NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 SEPTEMBER 2019

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS

1.1 Basis of preparation

The Group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of Life Healthcare Group Holdings Limited, its subsidiaries, associates and joint ventures, and have been prepared on a historical cost basis, unless otherwise stated.

Basis of preparation

Prepared in accordance with:

International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective for the Group's financial year, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council.	JSE Listings Requirements	South African Companies Act, 71 of 2008 (as amended)	Going concern principles

Presentation currency

South African rand

Rounding principles

Rounded to the nearest million, unless otherwise stated. The Group has a policy of rounding in increments of R500 000. Amounts less than R500 000 will therefore round down to Rnil and are presented as a dash.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from translation of monetary assets and liabilities denominated in foreign currencies at reporting date closing rates are recognised in profit or loss.

Foreign exchange gains and losses are deferred in equity if they relate to qualifying cash flow hedges or are attributable to part of the net investment in a foreign operation.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

Foreign exchange gains and losses that relate to borrowings are presented in the statement of profit or loss, within finance costs. All other foreign exchange gains or losses are presented in the statement of profit or loss on a net basis within other income/(expenses).

1.2 Critical judgements, accounting estimates and assumptions

The preparation of the annual financial statements requires the use of critical accounting estimates and assumptions (refer 1.2.2) and requires management to exercise judgements (refer 1.2.1) in the process of applying the Group's accounting policies. Estimates, assumptions and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

1.2 Critical judgements, accounting estimates and assumptions continued

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. A description of the accounting estimates, assumptions and judgements that were critical to preparing specific financial statement items as well as the processes employed to do so, are set out as follows:

1.2.1 Critical judgements

Group accounting

Factors considered to determine whether the Group has control

The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has less than 50% interest in a number of southern African companies. An assessment is made as to whether or not the Group has control. It was concluded that the Group has control over these southern African companies through a vertical structure or through management control. Additional facts and circumstances also considered in assessing control over an entity include:

- rights arising from contractual agreements; and
- the Group's voting rights and potential voting rights.

The Group reassesses whether or not it controls an entity, when the facts and circumstances indicate that a change to the elements of control exist.

Non-financial assets

Goodwill

The level at which management monitors goodwill for impairment testing as well as determining the allocation of goodwill to the different cash-generating units (CGUs) for impairment testing require the use of judgement.

Goodwill is tested for impairment annually or when there is an indication of impairment.

At acquisition date, goodwill is allocated to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. CGUs are defined as individual hospitals and healthcare services operating units in southern Africa and Poland. CGUs for Alliance Medical Group Limited (Alliance Medical) are defined as the Alliance Medical Group, and as individual operating units acquired subsequently. The allocation of goodwill to the different CGUs is done based on the expected benefit arising from synergies due to the business combinations.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of the non-controlling interest over the net identifiable assets acquired, and liabilities and contingent liabilities assumed.

The original goodwill and intangible assets were allocated to the various CGUs for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill and intangibles arose. Goodwill and intangibles arising from subsequent additions are allocated to the specific CGUs.

Refer note 11.

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

1.2 Critical judgements, accounting estimates and assumptions continued

1.2.1 Critical judgements continued

Other operating assets

Useful lives, residual values and impairment

Useful lives	The Group depreciates or amortises its assets over their estimated useful lives. The useful lives of assets are based on historic performance as well as expectations about future use and therefore requires a degree of judgement to be applied. The actual lives of these assets can vary depending on a variety of factors, including technological innovation, product lifecycles and maintenance programmes. The useful lives are reviewed at each reporting date.
Residual values	Judgement is applied when determining the residual values for property, plant and equipment and intangible assets. When determining the residual value for property, plant and equipment, the following factors are taken into account: ● External residual value information ● Internal technical assessments for complex medical equipment The residual values are reviewed at each reporting date.
Impairment	The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In the event of contractual obligations in terms of which a termination consideration is payable to the Group, a residual value will be applied to the intangible asset.

Statement of financial position	Statement of profit or loss and other comprehensive income	Estimated useful lives		Impairment indicators
		Item	**Average useful life**	**External sources of information:** ● Significant adverse changes that have taken place or are expected in the near future in the technological, market, economic or legal environment in which the Group operates ● Increases in interest rates or other market rates of return that may materially affect the discount rate used in calculating the asset's recoverable amount ● The carrying amount of the Group's net assets exceeds the Group's market capitalisation **Internal sources of information:** ● Obsolescence or physical damage affecting the asset ● Idle or unutilised assets ● Plans to discontinue or restructure the operations to which the asset belongs or the asset's disposal ● Significant decline in management's forecasts of future net cash inflows
Intangible assets	Amortisation	Customer relations	10 – 15 years	
		Hospital licences		
		Brand name	12 years	
		Product development	Over the life of the relevant patent period	
		Computer software	3 – 20 years	
		Other intangible assets	Duration of the respective agreements	
Property, plant and equipment	Depreciation	Land	Not depreciable	
		Assets under construction		
		Buildings – owned	40 – 50 years	
		Medical equipment	3 – 25 years	
		Other property, plant and equipment – owned		
		Motor vehicles	3 – 8 years	
		Leased: ● Buildings ● Other property, plant and equipment ● Improvements to leased assets	Shorter of useful life or lease term	

Refer note 10 and 11.

