NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 30 September 2020

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

The Group performs regular assessments on the going concern status of the Group. These assessments take into consideration:

- current solvency of the Group;
- current liquidity position;
- available committed and uncommitted bank facilities;
- cash commitments for the next 12 months;
- bank covenants; and
- debt maturities.

As part of the assessments the board of directors has reviewed the Group budgets, forecasts, available cash resources and unutilised facilities as well as the debt maturity profile. The forecasts for the Group have been prepared, covering its future performance, capital and liquidity for a period of 12 months from the date of approval of these consolidated financial statements including performing sensitivity analyses. The expected future cash flows were adjusted to reflect the best estimate of the short and longer-term impact of the COVID-19 pandemic (the pandemic).

To ensure the Group has sufficient cash reserves, in addition to securing additional bank facilities, suspending Group dividend payments (interim and final) and deferring capex projects, management has implemented a number of mitigating actions which include cost and cash preservation levers across the Group's operations.

The Group successfully refinanced its term debt in the international operations during March 2020 and extended the debt maturities. The Group is in a strong financial position with net debt to normalised EBITDA as at 30 September 2020 at 2.96 times (2019: 1.96 times). Given the significant uncertainty caused by the pandemic, the Group pre-emptively negotiated amended bank covenants for the period up to 31 March 2021 (refer note 31). In addition, banking facilities have been increased and the Group's committed undrawn bank facilities as at 30 September 2020 are R6.3 billion (refer note 20).

The Group's assessments and sensitivity analysis show that the Group has sufficient accessible capital and liquidity to continue to meet its obligations as they fall due and as a result it is appropriate to prepare these consolidated financial statements on a going concern basis.

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.

Pro forma information

To provide a more meaningful assessment of the Group's performance for the year, pro forma information has been included. Pro forma information includes IFRS 16 *Leases* financial information that represents the impact on FY2020 as if IFRS 16 had not been applied at 1 October 2019. The pro forma financial information is the responsibility of the Group's directors. Pro forma financial information is presented for illustrative purposes only. Because of its nature, the pro forma financial information may not fairly present the Group's financial position, results of operations, changes in equity or cash flows for the year.

The pro forma information is not an IFRS requirement, nor a JSE Listings Requirement. The Group's external auditor, Deloitte, has reviewed the pro forma information. Their independent reporting accountant's assurance report on the compilation of the pro forma financial information is presented on page 14.

Refer note 9.

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

1.1 Basis of preparation continued

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 and loss.

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

1.1.1 Outbreak of the pandemic and the impact thereof

On 30 January 2020, the World Health Organization announced the outbreak of COVID-19 as a world health emergency of international concern, and on 11 March 2020 the outbreak was classified as a global pandemic. All countries in which the Group operates have experienced similar lockdown restrictions, country-specific self-isolation and social distancing guidelines.

Although the business operations of the Group continued during the pandemic, the pandemic had a significant impact on the financial results of the Group. The impact of the pandemic varied across the Group's geographic regions and business lines due to the timing of the spread of the disease and the responses of the various governments.

Southern Africa

The southern Africa business performed well up to mid-March 2020 but saw significant reduction in hospital admissions following the announcement of the national lockdown during March 2020. The southern African operation experienced its lowest monthly occupancy in April 2020. The Group has seen good recovery since May 2020 in medically necessary procedures in southern Africa.

International

The Alliance Medical Group Limited (Alliance Medical) diagnostic imaging business experienced significant reductions in volumes from mid-March 2020 to mid-May 2020 across all its major geographies. The reduction in volumes was due to national healthcare systems prioritising urgent and emergency cases as well as country-specific self-isolation and social distancing guidelines, resulting in a significant reduction in patient referrals, an increase in patient cancellations and non-attendance for appointments.

The increase, however, in scan volumes across all Alliance Medical businesses, since the gradual easing of lockdowns in Europe from May 2020, has been encouraging.

