

Discovery Health Proprietary Limited

(Registration Number: 1997/013480/07)

Annual financial statements
for the year ended 30 June 2019

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These financial statements cover the financial results of Discovery Health Proprietary Limited and where audited in terms of the Companies Act, 71 of 2008.

Auditors: PricewaterhouseCoopers Inc.
Prepared by: R Naidoo CA(SA)
Supervised by: S Van Jaarsveld CA(SA)

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Discovery Health Proprietary Limited
Directors' responsibility statement
for the year ended 30 June 2019

Directors' responsibility to the shareholder of Discovery Health Proprietary Limited
(Discovery Health or Company)

The directors of Discovery Health are required by the Companies Act (Act 71 of 2008) (Companies Act), to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of Discovery Health at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying annual financial statements, International Financial Reporting Standards have been used and reasonable estimates have been made. The annual financial statements incorporate full and responsible disclosure, in line with Discovery Health's philosophy on corporate governance.

The directors have reviewed Discovery Health's budget and flow of funds forecast for the year to 30 June 2020. On the basis of this review, and in the light of the current financial position and available cash resources, the directors have no reason to believe that Discovery Health will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the annual financial statements.

The directors are responsible for Discovery Health's systems of internal control, which include internal financial controls that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. Discovery Health maintains internal financial controls to provide reasonable assurance regarding:


- safeguarding of assets against unauthorised use or disposition
- maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention and the overriding of controls. An effective system of control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of annual financial statements.

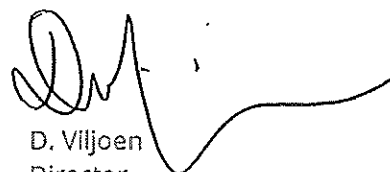
To the best of their knowledge and belief, based on the above, the directors are satisfied that no material breakdown in the operation of the systems of internal control and procedures has occurred during the year under review.

Discovery Health's external auditors, PricewaterhouseCoopers Inc., have audited the annual financial statements and their unqualified report appears on pages 3 to 4.

The annual financial statements of Discovery Health for the year ended 30 June 2019, which appear on pages 5 to 63, have been approved by the Board of Directors on 2 September 2019 and are signed on its behalf by:



A. Gore
Director



D. Viljoen
Director



Independent auditor's report

To the Shareholder of Discovery Health Proprietary Limited

Our opinion

In our opinion, Discovery Health Proprietary Limited's financial statements present fairly, in all material respects the financial position of Discovery Health Proprietary Limited standing alone (the Company) as at 30 June 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

What we have audited

Discovery Health Proprietary Limited's financial statements of the company standing alone set out on pages 7 to 63 comprise:

- the accounting policies;
- the statement of financial position as at 30 June 2019;
- the statement of comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively.

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled *'Discovery Health Proprietary Limited Annual financial statements for the year ended 30 June 2019'*, which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: J. Goncalves

Registered Auditor

Johannesburg

3 September 2019

Discovery Health Proprietary Limited

Directors' report

for the year ended 30 June 2019

The directors present their report, which forms part of the annual financial statements of the Company for the year ended 30 June 2019.

Nature of business

Discovery Health provides administration and managed care services to the Discovery Health Medical Scheme and 18 closed schemes, as well as administration services to other business segments within the Discovery Limited Group.

Review of Results

Profit attributable to ordinary shareholders is R2 073 million, an increase from profits of R1 889 million reported in the prior financial year. The increase in profits is mainly attributable to an increase in fee income from the administration business and a gain on disposal of assets.

Share Capital

There were no changes in the authorised or issued share capital of the Company during the financial year.

Dividends

The directors declared the following dividends for the 30 June 2018 financial year:

- An interim ordinary dividend of R350 million to shareholders recorded at the close of business on 7 March 2018, to be paid on 19 March 2018.
- A final ordinary dividend of R2 billion to shareholders recorded at the close of business on 6 June 2018, payable on 8 June 2018.
- An additional ordinary dividend of R574 million to shareholders recorded at the close of business on 26 September 2018, payable on 28 September 2018.

The directors declared the following dividends for the 30 June 2019 financial year:

- An interim ordinary dividend of R526 million to shareholders recorded at the close of business on 13 March 2019, to be paid on 15 March 2019.

Holding company

The Company is a wholly owned subsidiary of Discovery Limited which is listed in the insurance sector of the JSE Limited.

Consolidated financial statements

Consolidated financial statements have not been presented as the Company is a wholly owned subsidiary of Discovery Limited.

Directors' service contracts

All executive directors are employed on employment contracts that can be cancelled with one month's notice by either the executive or the Company.

Directors' interests in contracts

No material contracts involving director's interests were entered into in the current year. The directors had no interest in any third party or company responsible for managing any of the business activities of Discovery Health.

Discovery Health Proprietary Limited
Directors' report continued
for the year ended 30 June 2019

Directorate and secretary

The following were directors of the Company during the current and prior financial year, unless otherwise indicated:

Non-Executive directors

MI Hillkowitz (resigned 28 February 2019)
HL Bosman
Dr BA Brink
LM Chiume (resigned 18 October 2018)
SE De Bruyn Sebotsa
F Khanyile
Dr TV Maphai
TT Mboweni (resigned 21 October 2018)
AL Owen
SV Zilwa
R Farber

Executive directors

A Gore
Dr J Broomberg
HD Kallner
NS Koopowitz
HP Mayers
Dr A Ntsaluba
A Pollard
JM Robertson (resigned 31 August 2018)
B Swartzberg
D Viljoen

Mr MJ Botha continues in office as Company Secretary.

Registered office

1 Discovery Place
Sandton
2196

Postal address

PO Box 786722
Sandton
2146

Directors' remuneration

A detailed analysis of remuneration paid to directors and prescribed officers is set out in note 22 to the financial statements. Remuneration packages for executive directors consist of the following components:

- *Guaranteed component:* cost to company element which comprises a fixed cash portion and compulsory benefits.
- *Short-term incentives:* consists of an annual personal incentive linked to individual goals for each director and a "profit pool" element, which allows senior management to share in the profit of the Discovery Limited Group's performance if above certain profit hurdles.
- *Long-term incentives:* Executive directors take part in the Discovery Limited share-based incentive scheme. This scheme is described in detail in note 19 to the financial statements.

Non-executive directors receive a combination of fixed and meeting attendance fees for their participation on the Board and board committees. Black non-executive directors also participate in the Discovery Limited BEE transaction described in note 19 to the financial statements. Non-executive directors' fees are reviewed annually and benchmarked against industry standards to ensure the fees remain competitive.