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

1.2 Critical judgements, accounting estimates and assumptions continued

1.2.1 Critical judgements continued

Financial instruments

Impairment of financial assets (judgement applied from 1 October 2018)

Trade receivables

The Group uses a provision matrix to calculate expected credit losses (ECLs) for trade receivables.

The matrix is based on days past due for groupings of various customer segments that have similar loss patterns (mainly by customer type).

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history and existing market conditions, as well as forward-looking estimates at the end of each reporting period.

The ECLs raised during the year have been included as a separate line item in the statement of profit or loss and other comprehensive income.

Refer note 16.

Cash and cash equivalents and other assets

While the above balances are also subject to the impairment requirements of IFRS 9, the identified impairment loss was negligible. The provision was calculated using a simplification of the general provision method.

Information regarding the ECLs is disclosed in note 31 and Annexure A "significant accounting policies" – section 1.11 "financial instruments".

Impairment of financial assets (judgement applied before 1 October 2018)

The Group assessed at each reporting date whether there is objective evidence that a financial asset or a class of financial assets is impaired. The Group collects deposits for private market customers where possible and raises a provision for the balance of long-outstanding trade receivables where it considers the recoverability to be doubtful. A degree of judgement is applied when considering whether a trade receivable is recoverable or not.

The following factors were taken into account when considering whether a trade receivable is impaired:

- The customer has defaulted on their payments due
- The history of the specific customer with the Group
- Indications of financial difficulties of the specific customer
- Credit terms specific to the customer
- General economic conditions

1.2.2 Critical accounting estimates and assumptions

Group accounting

Fair value determination in business combinations

Intangible assets are determined during the fair value exercise, using critical accounting estimates and assumptions in accordance with IFRS.

The Group makes use of various valuation methodologies in determining the fair values of assets acquired and liabilities assumed in a business combination, including the use of reputable independent valuers. Valuations are inherently subjective and therefore the determination of the fair values of the assets, liabilities and contingent liabilities requires the use of estimates and assumptions. When the accounting for a business combination can only be determined provisionally at the date of reporting, provisional values are used. These provisional values are adjusted once the initial accounting has been completed, which must be within 12 months from the date of acquisition, by retrospectively adjusting the fair values of the net identifiable assets acquired and goodwill. In certain circumstances the purchase consideration includes contingent consideration. The calculation of contingent consideration requires the use of estimates and assumptions. This includes estimates and assumptions on future cash flows as well as determining an appropriate discount rate. Refer note 26.

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

1.2 Critical judgements, accounting estimates and assumptions continued

1.2.2 Critical accounting estimates and assumptions continued

Financial instruments

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. Refer note 23.

Non-financial assets

Impairment – Goodwill

The recoverable amounts of CGUs have been determined based on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates. An impairment loss is recognised for CGUs if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order: first, to reduce the carrying amount of any goodwill allocated to the CGU and then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit. The key assumptions used in the value-in-use calculations were as follows:

	Southern Africa		Poland	
	2019 %	2018 %	**2019 %**	2018 %
Growth rate in activities	**0.0 – 2.0**	0.0 – 4.0	**2.5 – 6.3**	6.3 – 6.9
Average discount rate	**12.25**	13.40	**7.60**	8.20
Tariff and inflation increases	**0.0 – 5.5**	0.0 – 6.0	**2.5 – 3.0**	1.8 – 2.9
Terminal growth rate	**1.50**	1.50	**2.6 – 3.0**	3.5-4.0

Alliance Medical operates in the United Kingdom and various European territories, and the territories' growth rates differ. The growth rates assumed are a combination of tariff increases/decreases as well as volume increases. The tariff and volume assumptions are also different for each modality (diagnostic imaging (DI), molecular imaging (MI) and radiopharmacy).

	Alliance Medical	
	2019 %	2018 %
Growth rate in activities (across all markets)	**0.0 – 13.0**	0.0 – 14.0
Tariff adjustment (across all markets)	**(5.0) – 1.5**	(0.3) – 3.0
Cost inflation (across all markets)	**1.6 – 5.0**	2.0 – 5.0
Average discount rate	**6.70**	6.60
Terminal growth rate	**1.50**	1.50

The value-in-use calculations were determined by discounting the expected future cash flows over a period of five years.

