transaction	348	—
Fair value losses on derivative financial instruments	—	1
Restructure costs incurred by Netcare in respect of BMI Healthcare	1	13
Ineffectiveness losses/(gains) on cash flow hedges	2	(4)
Restructure costs incurred by Hospital division	—	22
Associate restructure costs	4	—
Tax effect of adjusting items	(11)	(19)
Adjusted headline earnings	**434**	2 302
Cents		
Headline (loss)/earnings per share	**(3.6)**	165.9
Diluted headline (loss)/earnings per share	**(3.6)**	164.3
Adjusted headline earnings per share	**32.5**	171.2
Diluted adjusted headline earnings per share	**32.3**	169.5

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 are anti-dilutive in the current year.

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.

Summarised segment report

for the year ended 30 September

September 2020 is reported on an IFRS 16 basis and September 2019 was not restated. Refer to notes 8 and 10.

Rm	Hospital and pharmacy operations	Non-acute services	Hospital and emergency services	Primary Care	Inter-segment elimination[1]	**Total**
30 September 2020						
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**
Share-based payment expense on B-BBEE transaction	**(348)**	**—**	**(348)**	**—**	**—**	**(348)**
Profit on disposal of investment in associate	**522**	**—**	**522**	**—**	**—**	**522**
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.

Hospital and emergency services

This segment is further disaggregated into Hospital and pharmacy operations. It covers our private acute hospital network and non-acute services. The non-acute services include emergency medical services, the operation of private mental health clinics, as well as cancer care services. Effective 1 October 2019, 15 Medicross day clinics were integrated into the Hospital operations. The results of these day clinics are therefore included in Hospital and pharmacy operations. In order to aid comparability, the 2019 segment report has been restated on this same basis.

Primary Care

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

Summarised segment report continued

for the year ended 30 September

Rm	Hospital and pharmacy operations[1]	Non-acute services	Hospital and emergency services	Primary Care	Inter-segment elimination[2]	Total
30 September 2019						
Statement of profit or loss						
Revenue	19 800	1 104	20 904	701	(16)	**21 589**
EBITDA[3] – before item below	4 162	118	4 280	108	—	**4 388**
Depreciation and amortisation	(645)	(58)	(703)	(45)	—	**(748)**
Operating profit – before item below	3 517	60	3 577	63	—	**3 640**
Realisation of foreign currency reserve	128	—	128	—	—	**128**
Operating profit	3 645	60	3 705	63	—	**3 768**
Additional segment information						
Impairment of property, plant and equipment	—	(7)	(7)	—	—	**(7)**

1. EBITDA and operating profit in 2019 are inclusive of UK-related restructure costs amounting to R13 million, Hospital division restructure costs amounting to R22 million, a loss on disposal of a subsidiary amounting to R27 million, and a profit on disposal of property, plant and equipment of R69 million.

2. Relates to revenue earned in the Hospital and emergency services segment.

3. Earnings before interest, tax, depreciation and amortisation.

The 2019 segment report has been restated to reflect the impact of the integration of 15 Medicross day clinics into Hospital and pharmacy operations.

Notes to the summarised consolidated Group financial statements for the year ended 30 September

1. Basis of preparation and accounting policies

The summarised consolidated financial statements for the year ended 30 September 2020 have been prepared in accordance with the Listings Requirements of the JSE Limited, the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the South African Institute of Chartered Accountants Financial Reporting Guidelines as issued by the Accounting Practices Committee, Financial Pronouncements as issued by the Financial Reporting Standards Council, the Companies Act, No. 71 of 2008 and the minimum requirements of International Accounting Standards (IAS) 34: *Interim Financial Reporting*. These summarised consolidated financial statements, and the audited consolidated financial statements from which they have been derived, were compiled under the supervision of Mr KN Gibson (CA)SA, Group Chief Financial Officer.