The Remuneration Committee, which is a sub-committee of the Board, is responsible for approving the remuneration packages for executive directors and recommending the non-executive directors' fees to the Board for approval.

Auditors

PricewaterhouseCoopers Inc. will continue in office in accordance with section 90(1) of the Companies Act.

Discovery Health Proprietary Limited

Accounting policies

for the year ended 30 June 2019

Discovery Health provides administration and managed care services to the Discovery Health Medical Scheme and 18 closed schemes, as well as administration services to other business segments within the Discovery Limited Group.

Summary of significant accounting policies

The principal accounting policies applied in the preparation of the annual financial statements are set out below. These policies have been consistently applied to all the years presented, except for those accounting policies resulting from the initial application of IFRS 9: Financial Instruments and IFRS 15: Revenue from contracts with customers, as discussed in the basis of preparation below.

1. Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, the South African Institute of Chartered Accountants (SAICA), Financial Reporting Guides as issued by the Accounting Practices Committee, the JSE Listing Requirements, as well as the South African Companies Act. They have been prepared in accordance with the going concern principle using the historical cost basis except where otherwise stated in the accounting policies below.

Discovery Health has adopted IFRS 9 and IFRS 15 from 1 July 2018. Other amendments and annual improvements to IFRS effective for 1 July 2018 have also been adopted but do not have an impact on Discovery Health's reported results.

Discovery Health has elected to defer the hedging requirements under IFRS 9 in line with the provisions of the standard.

As permitted by the transitional provisions of both IFRS 9 and IFRS 15, Discovery Health has not restated prior year comparative financial statements. Retrospective adjustments arising from the application of these standards are not included in the financial statement balances at 30 June 2018, but have been adjusted to the opening balances at 1 July 2018.

Note 5 and 25 present the required transitional disclosures required to understand the changes arising from the adoption of IFRS 9. The adoption of IFRS 15 has not resulted in any transitional disclosure requirements.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying Discovery Health's accounting policies.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

Discovery Health Proprietary Limited
 Accounting policies
 for the year ended 30 June 2019

1. Basis of presentation continued

New standards and amendments to published standards not yet effective

- Discovery Health has not early adopted any accounting standards, amendments or annual improvements issued but not yet effective.
- The accounting standards, amendments and annual improvements described below are those that are expected to have an impact on Discovery Health's results and/or disclosures. Accounting standards, amendments and annual improvements not mentioned below are not expected to have a significant impact on recognised amounts.
- During 2018 the International Accounting Standards Board (IASB) published a revised Conceptual Framework for Financial Reporting. This conceptual framework is not an accounting standard, rather it provides guidance and concepts to underpin the IASB's standard development process. This does not change any existing published accounting standard but could affect accounting policies developed by an entity where the IFRS do not stipulate accounting requirements. Discovery Health does not develop accounting policies with reference to the Conceptual Framework and thus does not anticipate any changes arising from the issuing of the Conceptual Framework for Financial Reporting.
- The IASB also released non-mandatory guidance on making materiality judgements (IFRS Practice Statement 2). This will be considered by Discovery Health in making materiality judgements in these Annual Financial Statements.

Standards effective for the first time in the current year:

Title and Effective date	Scope	Potential impact
Standards and IFRICS continued		
IFRS 9: Financial instruments Effective date: 1 July 2018	This standard introduces new requirements for the classification and measurement of financial assets, as well as a new impairment model which will result in earlier recognition of losses based on the expected credit loss method. No changes were introduced for the classification and measurement of financial liabilities, except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss, unless the recognition would result in an accounting mismatch, in which case, the recognition of changes in own credit is recognised in the income statement.	Discovery Health's financial instruments include: <ul style="list-style-type: none"> - Loans and receivables; - Trade and other payables; - Cash and cash equivalents; - Derivative financial assets; - Investment at FVTOCI or FVTPL; - Contract assets; - Financial Guarantee Assets; - Derivative financial liabilities; and - Contract liabilities. Due to the short term nature of the financial instruments, the standard is not expected to have a material effect. Refer to note 25 for the effect of the changes upon adoption of the standard as at 1 July 2018.

Discovery Health Proprietary Limited
 Accounting policies
 for the year ended 30 June 2019

1. Basis of presentation continued

Standards effective for the first time in the current year:

Title and Effective date	Scope	Potential impact
Standards and IFRICs continued		
IFRS 15: Revenue from contracts with customers Effective date: 1 July 2018	This standard establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.	Discovery Health has performed detailed assessments of the most material contracts. This was performed by detailed contract checklist, defining ordinary activities and customers, scoping all the contracts with the customers and assessing related contracts to the checklist. The most material contracts have been reviewed in detail. Discovery Health has determined that there will be no material financial impact on the timing or amount of revenue recognised. However, there will be an impact on the financial statements disclosure.

New standards and amendments to published standards not yet effective:

Title and Effective date	Scope	Potential impact
Standards and IFRICs		
IFRS 16: Leases Effective date 1 July 2019	The new standard requires lessees to recognise a lease liability and a 'right-of-use' asset for nearly all lease contracts. Lessor accounting has not substantially changed in the new standard. A lessee will measure the lease liabilities at the present value of future lease payments. The 'right-of-use' asset will initially be the same amount as lease liabilities, including costs directly related to entering into the lease. 'Right-of-use' assets will be amortised over the shorter period of the useful life or the end of the lease term.	Discovery Health currently has a cash flow commitment of R3 million in respect of land and buildings under operating leases (Refer to note 23). In terms of the new standard Discovery Health will be required to raise an asset and liability in respect of these leases in its Statement of Financial Position. In addition there will be a change in the timing of expense recognition in profit or loss, however there will be no overall impact over the lease term. Various processes have been put in place to determine all leases in the scope of the new standard and to accumulate and process the data necessary to perform the calculations of the lease liability and related right of use asset.

Discovery Health Proprietary Limited
 Accounting policies
 for the year ended 30 June 2019

1. Basis of presentation continued

New standards and amendments to published standards not yet effective:

Title and Effective date	Scope	Potential impact
Standards and IFRICs continued		
IFRS 16: Leases Effective date 1 July 2019	A lessee will not be required to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).	Discovery Health will adopt the standard using the cumulative effect method where comparatives are not restated, but the cumulative impact of adopting the standard will be recognised in the opening balance at transition date. Discovery Health will also use the option to measure the right of use asset on a fully retrospective basis, with an adjustment to the opening balance on retained earnings in terms of the transitional provisions. This adjustment is not likely to be material.
Definition of material - amendments to IAS 1 and IAS 8 Effective date 1 July 2020	The definition of material has been amended in both IAS 1 and IAS 8. This new definition states that "information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements". The new elements incorporated in the definition are: obscuring information; expected to influence decisions and that the users are the primary users of general purpose financial statements. These amendments are not expected to have a significant impact on the financial statements but could change the way information in the financials is presented. This is particularly relevant in the clarity of disclosures to not obscure information. In addition, the clarification of the users to determine what is material, could result in a more focused group being considered in making materiality judgements.	This amendment is not expected to have a significant impact on Discovery Health's results, but would be considered prospectively in making materiality judgements as part of the preparation of the Financial Statements.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

2. Foreign currency translation presentation

2.1 Functional and presentation currency

Items included in the annual financial statements of Discovery Health are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The annual financial statements are presented in Rand, which is the functional and presentation currency of Discovery Health.