Impact on the annual financial statements

The Group assessed the impact of the pandemic on the annual financial statements. The significant areas impacted are:

Financial performance

The pandemic had a significant impact on the Group's financial performance and cash flows during the year, resulting in lower revenue due to the pandemic negatively impacting activities and/or scan volumes from February 2020. As a large percentage of costs are fixed, the decline in activities and/or scan volumes due to the pandemic had a direct impact on Group normalised EBITDA[1] and the Group normalised EBITDA margin[1]. The largest expense to the Group is employee costs: the Group decided not to retrench or cut salaries during the current year as management decided to protect the health, safety and job security of our employees in the short-term. Additional costs associated with the pandemic further negatively impacted our results.

Within our Alliance Medical business, we delivered a number of services to support governments in their response to the pandemic, such as COVID-19 testing in Italy and the delivery of a dedicated mobile computerised tomography service (CT) for up to 16 units in England, which continues into FY2021. This contributed positively at a revenue level to compensate for the reduction in scan volumes.

The Group introduced cash preservation levers to manage liquidity. This was done through continuous cash forecasting, adapting and implementing operational controls, limiting capital expenditure without compromising patient safety, suspending discretionary operational expenses, suspending dividends and deferring management bonuses.

[1] Non-IFRS measure.

NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2020

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

1.1.1 Outbreak of the pandemic and the impact thereof continued

Impact on the annual financial statements continued

Impairment of goodwill and intangible assets

The pandemic has a likely impact on future cash flows, activities, scan volumes and normalised EBITDA margins. The Group tested all cash-generating units (CGUs) for impairments by calculating the recoverable amounts and comparing these to the carrying amounts of the CGUs. The expected future budgeted and forecasted cash flows were adjusted to reflect the best estimate of the short and longer-term impact of the pandemic.

No impairments were recognised as a result of the pandemic.

Impairment of trade receivables

The Group uses a provision matrix to calculate expected credit losses (ECLs) for trade receivables. Forward-looking information included the market impact of the pandemic by adjusting the credit risk of receivables for macro-economic conditions that impact credit risk.

The economies in which the Group operate have been impacted by the pandemic which, together with the sovereign ratings downgrade by Moody's Investors Service in South Africa, has negatively impacted the ECL rates across the Group during the year ended 30 September 2020. The Group recognised an additional R186 million ECL provision during the current year.

1.1.2 Cyber-attack on southern Africa IT infrastructure

During the current year, the Group's southern African operations were a victim of a criminal cyber-attack on its information technology (IT) infrastructure. In response, the Group immediately took its systems offline, in order to actively contain the attack, and switched to manual processes and procedures. Although the care of patients was not impacted, the Group was unable to issue bills for a period of around 45 days. The billing backlog was resolved by end August 2020 and most of the outstanding accounts were collected by end September 2020. The incident also affected admissions systems, business processing systems and email servers. The Group's IT systems were fully restored by the end of September 2020.

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.

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.

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

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 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 are defined as the initial 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.

The pandemic has a likely impact on future cash flows, activities, scan volumes and normalised EBITDA margins. The periods of recovery from the pandemic are uncertain and requires a level of judgement. The pandemic is considered to be a temporary adverse event. The Group's forecasts assumed that the impact of the pandemic will continue to be felt during H1 FY2021 but we expect improvement in activities and scan volumes in H2 FY2021.

Refer note 11.

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 life cycles and maintenance programmes. The useful lives are reviewed at each reporting date to assess whether useful life estimates need to be adjusted. There were no changes to the estimated useful lives in the current year.
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.

NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2020

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 continued

Useful lives, residual values and impairment continued

Statement of financial position	Statement of profit or loss and other comprehensive income	Estimated useful lives		Impairment indicators
		Item	**Average useful life**	
Intangible assets	Amortisation	Customer relations	10 – 15 years	**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
		Hospital licences		
		Brand name	12 years	
		Intellectual property	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 equipment – owned		
		Motor vehicles	3 – 8 years	
		Improvements to right-of-use assets	Shorter of useful life or lease term	
		Right-of-use assets ■ Land and buildings ■ Medical equipment ■ Motor vehicles and other equipment		

Financial instruments

Impairment of financial assets

Trade receivables

The Group uses a provision matrix to calculate 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 trade receivables 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 Group makes use of a credit agency model and analytics to assist in determining the forward-looking impact on ECL.