The accounting policies and methods of computation applied in the preparation of these results are in accordance with IFRS. Aside from the adoption of IFRS 16: *Leases*, detailed in note 8, all policies are consistent in all material respects with those applied in the audited consolidated financial statements for the year ended 30 September 2019.

During the current year, the Group entered into a new B-BBEE share-based payment transaction and disposed of its investment in associate held for sale. Due to the significance of these two transactions both quantitatively and qualitatively, we have presented them separately on the face of the statement of profit or loss, together with the realisation of the foreign currency translation reserve in the prior year.

We believe this presentation is in line with IAS 1: *Presentation of Financial Statements*, which notes that additional line items may be presented in the statement of profit or loss when such presentation is relevant to an understanding of the entity's financial performance.

The external auditor, Deloitte & Touche, has issued its opinion on the Group's consolidated financial statements for the year ended 30 September 2020. The audit was conducted in accordance with International Standards on Auditing. The auditor responsible for the audit is G Berry. An unmodified audit opinion has been issued on the consolidated financial statements. The directors take full responsibility for the preparation of the preliminary summarised consolidated financial statements which have been extracted from and are consistent in all material respects with the Group's consolidated financial statements. A copy of the audit report together with the accompanying consolidated financial statements is available for inspection at the Company's registered office as well as online at **www.netcare.co.za/Netcare-Investor-Relations/Reports/Financial-Results**. The auditor's report does not necessarily cover all the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's work, they should obtain a copy of the auditor's unmodified audit report together with the Group financial information from the Company's registered office. Any reference to future financial performance included in this announcement has not been audited and reported on by the Group's external auditor.

2. Operating profit

Rm	2020	2019
Operating profit	**1 567**	3 768
After including:		
Depreciation and amortisation	**(1 165)**	(748)
Depreciation and amortisation – excluding items below	**(785)**	(748)
Depreciation of right of use assets	**(367)**	—
Amortisation of cash flow hedge accounting reserve	**(13)**	—
Impairment of property, plant and equipment	**(3)**	(7)
Impairment of financial assets	**(274)**	(123)
Movements in expected credit losses and bad debts related to trade and other receivables	**(169)**	(104)
Impairment of loans	**(105)**	(19)
Operating lease charges	**(170)**	(629)
Net (loss)/profit on disposal of property, plant and equipment	**(8)**	64
Share-based payment expense on B-BBEE transaction	**(348)**	—
Profit on disposal of investment in associate	**522**	—

3. Finance costs

Rm	2020	2019
Interest on bank loans and other	**(208)**	(193)
Interest expense on lease liabilities	**(367)**	—
Interest on promissory notes	**(404)**	(409)
Total funding finance costs	**(979)**	(602)
Amortisation of cash flow hedge accounting reserve	**(4)**	
Post-employment benefit plan finance costs	**(48)**	(54)
	(1 031)	(656)

4. Taxation

Rm	2020	2019
South African normal and deferred taxation		
Current year	**(293)**	(875)
Prior years	**7**	15
Capital gains tax	**—**	(9)
	(286)	(869)
Foreign normal and deferred taxation		
Current year	**(5)**	(10)
Total taxation per the statement of profit or loss	**(291)**	(879)

Notes to the summarised consolidated Group financial statements for the year ended 30 September

	Rm	2020	2019
5.	**Equity-accounted investments, loans and receivables**		
	Non-current		
	Associated companies	378	476
	Joint ventures	213	259
	Other loans and receivables	158	289
		749	1 024
	Current		
	Loans and receivables	154	122
		903	1 146

	Rm	Level	2020	2019
6.	**Financial assets/liabilities**			
	Non-derivative financial assets			
	Investment in cell captive	2	37	5
	Investment in equity instruments[1]	3	40	—
	Non-current assets		77	5
	Derivative financial liabilities			
	Interest rate swaps	2	140	31
	Inflation rate swaps	2	29	29
	Written put option over non-controlling interest	3	10	10
			179	70
	Included in:			
	Non-current liabilities		64	44
	Current liabilities		115	26
			179	70

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

Investment in equity instruments

The valuations are based on the 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 the valuation.