2.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from:

- The settlement of trading transactions are included in the results of operating activities in profit or loss.
- The settlement of financing transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss as foreign exchange gains and losses.
- Qualifying cash flow hedges and qualifying net investment hedges are deferred in the statement of comprehensive income and are recycled to profit or loss in the periods in which the hedged item affects profit or loss.

3. Property and equipment

Property and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Discovery Health and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Property and equipment are depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	Shorter of estimated life or period of lease
Computer equipment and operating systems	3 – 7 years
Computer software packages	3 – 7 years
Furniture, fittings and equipment	5 – 15 years
Motor vehicles	4 years

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. 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. The recoverable amount is the higher of the asset's fair value less costs to dispose and value-in-use. Gains or losses on disposals are determined by comparing the proceeds with the carrying amount. These are recorded in profit or loss.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

4. Intangible assets

4.1 Computer software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable software products controlled by Discovery Health are recognised as intangible assets when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use.
- Management intends to complete the software product and use or sell it.
- There is an ability to use or sell the software product.
- It can be demonstrated how the software product will generate probable future economic benefits.
- Adequate technical, financial and other resources to complete the development and to use or sell the software product are available.
- The expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product, include the software development employee costs and an appropriate portion of directly attributable overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets from the point where the recognition criteria above are satisfied, and are amortised once the asset is ready for use, over their useful lives (between three and ten years).

The amortisation is reflected under marketing and administration expenses in profit or loss.

4.2 Other intangible assets

Discovery Health does not recognise costs incurred to internally developed trademarks, patents and similar rights and assets, including franchises and management contracts. These costs are recognised in profit or loss in the period in which they are incurred.

4.3 Deferred acquisition costs

The direct costs of acquiring new business, which are expected to be recovered out of future revenue margins, are deferred over the period in which the related revenue is earned and recognised as an asset in the statement of financial position.

Discovery Health Proprietary Limited
 Accounting policies
 for the year ended 30 June 2019

5. Financial assets

Discovery Health initially recognises financial instruments when it becomes party to the contract. At initial recognition, Discovery Health considers the appropriate classification as at amortised cost; Fair value through profit or loss (FVTPL) or Fair value through other comprehensive Income (FVOCI) for debt instruments. For equity instruments Discovery Health is permitted to make the irrevocable election to present changes in fair value in other comprehensive income, however cumulative gains or losses recognised cannot be reclassified to profit or loss on disposal. This election is available on an instrument by instrument basis, and has been elected for the investment in the shares of the holding company.

Financial instruments are measured at initial recognition at fair value net of directly attributable transaction costs, unless the financial instrument is classified as fair value through profit or loss. Financial instruments are classified on the basis of both the business model in which the instrument is held and its contractual cash flow characteristics. Discovery Health determines its business models based on how groups of financial assets and liabilities are managed to achieve specific objectives.

Discovery Health considers the cash flow characteristics of financial instruments when determining the appropriate business model. The below table provides the classification requirements and measurements.

	Classification requirements	Subsequent measurement
Amortised cost	Financial instruments are classified at amortised cost where they are held in a business model whose objectives are achieved through the collection of cash flows and whose cash flow characteristics are sole payments of principle and interest. Instruments whose business model is the collection of contractual cash flows include cash and cash equivalents; fixed deposits with financial institutions; loans and receivables and banking loans and advances.	These instruments are measured at amortised cost using the effective interest rate method. Movements in the balance of the instrument relate to impairment losses, interest income and foreign exchange gains and losses which are recognised in profit or loss.
Fair value through profit and loss	Financial instruments which are held in a business model whose objectives are achieved through trading, or whose contractual cash flows are not solely payments of principle and interest, are classified at FVTPL. These instruments are considered as mandatorily classified at FVTPL. Instruments can also be designated at FVTPL where such designation eliminates or significantly reduces an accounting mismatch that would otherwise arise on measuring assets and liabilities on different basis.	These instruments are measured at fair value with gains and losses, interest and dividends, recognised in profit or loss.

Discovery Health Proprietary Limited
 Accounting policies
 for the year ended 30 June 2019

5. Financial assets continued

	Classification requirements	Subsequent measurement
Fair value through other comprehensive income	Financial instruments which are held in a business model not for trading, an irrevocable election of classification as FVTOCI is available. This results in gains and losses recognised to other comprehensive income, however these gains or losses cannot be recycled to profit or loss. Discovery Health has made the irrevocable election to present changes in fair value in other comprehensive income for equity instruments held.	These instruments are measured at fair value with gains and losses recognised in other comprehensive income. Dividends received from these equity instruments are recognised in profit and loss.

5.1 Financial assets at fair value through profit or loss

Financial assets designated as financial assets at fair value through profit or loss at inception are those that are:

- Held in internal funds to match insurance contract liabilities that are linked to the changes in fair value of these assets. The designation of these assets at fair value through profit or loss eliminates or significantly reduces a measurement or recognition inconsistency which would arise on measuring financial assets and insurance and investment contract liabilities on different bases.
- These groups of assets and liabilities are also managed together and performance is evaluated on a fair value basis. Information about these financial assets is provided internally on a fair value basis to Discovery Health's key management personnel.

The business model for managing a group of Financial instruments is expected to remain stable, in rare instances where the business model changes there can be a reclassification of the business model.

Any reclassifications are applied prospectively from the first day of the first reporting period after the change in business model, with no restatement of any previously recognised gains, losses or interest. Discovery Health has not had any changes in business models in the current reporting period and consequently there have been no reclassifications.

Financial assets are derecognised when the rights to receive cash flows from them have expired or where they have been transferred and Discovery Health has also transferred substantially all risks and rewards of ownership.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

5. Financial assets continued

5.2 Available-for-sale financial assets – For comparatives 1 July 2017 to 30 June 2018

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

Available-for-sale financial assets are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition and are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised in the statement of other comprehensive income.