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 continued

Impairment of financial assets continued

Trade receivables continued

The southern Africa ECL model's largest assumption is that the default definition for each category will be 90 days from the end of the month of the discharge date.

The forward-looking indicators in the southern Africa ECL calculations apply the baseline, scenario 1 and scenario 3 Global Correlation Model (GCorr) scenarios weighted 40%, 30%, 30% (these scenarios have been adjusted to reflect the change in risk due to the pandemic).

Under all three scenarios, southern Africa will experience a contraction of gross domestic product (GDP). The 4th quarter 2019 GDP level (the level prior to the impact of the pandemic) is achieved between the 4th quarter of 2021 and the 4th quarter of 2024 under the three scenarios.

The other macro-economic forecasts also negatively affecting these scenarios are those of forecasted deteriorating exchange rates and the increase in unemployment rates as a result of the pandemic.

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.

The impact of the pandemic was considered. Refer 1.1.1.

Information regarding the ECLs is disclosed in note 16, note 31 and annexure A – significant accounting policies (section 1.11 financial instruments).

Lease accounting

Extension options

Extension options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension options held are exercisable only by the Group and not by the respective lessor.

Consideration of whether extension options should be included in determining the lease term is a critical judgement. In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. The Group has assessed that it is reasonably certain that all extension options on property leases for hospitals will be exercised and therefore has included all renewal periods as part of the lease term as hospital buildings are integral to the Group's operations and cost of relocation will be significant. Due to the medical equipment being highly technical in nature, and the possibility that new technology may be developed, extension options have not been taken into account for medical equipment.

As at 30 September 2020, potential future cash outflows of R65 million (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

1.2.2 Critical accounting estimates and assumptions

Business combinations

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.

The largest contingent consideration payable (R629 million) relates to a potential amount payable to the previous owners of Life Molecular Imaging (LMI), acquired during June 2018.

The contingent consideration will become payable when the acquired business is generating a positive cash contribution, measured on a cumulative basis from the date of acquisition. The contingent consideration is a 50% share of pre-tax cash generated for a period of 10 years post-acquisition or a maximum amount payable of USD200 million. The amount included is the calculated payment, based on long-term forecasts adjusted for probabilities associated with the success of the product developed, discounted to present value using a discount rate of 13.25%.

Key assumptions used in the forecast also include growth in volumes as well as price and cost per dose.

NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2020

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

Business combinations continued

Contingent consideration continued

Sensitivity analysis

The current contingent consideration value is based on the assumption that a disease modifying drug will come to market in the USA in 2022 and one year later in Europe.

If no disease modifying drug comes to market and sales only grow organically by 8% annually, the contingent consideration vale would reduce from R629 million to R184 million.

Refer note 26.

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.

Lease accounting

Discount rates applied to leases

The lease payments are discounted using the incremental borrowing rate, which is the rate that the relevant business unit (lessee) would have to pay to borrow funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

The incremental borrowing rate was calculated using an adjusted Group weighted average cost of capital (WACC) approach by extracting the pre-tax cost of debt element from the WACC rate, which was adjusted for the following:

- Local borrowing rates
- The unsecured/secured nature
- Lessee-specific credit risk
- Lease start date and term

The weighted average incremental borrowing rate applied to the lease liabilities on 1 October 2019 was 9.33% for the Group's leases in southern Africa and 3.35% for the Group's international operations.

Should the discount rate applied at the date of transition change by 0.5%, the impact would be as follows:

- Increase by 0.5%: Right-of-use asset and lease liability decrease by R33 million
- Decrease by 0.5%: Right-of-use asset and lease liability increase by R34 million

Non-financial assets

Impairment – goodwill

The recoverable amounts of CGUs have generally 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 recoverable amounts of most CGUs were determined based on value-in-use. The recoverable amounts of Scanmed and some CGUs in southern Africa were determined based on fair value less cost to sell.