Written put option over non-controlling interest

The fair value is driven by the 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. The fair value of the put option is therefore directly impacted by fluctuations in the annual rent of the entity.

6. Financial assets/liabilities continued

Rm	2020 Interest rate swaps	2020 Inflation rate swaps	2020 Total	2019 Interest rate swaps	2019 Inflation rate swaps	2019 Total
Recognised in profit or loss						
De-designation of a portion of a hedging instrument[1]	(16)	—	(16)	—	—	—
Hedge ineffectiveness[1]	(2)	—	(2)	(1)	5	4
Reclassification to profit or loss[2]	(53)	(17)	(70)	—	(5)	(5)
	(71)	(17)	(88)	(1)	—	(1)
Recognised in other comprehensive income						
Fair value movements	160	8	168	42	7	49
Reclassification into profit or loss	(69)	(17)	(86)	—	(5)	(5)
	91	(9)	82	42	2	44
Cash flow hedge reserve						
Gross	122	25	147	31	34	65
Deferred tax	(34)	(7)	(41)	(8)	(10)	(18)
Net	88	18	106	23	24	47

1. Amounts included in other financial losses – net in the statement of profit or loss.
2. Amounts included in interest and depreciation in 2020, and operating lease charges in 2019.

Fair value hierarchy

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

Level 1: Fair value is derived from quoted prices (unadjusted) in active markets for identical instruments.

Level 2: Fair value is derived through the use of valuation techniques based on observable inputs, either directly or indirectly.

Level 3: Fair value is derived through the use of valuation techniques using inputs not based on observable market data.

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

Notes to the summarised consolidated Group financial statements for the year ended 30 September

Rm	2020	2019
7. Debt		
Long-term debt	**6 761**	5 061
Short-term debt	**1 108**	1 780
Total debt	**7 869**	6 841
Comprising:		
Secured liabilities		
Finance leases	**—**	26
Unsecured liabilities		
Bank loans	**2 628**	2 050
Promissory notes and commercial paper in issue	**5 236**	4 761
Other	**5**	4
	7 869	6 841

Maturity Profile[1]

Rm	Total	<1 year	1 – 2 years	2 – 3 years	3 – 4 years	>4 years
30 September 2020	**8 736**	**1 481**	**3 106**	**2 251**	**651**	**1 247**
30 September 2019	8 069	2 304	1 725	1 570	1 871	599

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.

8. Adoption of new accounting standard

The Group has adopted IFRS 16: *Leases*, effective 1 October 2019. As permitted by the standard in the specific transitional provisions, the Group has elected not to restate any comparative information. Accordingly, reclassifications and adjustments arising upon adoption of IFRS 16 have been recognised in the opening balance sheet on 1 October 2019.

Recognition and measurement

Prior to the adoption of IFRS 16, leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease. From 1 October 2019, leases are recognised in the balance sheet as a right of use asset and a corresponding lease liability. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date.

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.

Upon adoption of IFRS 16, the Group recognised and measured lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 October 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 9.36%.

Rm	
Operating lease commitments disclosed as at 30 September 2019[1]	**4 586**
Effect of discounting using the incremental borrowing rate	**(1 425)**
Add: highly probable extension periods	**857**
Add: financial lease liabilities recognised as at 30 September 2019	**18**
Less: short-term leases recognised on a straight-line basis as expense	**(24)**
Less: low-value leases recognised on a straight-line basis as expense	**(8)**
Lease liability recognised as at 1 October 2019	**4 004**

Included in:	**1 October 2019**
Current lease liabilities	**464**
Non-current lease liabilities	**3 540**
	4 004

1. This number has been restated, refer to note 9 for details.

Notes to the summarised consolidated Group financial statements for the year ended 30 September

8. Adoption of new accounting standard continued

Right of use assets were measured at an amount equal to the related lease liability, adjusted by the deferred lease liability relating to the specific lease which had been recognised in the balance sheet as at 30 September 2019 under the principles of IAS 17.