The discount rates used are pre-tax and reflect the specific risks relating to the industry and the countries in which they operate. The growth rate in activities and revenue is based on historical experience, capacity availability and the expected developments in the market. Tariff and inflation rates are based on latest available economic forecasts and management's expectations of the outcome of annual tariff negotiations.

Refer note 11.

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

1.2 Critical judgements, accounting estimates and assumptions continued

1.2.2 Critical accounting estimates and assumptions continued

Non-financial assets continued

Impairment – Goodwill continued

Sensitivity analysis

For all territories, the assumption that has the most significant impact on the value-in-use calculation is the average discount rate.

- If the average discount rate for southern Africa increases to 13.54% the first CGU's carrying amount will exceed its recoverable amount.
- If the average discount rate for Alliance Medical increases to 8.16% the headroom will reduce to nil.
- If the average discount rate for Poland increases to 8.60%, the impairment will increase from R125 million to R151 million.

Employee benefits

Defined benefit plans

Determining the present value of the defined benefit obligation	The present value of the defined benefit obligations is discounted using appropriate interest rates. The cost of providing the benefits is determined using the projected unit credit method. Refer note 13.

Long-term incentive plans

Determining the fair value

Long-term incentive scheme effective from 2019: 1. Southern Africa – equity-settled shared-based payments 2. International – cash-settled share-based payments	The fair value of awards granted during the period was determined using risk-neutral valuation principles. This methodology takes into consideration the number of active awards, the Life Healthcare Group Holdings Limited (Life Healthcare) share price, expected dividends over the vesting period, expected forfeiture rates and the expected vesting of the awards based on performance conditions. Vesting in terms of this scheme takes place in three years from allocation.

Refer note 20 and Annexure A under 1.2 – Share-based payments.

The key assumptions used in the model were as follows:

	2019	2018
Average discount rate (WACC)	**12.4%**	n/a[1]
Average consumer price index (CPI)	**4.5%**	
Life core purposes	**100% achievement**	

[1] No allocation was granted in the prior year, and therefore no valuation was performed.

Determining the fair value: Cash-settled share-based payments

Long-term incentive scheme (Alliance Medical)	The fair value of the C-shares liability was determined using the Monte Carlo simulation model. Volatility is measured using an equally weighted average volatility estimate, over a period of five years. As Alliance Medical is an unlisted entity, entities within an index tracker basket were named as suitable proxies in calculating a suitable volatility input.

1. BASIS OF PREPARATION, CRITICAL JUDGEMENTS AND ACCOUNTING ESTIMATES AND ASSUMPTIONS continued

1.2 Critical judgements, accounting estimates and assumptions continued

1.2.2 Critical accounting estimates and assumptions continued

Employee benefits continued

Long-term incentive plans continued

Determining the fair value: Cash settled share-based payments continued

The key assumptions used in the model were as follows:

	2019	2018
Initial investment (GBP'm)	**573**	573
Equity value (GBP'm)[1]	**282**	509
Risk-free rate	**0.35%**	0.95%
Volatility input	**35.00%**	30.00%
Term to maturity	**2 years**	3 years

Sensitivity analysis

The potential increase in the fair value of the options when:	R'm	R'm
The volatility input increases by 5%	**2**	9
The equity value increases by 20%	**6**	43

[1] *The equity value is calculated based on an index mean multiple derived from a basket of companies as well as the equity value impacted by normalised EBITDA and net debt movements. Different methodologies are used for impairment considerations (in terms of IFRS).*

Refer notes 20 and 22.

Other

Taxation

The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income taxes necessarily involves a degree of estimation and judgement.

Current and deferred tax calculations have been determined on the basis of prior year assessed computation methodologies adjusted for changes in taxation legislation and interpretation in the year. No significant new transactions, other than acquisitions made by Alliance Medical, that require specific additional estimates or judgements have been entered into in the current year.

The Group recognises the future benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of the deferred income tax assets requires the Group to make estimates related to expectations in future taxable income. Estimates of future taxable income are based on forecast cash flows from operations, assumptions regarding economic growth, interest rates, inflation rates and the application of existing tax laws. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the deferred tax assets recorded at the reporting date could be impacted. The deferred tax asset is reviewed at the end of the reporting period and adjusted if required. Additionally future changes in tax laws could limit the ability of the Group to obtain tax deductions in future periods. Refer note 14.

Insurance provision

In the ordinary course of business the Group, from time to time, receives potential litigation and claims. Such claims are assessed by management and legal counsel and dealt with on a case-by-case basis taking into consideration applicable excess levels per claim and external legal advice on the merits and probability of the claim. The provision is discounted at a pre-tax average cost of debt rate where applicable.