The impact of the pandemic was considered. Refer 1.1.1.

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

Recoverable amounts based on value in use

The value-in-use calculations were determined by discounting the expected future cash flows over a period of five years, except for LMI. For LMI, a 10-year period was used on the basis that the registered intellectual property for some products start to expire after 2031, alongside the level of growth being significant over the 10-year period both in Neuraceq and pipeline products.

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/volumes and revenue is based on historical experience, capacity availability, the expected developments in the market and the forecast impact of the pandemic. Tariff and inflation increases are based on latest available economic forecasts and management's expectations of the outcome of annual tariff negotiations.

Terminal growth rates are country specific and determined based on the forecast market growth rates.

Southern Africa

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

	2020 %	2019 %
Growth rate in activities	**0.0**	0.0 – 2.0
Average discount rate	**13.30**	12.25
Tariff and inflation increases	**0.0 – 4.5**	0.0 – 5.5
Terminal growth rate	**1.50 – 4.35**	1.50

Alliance Medical

Alliance Medical operates in the United Kingdom and various European countries, and the countries' 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).

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

	2020 %	2019 %
Growth rate in volumes (across all markets)	**0.0 – 13.0**	0.0 – 13.0
Tariff adjustment (across all markets)	**(3.0) – 1.5**	(5.0) – 1.5
Cost inflation (across all markets)	**1.5 – 3.0**	1.6 – 5.0
Average discount rate	**6.48**	6.70
Terminal growth rate	**2.00**	1.50

LMI, our international growth initiative

Key assumptions used in the value-in-use calculation include growth in volumes as well as price and cost per dose, which are reflective of new pharmaceutical products.

Other key assumptions were:

	2020 %	2019 %
Operating cost inflation	**8.0**	7.8
Average discount rate	**13.25**	11.00
Terminal growth rate	**n/a[1]**	1.50

[1] *10-year time horizon used in 2020 in line with registered intellectual property expiry and to recognise the significant growth in cash flows in outer years.*

NOTES TO CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

for the year ended 30 September 2020

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

Recoverable amounts based on fair value less cost to sell

Southern Africa

The fair value less cost to sell for a CGU represents the realisation of the related property in the event the operations of the CGU are discontinued. The fair values less costs to sell are calculated by applying a market-related capitalisation rate to rental paid.

The capitalisation rate used varies between 8.0% and 9.0% for healthcare-related properties and is supported by underlying third party information.

Poland

The Group restarted the Scanmed disposal process during September 2020, and received an offer during November 2020 to dispose of its Polish operation. The related agreements were signed on 24 November 2020 and the transaction is subject to regulatory approvals. The sale proceeds per the agreements (PLN199 million) are lower than the carrying value of Scanmed at 30 September 2020. With the receipt of the offer, the Group considered it prudent and appropriate to impair the carrying value at 30 September 2020 to reflect the fair value less costs to sell. The impairment for the year amounted to R793 million. Refer note 11 and 30.

Sensitivity analysis

Due to the uncertainty in longevity and possible long-term effects on assumptions, appropriate sensitivity analyses were performed on all CGUs. Sensitivity analysis included fluctuations in activity/volume growth, discount rates and tariffs.

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 14.03% the first CGU's carrying amount will exceed its recoverable amount.
- If the average discount rate for Alliance Medical increases to 7.60% the headroom will reduce to nil.

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 payment	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 19 and annexure A under 1.2 – Share-based payments.

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

Long-term incentive plans continued

Determining the fair value continued

The key assumptions used in the model were as follows:

	2020	2019
Average discount rate (WACC)	**11.7%**	12.4%
Average consumer price inflation (CPI)	**3.1%**	4.5%
Life core purposes	**100% achievement**	100% achievement

Refer notes 19 and 22.

Other

Deferred tax assets

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 (taking into the consideration the impact of the pandemic), 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. Based on past experience, the southern African provision has a historical payment rate, on closed cases, which is on average 10.6% of the claimed amount. The southern Africa provision is discounted at a pre-tax average cost of debt rate of 4.3%, where applicable.