When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in profit or loss as net realised gains/losses on available-for-sale financial assets and impairment on available-for-sale financial assets respectively.

Discovery Health recognises interest income and dividends received or earned from these assets as part of investment income in profit or loss. Dividends are recognised when the entity's right to receive payment is established.

5.3 Loans and receivables – For comparatives 1 July 2017 to 30 June 2018

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that Discovery Health intends to sell in the short-term or that it has designated as at fair value through profit or loss or available-for-sale.

Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that Discovery Health will not be able to collect all amounts due according to their original terms. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment.

The loans and receivables measurement is the same as amortised cost financial assets under IFRS 9.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

6. Derivative financial instruments

Derivative financial instruments are classified as held for trading unless they are designated as effective hedging instruments. Discovery Health initially recognises derivative financial instruments in the statement of financial position at fair value on the date which a derivative contract is entered into (the best evidence of fair value on day one is the transaction price) and subsequently re-measures these instruments to fair value. The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Fair values are obtained from quoted prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Discovery Health is permitted to designate certain derivatives as either:

- Significant financial difficulty of the issuer or debtor.
- A breach of contract, such as default or delinquency in payments.

Discovery Health documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. Discovery Health also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are expected to be and have been highly effective in offsetting changes in fair values or cash flows of hedged items.

6.1 Cash flow hedge

Discovery Health recognises the effective portion of fair value changes of derivatives that are designated as cash flow hedges in the cash flow hedging reserve in the Statement of other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within in net fair value gains on financial assets at fair value through profit or loss in the income statement. Amounts accumulated in the statement of other comprehensive income are recycled to profit or loss in the period in which the hedged item will affect profit or loss.

Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or liability, the gains and losses previously deferred are transferred from the Statement of other comprehensive income and included in the initial measurement of the cost of the non-financial asset or liability. Where the forecast transaction subsequently results in the recognition of a financial asset or liability, gains or losses deferred in equity are transferred from the statement of other comprehensive income when the financial asset or liability is sold or impaired. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss.

6.2 Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of all such derivative instruments are recognised immediately in profit or loss, within in net fair value gains on financial assets at fair value through profit or loss in the income statement.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

7. Impairment of assets

7.1 Financial assets carried at amortised cost

Expected credit losses are recognised on debt instruments measured at amortised cost, lease receivables, assets arising from contracts with non-insurance customers and financial guarantee contracts.

For Discovery Health the expected credit loss model is applicable to debt instruments disclosed as Investments at amortised cost, which includes treasury bills, banking loans and advances and fixed deposits; loans and receivables; contract assets from customers and cash and cash equivalents.

Discovery Health has a multitude of different debtors and loans included in loans and receivables, which do not represent a homogenous group of assets.

The approach to determining credit losses varies according to the asset type, past bad debt experience and the potential to incorporate forward looking information. In certain instances financial assets have been grouped based shared characteristics (i.e. debt payment pattern similarities, financial instruments with collateral, debtor type), and expected credit losses determined on a collective basis.

The expected credit loss approach requires that Discovery Health assess the credit risk of the instrument and determine whether there has been a significant increase in credit risk since initial recognition.

Where there has not been a significant increase in credit risk since initial recognition expected credit losses are measured as the 12 month expected credit losses.

Where there has been a significant increase in credit risk, expected credit losses are recognised as the life time credit losses. There is assumed to be an increase in credit risk where a financial instrument is more than 30 days past due.

A financial instrument is considered to be in default when it is more than 90 days past due. Discovery Health considers a financial instrument to be credit-impaired where current circumstances and economic conditions indicate that the expected future cash flows from a financial instrument may not be recoverable.

These circumstances include but are not limited to:

- evidence of financial or
- operational challenges for the debtor and missed contractual payments.

Where Discovery Health has no reasonable expectation of recovery of a debt the amount is written off, this is considered to occur when all avenues of legal recourse to recover the debt have been unsuccessful.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

Impairment of assets continued

7.2 Available-for-sale investments – For comparatives 1 July 2017 to 30 June 2018

Discovery Health assesses at the end of each reporting period whether there is objective evidence that an available-for-sale financial asset is impaired.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

Impairment losses recognised in profit or loss on equity instruments are not subsequently reversed.

Discovery Health has taken the view that a 30% decline in the fair value of an investment in an equity instrument below cost would be classified as significant and a period of nine months or more would be a prolonged decline.

For debt securities, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

7.3 Impairment of other non-financial assets

Assets, including intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indicators include continued losses, changes in technology, market, economic, legal and operating environments.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is measured using the higher of the fair value less costs to sell and the value-in-use.

Value-in-use is the present value of projected cash flows covering the remaining useful life of the asset. An impairment loss is recognised in profit or loss immediately.

Other assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

8. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

9. Cash and cash equivalents

Cash and cash equivalents comprise:

- Cash in hand.
- Deposits held at call and short notice.
- Balances with banks.

Cash and cash equivalents only include items held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. Cash and cash equivalents have a maturity of less than three months from the date of acquisition.

Cash and cash equivalents are carried at amortised cost which due to their short term nature approximates fair value.

Due to Discovery Health's sweeping arrangements in-force with various financial institutions, positive and negative cash balances are presented on a net basis for the purpose of presenting cash and cash equivalents in the statement of cash flows.

10. Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are recognised as transaction costs against the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment and amortised over the period of the facility to which it relates.

The borrowings measurement is same as amortised cost financial liabilities under IFRS 9.

Discovery Health Proprietary Limited

Accounting policies

for the year ended 30 June 2019

11. Deferred income tax

Discovery Health calculates deferred income tax on all temporary differences using the statement of financial position approach. Deferred tax liabilities or assets are calculated by applying corporate tax rates that have been substantively enacted to the temporary differences between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

Discovery Health recognises deferred tax assets if the directors of Discovery Health consider it probable that future taxable income will be available against which the tax losses can be utilised.

Temporary differences arise primarily from the difference between accounting and tax balances arising from insurance contracts, depreciation of property and equipment, effect of accounting for leases as a finance lease, effect of straight-lining of operating leases, revaluation of certain financial assets and liabilities, provisions for leave pay, provisions for share-based payments and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income.

Deferred tax related to fair value re-measurement of equity investments and cash flow hedges, which are charged or credited directly to the statement of other comprehensive income, is also credited or charged directly to the statement of other comprehensive income and is subsequently recognised in profit or loss when the gain or loss is realised.

Deferred income tax assets and liabilities are offset when:

- There is a legally enforceable right to offset current tax assets against current tax liabilities, and
- When the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

If offsetting does not apply, Discovery Health separately discloses the deferred tax asset and deferred tax liability.