The recognised right of use assets on 1 October 2019 relate to the following type of assets:

	30 September 2020	1 October 2019
Properties	3 661	3 828
Vehicles	44	49
Aircraft	50	55
Total right of use assets	**3 755**	3 932

At 30 September 2019 the Group estimated that a right of use asset and lease liability of between R4.1 and R4.5 billion would be recognised on 1 October 2019, and this range was included in the disclosure contained in note 13 of the annual financial statements for 2019. However, as a result of a change in circumstances at some of the leased sites, management decided to exclude the extension periods included for those contracts, as the Group was no longer considered to be reasonably certain that the extensions would be exercised. As a result, the right of use asset and lease liability brought onto the statement of financial position at 1 October 2019 was lower than anticipated, at R3.9 billion and R4.0 billion respectively.

The adoption of IFRS 16 had an impact on the following statement of financial position items on 1 October 2019:

		Rm
Property, plant and equipment	decreased by	18
Right of use assets	increased by	3 932
Long-term debt	decreased by	15
Short-term debt	decreased by	3
Lease liabilities	increased by	4 004
Deferred lease liabilities	decreased by	51
Current portion of deferred lease liabilities	decreased by	21

Practical expedients applied

In adopting IFRS 16 for the first time, the Group has applied the following practical expedients permitted by the standard:

- The exclusion of initial direct costs for the measurement of the right of use assets at the date of initial application;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease; and
- Reliance on previous assessments on whether leases are onerous.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made under IAS 17 and IFRIC 4: *Determining whether an Arrangement contains a Lease.*

8. Adoption of new accounting standard continued

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.

Maturity analysis of undiscounted lease payments

Rm	Total	<1 year	1 – 5 years	>5 years
Property	13 637	817	2 964	9 856
Vehicles	67	46	21	—
Aircraft	85	59	26	—
Total	13 789	922	3 011	9 856

9. Commitments

Rm	2020	2019
Capital expenditure commitments	1 402	1 990
Authorised and contracted for		
Land and buildings	395	73
Plant and equipment	4	5
Medical equipment	21	35
Other (including furniture and fittings)	3	15
Intangible assets	7	4
Equity investments	130	—
Authorised but not yet contracted for		
Land and buildings	295	858
Plant and equipment	73	117
Medical equipment	222	371
Other (including furniture and fittings)	223	323
Intangible assets	29	189
Operating lease commitments restatement[1]		
As reported	4	2 821
Adjustment	—	1 765
Lease commitments[2]	4	4 586

1. *In the current year, it was determined that the 2019 commitments were erroneously understated due to the inadvertent omission of certain leases. Management has restated the comparative 2019 operating lease commitments to correctly reflect the complete balances.*
2. *Short-term lease commitments disclosed in the current year in accordance with IFRS 16.*

Notes to the summarised consolidated Group financial statements for the year ended 30 September

10. Pro forma financial information

Information excluding the impact of IFRS 16 presented in the summarised consolidated financial statements constitutes pro forma financial information.