12. Share capital

Shares are classified as equity when there is no contractual obligation to transfer cash or other financial assets to the holder. Incremental costs directly related to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Where Discovery Health purchases a Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders. Where such shares are subsequently sold, reissued, or otherwise disposed of, any consideration received is included in equity attributable to the Company's equity holders, net of any directly attributable incremental transaction costs and the related income tax effects.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

13. Employee benefits

13.1 Post-employment benefits

Discovery Health makes contributions on behalf of its employees to defined contribution schemes, the assets of which are held in separate trustee-administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Discovery Health employees.

Qualified actuaries perform annual valuations. Discovery Health has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

13.2 Share-based compensation

Discovery Health operates equity-settled and cash-settled share based compensation plans.

Equity-settled share-based compensation plans

Discovery Health expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair values of the options are determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, Discovery Health revises its estimate of the number of options expected to vest. Any changes to the estimated number of options are recognised in profit or loss immediately.

Cash-settled share-based compensation plans

Discovery Health recognises employee services received in exchange for cash-settled share-based payments at the fair value of the liability incurred and expenses these services over the vesting period of the benefits, as employee costs.

The liability is re-measured at each reporting date to its fair value, with all changes recognised immediately in profit or loss.

13.3 Leave pay

Discovery Health accrues in full employees' rights to annual leave entitlement in respect of past service. This is expensed over the period the services are rendered.

13.4 Profit share and bonus plan

Discovery Health operates several other profit sharing and bonus compensation arrangements and recognises these when a constructive obligation has been created by past practice. These are calculated with reference to predetermined formulae. Discovery Health recognises a liability and the related expense is included in staff costs in profit or loss.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

14. Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

15. Contingent liabilities

Discovery Health discloses a contingent liability when:

- It has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or,
- It has a present obligation that arises from past events but not recognised because
 - It is not probable that an outflow of resources will be required to settle an obligation, or
 - The amount of the obligation cannot be measured with sufficient reliability.

16. Revenue recognition

IFRS 15 requires that once contracts have been identified, the entity identifies the performance obligations in the contract. This is determined on the basis of whether the customer can benefit from the promised good or service individually or together with other readily available resources and whether the performance obligation is distinct in the context of the contract. For Discovery Health, most contracts contained a single performance obligation.

The timing of revenue recognition is dependent on whether the entity transfers control over the good or service over time or at a point in time. In determining the appropriate timing for revenue recognition, Discovery Health considered whether the customer benefits as the entity performs. For most revenue types, Discovery Health provides stand ready services to customers, where customers benefit as the entities services are consumed. In limited instances where revenue is not recognised over time it is recognised at a point in time when control transfers. For revenue recognised over time the stand ready service is recognised straight line over the term of the contract.

In determining the amount of revenue to recognise, Discovery Health considers any uncertainty created through variable consideration contained in the contract, and constrains the recognition of revenue in order to recognise revenue only to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty is resolved. Discovery Health also considers the impact of the timing of receiving payments for revenue transactions and determines whether a significant financing component should be taken into account in the measurement of the transaction price. As Discovery Health's contracts routinely include single performance obligations, there is limited complexity in allocating transaction prices to performance obligations.

Payment terms vary across the different revenue types earned by Discovery Health.

Discovery Health Proprietary Limited
 Accounting policies
 for the year ended 30 June 2019

16. Revenue recognition continued

Where contracts with customers involve a third party, Discovery Health considers whether it is acting as the principle or the agent in the delivery of the promised goods or services to the customer. This assessment is based on whether Discovery Health controls the good or service before it is transferred to the customer.

For certain contracts with customers, Discovery Health receives income in advance of discharging the related performance obligation. In these instances the amount is recognised as a contract liability. Discovery Health considers whether there are costs incurred in the acquisition of fulfilment of a contract. These costs are recognised as an asset and amortised over the expected period over which performance obligations under the contract are satisfied.

Where the transaction price included in a contract is payable less than 12 months from the date of satisfying the related performance obligation the practical expedient is applied in that a significant financing component is not recognised. Similarly where costs of obtaining cost would be amortised over 1 year or less the costs are not recognised as a separate asset.

Revenue from contracts with customers

Fee income on administration business	
Nature of performance obligations	Fee income is recognised on health administration and managed care services rendered. These are considered revenue and are seen as single performance obligations.
When does control pass PIT vs over time	Performance obligations to provide administration services are considered stand ready services, the customer obtains control over the service as the entity makes its services available on an "as and when" basis. As a result revenue is recognised over time, as the respective entity makes the services available, based on the passage of time.
When are amounts payable	Amounts are billed at the end of the respective month with amounts paid within 30 days.
Variable consideration and estimates	There is no potential for amounts of revenue to vary relating to discounts or rebates on health administration business.
Costs to capitalise	Where costs are incurred directly to secure a new health administration customer, and the contract is expected to exceed 12 months, the costs are capitalised and amortised over the expected term of the contract.

Discovery Health Proprietary Limited

Accounting policies

for the year ended 30 June 2019

17. Other income

17.1 Deferred revenue - For comparatives 1 July 2017 to 30 June 2018

Deferred revenue comprises of revenue that was received upon signing of an agreement and entering into a contract. Deferred revenue will be recognised over the life of the contract.

17.2 Investment income

Investment income comprises interest and dividends received on financial assets, interest received from assets held at amortised cost and cash and cash equivalents. Discovery Health recognises dividends when Discovery Health's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares. Interest is accounted for on an accrual basis using the effective interest rate method.

17.3 Net realised gains on available-for-sale financial assets - For comparatives 1 July 2018 to 30 June 2018

Net realised gains comprise realised gains and losses on available-for-sale financial assets. The accumulated fair value gains and losses recognised in the Statement of other comprehensive income are accounted for on disposal of the investment in profit or loss as net realised gains and losses.

17.4 Net fair value gains on financial assets at fair value through profit or loss

Net fair value gains on financial assets at fair value through profit or loss include gains arising from interest, dividends and net realised and unrealised gains on financial assets held at fair value through profit or loss.

18. Leases

18.1 Finance leases

Discovery Health classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership, based on the substance of the arrangement at inception of the lease. Finance leases are capitalised at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the minimum lease payments. Discovery Health allocates each lease payment between the liability and finance costs to achieve a constant rate of interest on the finance balance outstanding. The finance cost is recognised in profit or loss.