Summarised statement of profit or loss and key metrics

Rm	Reviewed 30 September 2020 As reported	Reviewed Indicative IFRS 16 impact	Reviewed 30 September 2020 Indicative pre-IFRS 16 result	30 September 2019[1]	% change
EBITDA	2 558	(470)	2 088	4 381	(52.3)
Hospital and emergency services	2 465	(413)	2 052	4 273	(52.0)
Primary Care	93	(57)	36	108	(66.7)
Non-trading items	—	—	—	7	
Reported EBITDA	2 558	(470)	2 088	4 388	(52.4)
Depreciation and amortisation	(1 165)	380	(785)	(748)	(4.9)
Operating profit	1 393	(90)	1 303	3 640	(64.2)
Hospital and emergency services	1 403	(83)	1 320	3 577	(63.1)
Primary Care	(10)	(7)	(17)	63	(127.0)
Investment income	156	—	156	172	
Finance costs	(1 031)	371	(660)	(656)	(0.6)
Other financial losses – net	(18)	—	(18)	(2)	
Attributable earnings of associates and joint ventures	56	—	56	75	
Profit before taxation	556	281	837	3 229	(74.1)
Taxation	(243)	(79)	(322)	(879)	63.4
Profit for the year before exceptional items	313	202	515	2 350	(78.1)
Exceptional items – net of taxation:					
Profit on disposal of associate	474	—	474	—	
Share-based payment expense on B-BBEE transaction	(348)	—	(348)	—	
Realisation of foreign currency translation reserve	—	—	—	128	
Profit for the year	439	202	641	2 478	(74.1)
Cents					
Earnings per share	28.3	15.1	43.4	176.7	(75.4)
Diluted earnings per share	28.1	15.0	43.1	175.0	(75.4)
Headline (loss)/earnings per share	(3.6)	15.1	11.5	165.9	(93.1)
Diluted headline (loss)/earnings per share	(3.6)	15.0	11.4	164.3	(93.1)
Adjusted headline earnings per share	32.5	15.1	47.6	171.2	(72.2)
Diluted adjusted headline earnings per share	32.3	15.0	47.3	169.5	(72.1)

1. *Segmental split restated to reflect the integration of 15 Medicross day clinics into Hospital and emergency services.*

10. Pro forma financial information continued

	Reviewed		
	30 September 2020 As reported	**30 September 2020 Indicative pre-IFRS 16 result**	30 September 2019[1]
Key metrics			
EBITDA margin (%)	**13.6**	**11.1**	20.3
Hospital and emergency services	**13.5**	**11.2**	20.4
Primary Care	**15.2**	**5.9**	15.4
Operating profit margin (%)	**7.4**	**6.9**	16.9
ROIC (%)	**5.6**	**6.7**	20.1
Net debt to EBITDA (times)	**2.5**	**3.1**	1.2
EBITDA/net interest (times)	**2.9**	**4.1**	9.1
Interest cover (times)	**1.6**	**2.6**	7.5

1. Segmental split restated to reflect the integration of 15 Medicross day clinics into Hospital and emergency services.

Notes

1. The pro forma financial information, which is the responsibility of the Group's directors, has been presented for illustrative purposes only and is consistent with the prior reporting period. The pro forma financial information is presented in accordance with the JSE Listings Requirements and the SAICA Guide on Pro Forma Financial Information.
2. The accounting policies applied in the preparation of these pro forma results are consistent in all material respects with those applied in the audited financial statements for the year ended 30 September 2020.
3. The adjustments are calculated with reference to actual depreciation and financial expenses and estimated operating lease charges, on a pre and post IFRS 16 basis, which have been extracted from the Group's accounting records, and an effective tax rate of 28%, all attributable to the appropriate segments. The adjustments are of a continuing nature.
4. The pro forma financial information is derived by excluding IFRS 16 adjustments and including IAS 17 adjustments. IFRS 16 adjustments relating to depreciation of right of use assets of R380 million have been reversed and financial expenses of R371 million relating to the amortisation of lease liabilities have been reversed. Straight-lined operating lease charges of R470 million have been included to reflect the accounting for leases under IAS 17, had the standard still been in effect from 1 October 2019. This information is reflected in the above column headed "Indicative IFRS 16 impact".
5. The calculation of earnings per share, headline earnings per share, adjusted headline earnings per share and diluted adjusted headline earnings per share for the pro forma information is based on the weighted average number of shares in issue at 30 September 2020.
6. Accordingly, because of its nature, the pro forma financial information may not fairly present the Group's financial position, results of operations or cash flows.
7. A specialised review of the pro forma financial information has been performed and reported on by the Group's external auditors. A copy of the unmodified independent reporting accountant's assurance report on the compilation of the pro forma financial information is available for inspection at the Company's registered office, as well as online at **www.netcare.co.za/Netcare-Investor-Relations/Reports/Financial-Results**.