The assets acquired are depreciated over the useful life of the assets, unless it is not probable that Discovery Health will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

18.2 Operating leases

Discovery classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. Operating lease payments are recognised in profit or loss on a straight-line basis over the period of the lease. Minimum rentals due after year-end are reflected under commitments. Discovery recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

Discovery Health Proprietary Limited
Accounting policies
for the year ended 30 June 2019

19. Marketing and administration expenses

Marketing and administration expenses include marketing and development expenditure. These costs are expensed in profit or loss as incurred.

20. Finance costs

Finance costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other finance costs are recognised as an expense in profit or loss on an accrual basis using the effective interest rate method.

21. Dividend distribution

Dividend distribution to Discovery Health's shareholders is recognised as a liability in Discovery Health's financial statements in the period in which the dividends are approved.

22. Direct and indirect taxes

Direct taxes include South African and foreign jurisdiction corporate tax payable and are disclosed as taxation in profit or loss.

Indirect taxes include various other taxes paid to central and local governments, including value-added tax and skills development levies. Indirect taxes are included as part of marketing and administration expenses in profit or loss.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using taxation rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which Discovery Health operates.

Discovery Health Proprietary Limited
Statement of financial position
for the year ended 30 June 2019

R million	Notes	2019	2018
Assets			
Property and equipment	3	105	223
Intangible assets	4	484	1 019
Financial assets	5		
- Available-for-sale investments	5.1	-	226
- Derivative financial assets	5.2	86	167
- Investment at fair value through OCI	5.3	101	-
- Loans and receivables	5.5	4 956	3 915
- Contract assets	5.6	883	-
Investment in subsidiaries	6	*	20
Investment in group companies	24	133	-
Deferred income tax asset	7	34	-
Current income tax asset	21.2	12	-
Cash and cash equivalents	21.3	291	338
Total assets		7 085	5 908
Equity Capital and reserves			
Share capital and share premium	8	271	271
Other reserves		81	112
Retained earnings		1 500	574
Total equity		1 852	957
Liabilities			
Financial liabilities			
- Borrowings at amortised cost	9	2 798	2 587
- Derivative financial liabilities	10	35	4
- Trade and other payables	11	2 157	2 132
- Financial guarantee contracts	24	133	-
Deferred income tax liability	7	-	20
Current income tax liability	21.2	-	49
Deferred revenue	12	-	59
Employee benefits	13	110	100
Total liabilities		5 233	4 951
Total equity and liabilities		7 085	5 908

*Amount is less than R500 000

Discovery Health Proprietary Limited
Statement of comprehensive income
for the year ended 30 June 2019

R million	Notes	2019	2018
Fee income		6 800	6 371
Other income		523	618
Investment income	15	137	98
Net income		7 460	7 087
Marketing and administration expenses	18	(4 390)	(4 208)
Profit from operations		3 070	2 879
Finance costs	16	(269)	(269)
Fair value adjustment on Derivatives		8	(5)
Foreign exchange gain		2	11
Profit before tax		2 811	2 616
Income tax expense	17	(738)	(727)
Profit for the year		2 073	1 889
Other comprehensive income:			
Items that are or may be reclassified subsequently to profit or loss:			
Change in available-for-sale financial assets		-	10
- unrealised gains		-	13
- capital gains tax on unrealised (gains)		-	(3)
Change in equity investments		1	-
- unrealised gains		1	-
- capital gains tax on unrealised (gains)		(*)	-
Cash flow hedges		(23)	5
- realised (gains) recycled to profit and loss		(48)	(74)
- tax on realised gains		14	13
- unrealised gains		15	85
- tax on unrealised (gains)		(4)	(19)
Other comprehensive income for the year, net of tax		(22)	15
Total comprehensive income for the year		2 051	1 904

* Amount is less than R500 000

Discovery Health Proprietary Limited
Statement of changes in equity
for the year ended 30 June 2019

R million	Notes	Share capital and share premium	Hedging reserve	Share based payment reserve	Investment reserve ¹	Retained earnings	Total
Year ended 30 June 2018							
Opening balance		271	17	19	57	1 585	1 949
Total comprehensive income		-	5	-	10	1 889	1 904
Profit for the year		-	-	-	-	1 889	1 889
Other comprehensive income		-	5	-	10	-	15
Transactions with owners:							
Value of employee services		-	-	8	-	-	8
Transfer of BEE share options		-	-	(4)	-	4	-
Dividends paid to equity holders		-	-	-	-	(2 904)	(2 904)
Closing balance		271	22	23	67	574	957
Year ended 30 June 2019							
Opening balance		271	22	23	67	574	957
IFRS transitional adjustment	25	-	-	-	-	(63)	(63)
Opening balance upon adoption of new standards		271	22	23	67	511	894
Total comprehensive income		-	(23)	-	1	2 073	2 051
Profit for the year		-	-	-	-	2 073	2 073
Other comprehensive income		-	(23)	-	1	-	(22)
Transactions with owners:							
Value of employee services		-	-	7	-	-	7
Transfer of BEE share options		-	-	(16)	-	16	-
Dividends paid to equity holders		-	-	-	-	(1 100)	(1 100)
Closing balance		271	(1)	14	68	1 500	1 852

¹ Investment reserve relates to the financial assets held at fair value through other comprehensive income

Discovery Health Proprietary Limited
Statement of cash flows
for the year ended 30 June 2019

R million	Notes	2019	2018
Cash flow from operating activities		484	3 782
Cash generated by operations	21.1	1,213	4 383
Taxation paid	21.2	(841)	(631)
Dividends received		51	33
Interest received		86	65
Interest paid		(25)	(68)
Cash flow from investing activities		602	(735)
Proceeds from sale of equipment		97	-
Purchase of property of equipment		(52)	(387)
Purchase of intangible assets		(164)	(462)
Proceeds from sale of intangible assets		588	219
Purchase of financial assets		-	(105)
Purchase of investment at FVTPL	5.4	(112)	-
Proceeds from sale of financial assets at FVTPL	5.4	245	-
Cash flow from financing activities		(1 133)	(2 940)
Dividends paid to equity holders		(1 100)	(2 904)
Increase in borrowings		-	212
Repayment of borrowings		(33)	(248)
Net (decrease)/increase in cash and cash equivalents		(47)	107
Cash and cash equivalents at beginning of year		338	231
Cash and cash equivalents at end of year	21.3	291	338

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

1. Critical estimates

1.1 Employee benefits

Management makes estimates and assumptions when calculating the provision for leave pay. Assumptions are based on past experience and expectations of future outcomes. The provision for leave pay is based on expected future salary increases of 5.5% (2018: 5.5%) and is discounted at a rate of 7.02% (2018: 6.96%).

1.2 Software

Internally generated software assets are subject to an assessment that the costs incurred are in relation to a technically feasible project for which Discovery Health has the intention and ability to complete. Once complete, the intangible asset is amortised over the estimated useful life, taking into account any expected residual values. The amortisation methodology is included in accounting policy 7.

1.3 Useful life of property and equipment

The assets' residual values and useful lives are reviewed at each reporting date and adjusted if appropriate. The useful life of computer equipment and operating systems is 3 - 7 years. Furniture, fittings and equipment is 5 - 15 years. Motor vehicles is 4 years.

1.4 Deferred tax assets

Future tax is allowed for according to the current tax legislation and current tax rates. Deferred tax arises on the other temporary differences between the accounting basis and the tax basis.

It is assumed that future tax on statutory profits will be payable at the prevailing company tax rate of 28% (2018: 28%) in South Africa. Taxable profit will be available against which deductible temporary differences can be utilised.

1.5 Expected Credit Losses

1.5.1 Financial Guarantee Contracts and long-term loans and receivables

An approved methodology was used by management in assessing the expected credit losses that needed to be provided with respect to the IFRS 9. The methodology used is consistent with the market practices, and considered the probability of default (PD), loss given default for corporates (LGD) and the exposure of default (ED).

Refer to note 25 for the expected credit loss provided on 1 July 2018.

1.5.2 Loans and advances

There was no historical observed information over which management could assess to provide for expected credit losses and to determine adjustments for forward looking estimates. Management considered it appropriate to provide allowance for expected credit losses of 5% on loans and receivables during the period ended 30 June 2019.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk

Discovery Health is exposed to a range of financial risks through its financial assets and financial liabilities. Financial risks include market risk, credit risk and liquidity risk.

Financial risks are managed by Discovery Health as follows:

- The Capital, Currency, Investment Committee (CCIC) is a sub-committee of the Executive Committee and meets quarterly to focus on shareholder assets and the performance of asset managers responsible for managing these assets. The CCIC also sets exposure limits for exposures to individual counterparties.
- The Investment Committee is a sub-committee of the CCIC and meets monthly to make practical decisions regarding Discovery Health's liquidity and foreign currency exposure.

Discovery Health has not significantly changed the processes used to manage its risks from previous periods.

2.1 Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and investment return. Market risk that could impact on future cash flows and hence the value of a financial instrument arises from:

- Interest rate risk: The impact of changes in market interest rates.
- Equity risk: The impact of changes in equity prices and dividend income.
- Currency risk: The impact of changes in foreign exchange rates.

Discovery Health's exposure is discussed in more detail in the following pages.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.1.1 Interest rate risk

Interest rate risk is the impact of changes in market interest rates on future cash flows and hence the value of a financial instrument. Interest rate risk is managed by the Investment Committee. The table below details specific interest rate risk that Discovery Health is exposed to:

R million	Carrying value	Floating	Fixed	Non-Interest bearing
At 30 June 2018				
Available-for-sale assets				
- Equity securities	100	-	-	100
- Money market securities	126	-	126	-
Derivatives - hedges	167	-	-	167
Loans and receivables ¹	3 881	107	5	3 769
Cash and cash equivalents	338	338	-	-
Total financial assets	4 612	445	131	4 036
Borrowings at amortised cost	2 587	2 587	-	-
Derivatives - hedges	4	-	-	4
Trade and other payables ¹	2 079	-	15	2 064
Total financial liabilities	4 670	2 587	15	2 068
At 30 June 2019				
Derivatives - hedges	86	-	-	86
Investment at fair value through OCI	101	-	-	101
Loans and receivables ¹	4 886	109	2	4 775
Contract assets	883	-	127	756
Cash and cash equivalents	291	291	-	-
Total financial assets	6 247	400	129	5 718
Borrowings at amortised cost	2 798	2 798	-	-
Derivatives - hedges	35	-	-	35
Trade and other payables ¹	2 081	-	3	2 078
Total financial liabilities	4 914	2 798	3	2 113

¹ Loans and receivables & Trade and other payables exclude prepayments, stock and Vat as these balances are not financial instruments.

2.1.1 Interest rate risk

For loans and receivables with a floating interest rate, a 1% change in the interest rate would result in an increase or decrease of R1 million. While borrowings with floating interest rate, a 1% change in the interest rate would result in an increase or decrease of R28 million. This impact would be recognised in profit or loss. The sensitivity is based on the assumption that the interest rate has increased or decreased by 1% with all other variables held constant.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.1.2 Equity price risk

Investments

Discovery Health holds shares in Discovery Limited which is listed on the JSE Limited. For this investment a 10% decrease in the equity markets would result in a loss of R10 million (2018: R10 million). This loss would be recognised directly in equity. A 10% increase in the equity markets would result in a similar equal but opposite amount to the above.

Hedge derivative financial instruments

Discovery Health is exposed to equity price risk through its cash-settled incentive schemes namely, the Phantom share scheme and the Acquisition share scheme, the details of which is described in note 19. To manage this risk, Discovery Health has purchased various instruments from Baa1 to Baa3 South African banks to hedge a portion of its exposure to changes in the Discovery Limited share price.

Phantom share scheme

As at 30 June 2019, approximately 94% (2018: 98.87%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the Phantom share scheme on a per instrument basis. Combinations of return swaps and call options were designated on a unit for unit basis to substantially match the terms of the phantom share scheme and call option units.

The cash-settled call options held by Discovery Health:

Maturity date	Strike Price	Number of call options
At 30 June 2018		
30-Sep-18	84.76 – 134.94	911 003
30-Sep-19	97.89 – 141.65	707 212
30-Sep-20	114.96 – 141.65	399 296
30-Sep-21	114.96 – 141.65	135 948
30-Sep-22	141.65	76 724
At 30 June 2019		
30-Sep-19	R97.89 - R141.65	515 344
30-Sep-20	R114.96 - R141.65	282 231
30-Sep-21	R114.96 - R141.65	88 337
30-Sep-22	R141.65	51 317

The fair value of the call and put options are repriced at each reporting date and were calculated on a Black-Scholes model using the same assumptions as tabled in note 19.1.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.1.2 Equity price risk continued

The return swaps held by Discovery Health:

Maturity date	Strike Price	Number of return swaps
At 30 June 2018		
30-Sep-18	84.71 - 134.94	728 325
30-Sep-19	97.89 - 171.04	864 602
30-Sep-20	114.96 - 171.04	696 178
30-Sep-21	114.96 - 171.04	548 804
30-Sep-22	141.65 - 171.04	267 465
At 30 June 2019		
30-Sep-19	97.89 - 171.04	719 726
30-Sep-20	114.96 - 173.59	812 874
30-Sep-21	114.96 - 173.59	694 356
30-Sep-22	141.65 - 173.59	455 983
30-Sep-23	173.59	200 697

The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.