Notes to the summarised consolidated Group financial statements for the year ended 30 September

	Rm	2020	2019
11.	**Contingent liabilities**		
	Guarantee covering the obligation of an associate company	11	22

12. 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.

COVID-19 has had a significant negative impact on the Group's performance for the current financial year. However, Netcare remains in a healthy financial position with acceptable levels of gearing as reflected by its net debt to EBITDA coverage of 3.1 times (pre-IFRS 16) at 30 September 2020. Available committed undrawn facilities amount to R4.2 billion which will ensure the availability of liquidity for the foreseeable future. Netcare has secured a waiver of its covenant testing for the September 2020 period as well as for the March 2021 period. The budgets prepared for the 2021 and 2022 years indicate a recovery from the impact of COVID-19 during the first half of 2021, and an improved second half with no indicators of a covenant breach at September 2021. On this basis the Board is confident in the Group's ability to continue as a going concern for the foreseeable future.

13. Significant transactions

Profit on disposal of investment in associate

The disposal of the GHG PropCo 2 investment in associate was finalised during the year and proceeds of R778 million were received in September 2020. As part of the transaction additional legal costs were provided for amounting to R30 million, resulting in a net profit on disposal of R522 million (R474 million post-tax). This profit has been recorded in the statement of profit or loss for the year.

Share-based payment expense on B-BBEE transaction

On 15 October 2019, Netcare approved a further allocation of 61 110 000 previously unallocated Netcare shares to 20 370 Netcare employees. A once-off, non-cash IFRS 2 charge of R348 million has been recognised relating to this allocation.

14. Events after the reporting period

Subsequent to year end, a decision was taken to dispose of the Ceres Hospital property, plant and equipment, consisting of land and buildings, and various moveable assets, mostly medical equipment (included in Hospital and pharmacy operations). The Group owns 99.56% of the shares in Ceres Hospital Limited, and it is the intention to wind up the legal entity once the assets are sold.

An offer has been received, and is currently being considered. A due diligence will be performed before the sale can be finalised, but this is not unusual for a transaction of this nature, and is not expected to prolong the sale process beyond the next 12 months.

The directors are not aware of any other matters or circumstances arising since the end of the financial year, not otherwise dealt with in the Group's annual financial statements, which significantly affect the financial position at 30 September 2020 or the results of its operations or cash flows for the year then ended.

Salient features

	2020	2019
Share statistics		
Ordinary shares		
Shares in issue (million)	**1 439**	1 452
Shares in issue net of treasury shares (million)	**1 335**	1 345
Weighted average number of shares (million)	**1 336**	1 345
Diluted weighted average number of shares (million)	**1 343**	1 358
Market price per share (cents)	**1 292**	1 755

Corporate information

Netcare Limited
Registration number: 1996/008242/06
(Incorporated in the Republic of South Africa)
JSE ordinary share code: NTC
ISIN: ZAE000011953
JSE preference share code: NTCP
ISIN: ZAE000081121
(Netcare or the Company)

Registered office
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KN Gibson (Chief Financial Officer)

Non-executive directors
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L Human, D Kneale, MJ Kuscus, KD Moroka,
N Weltman

Company Secretary
Charles Vikisi

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Disclaimer

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

Any forward-looking information contained in this announcement/presentation has not been reviewed or reported on by the company’s external auditors.

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

The normalised information has been prepared for illustrative purposes only, is the responsibility of the directors, has not been reviewed or reported on by the auditors and, because of its nature, may not fairly represent Netcare’s financial position.

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