Acquisition share scheme

As at 30 June 2019, approximately 84% (2018: 85.83%) of this exposure is hedged. The hedges were designed to be highly effective, where the terms of the hedge or return swaps substantially match that of the Acquisition share scheme on a per instrument basis.

The return swaps held by Discovery Health:

Maturity date	Strike price	Number of return swaps
At 30 June 2018		
30-Jun-18	84.06 - 134.94	4 277
30-Jun-19	96.94 - 129.00	16 948
30-Jun-20	118.31 - 129.00	12 377
30-Jun-21	118.31 - 129.00	10 243
At 30 June 2019		
30-Jun-19	96.06 - 147.50	932
30-Jun-20	118.31 - 150.38	27 571
30-Jun-21	118.31 - 150.38	20 522
30-Jun-22	118.31 - 150.38	16 653
30-Jun-23	147.50 - 150.38	12 726

At 30 June 2019, the fair value of the derivative instruments purchased to hedge the Phantom and Acquisition share schemes is R51 million (2018: R166 million). Security deposits of R61 million (2018: R112 million) (refer to note 11) were received during the current year in respect of these derivatives.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.1.3 Currency risk

Currency risk is the impact of changes in foreign exchange rates on future cash flows and hence the value of a financial instrument. Discovery Health has exposure to currency risk arising from various currency exposures, primarily with respect to the US dollar. The exchange rates at year-end are detailed in the table below (quoted as Rand per foreign currency):

	GBP	USD	SGD
30 June 2018	18.16	13.81	0.10
30 June 2019	17.98	14.15	0.10

Currency risk exposure:

R million	Total	Rand	USD	Other
At 30 June 2018				
Available-for-sale investments				
- Equity securities	100	100	-	-
- Money market securities	126	-	126	-
Derivatives - hedges	167	167	-	-
Loans and receivables ¹	3 881	3 715	74	92
Cash and cash equivalents	338	250	88	-
Total financial assets	4 612	4 232	288	92
Borrowings at amortised cost	2 587	2 587	-	-
Derivatives - hedges	4	4	-	-
Trade and other payables ¹	2 079	2 028	48	3
Total financial liabilities	4 670	4 619	48	3
At 30 June 2019				
Derivatives - hedges	86	86	-	-
Investment at fair value through OCI	101	101	-	-
Loans and receivables ¹	4 886	4 886	-	-
Contract assets	883	722	5	156
Cash and cash equivalents	291	246	45	-
Total financial assets	6 247	6 041	50	156
Borrowings at amortised cost	2 798	2 798	-	-
Derivatives - hedges	35	35	-	-
Trade and other payables ¹	2 081	2 032	49	-
Total financial liabilities	4 914	4 865	49	-

¹ Loans and receivables & Trade and other payables exclude prepayments, stock and Vat as these balances are not financial instruments.

2.2 Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Discovery Health is exposed to credit risk through its financial investments, cash and cash equivalents and loans and receivables.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.2.1 Credit exposure relating to available-for-sale financial investments (for year ended 1 July 2017 to 30 June 2018) and cash and cash equivalents

Discovery Health is exposed to the issuer's credit standing on these instruments which is monitored by the CCIC by setting a minimum credit rating.

The aggregate credit risk exposure for money market instruments and cash and cash equivalents categorised by credit ratings is provided in the table below:

R million	Total	Baa1	Baa2	Baa3	P-1	P-3	Not rated
At 30 June 2018							
Available-for-sale investments							
- Money market securities	126			-	-	126	-
Cash and cash equivalents	338			144	1	191	2
Total	464			144	1	317	2
At 30 June 2019							
Cash and cash equivalents	291			290	-	-	1
Total	291			290	-	-	1

2.2.2 Credit risk relating to loans and receivables (including contract assets)

Discovery Health's loans and receivables comprise:

R million	Notes	2019	2018
Vitality Group receivables		196	302
Closed scheme debtors	1	94	113
Discovery Health Medical Scheme	1	571	551
Intercompany balances	2	960	349
Loans to BEE initiatives		109	107
Loan to holding company	3	3 850	2 402
Loan to subsidiaries and their subsidiaries		3	2
Other debtors		65	59
Less provision for impairment of other loans and receivables		(79)	(4)
Total		5 769	3 881

Credit risk relating to loans and receivables is managed as follows:

1. Discovery Health Medical Scheme (DHMS) has been rated AAA by Global Credit Ratings. The closed schemes have not been rated. Amounts due from DHMS and the closed schemes are paid the following month.
2. Intercompany balances comprise receivables from Discovery Health's fellow subsidiaries. These loans are settled on a monthly basis. The fellow subsidiaries are not rated.
3. The loan to the holding company is current and will be settled in the ordinary course of business.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.2.2 Credit risk relating to loans and receivables (including contract assets) continued

Discovery Health establishes an allowance for impairment that represents its estimate of incurred losses in respect of loans and receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on current circumstances and economic conditions which may indicate that the expected future cash flows may not be recoverable for similar financial assets.

Discovery Health ages and pursues unpaid accounts on a monthly basis. The ageing of the components of loans and receivables at year end was:

R million	Gross 2019	Impairment 2019	Gross 2018	Impairment 2018
Not past due	5 829	(65)	3 872	-
30 days	3	-	2	-
60 days	2	-	2	-
90 days	1	(1)	1	-
120 days	5	(5)	3	(2)
150 days	*	(*)	-	-
>150 days	8	(8)	5	(2)
Total	5 848	(79)	3 885	(4)

*Amounts are less than R500 000

Management have considered the level of impairments specifically those relating to past due loans and receivables and consider the level of provisioning adequate. The movement in the provision for impairment during the year was as follows:

R million	Notes	
Balance at 1 July 2017		(7)
Decrease in provision		3
Balance at 30 June 2018		(4)
Balance at 1 July 2018		(4)
IFRS transitional adjustment	24	(65)
Restated opening balance		(69)
Increase in provision		(10)
Balance at 30 June 2019		(79)

2.2.3 Credit exposure for hedge derivative instruments

Discovery Health is exposed to equity price risk through its cash-settled share incentive schemes, namely the Phantom share scheme and the Acquisition share scheme, the details of which is described in note 19. To manage this risk, Discovery Health has purchased various instruments from Baa1 to Baa3 rated South African banks to hedge a portion of its exposure to changes in the Discovery Limited share price.

Discovery Health Proprietary Limited
Notes to the annual financial statements
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2. Management of financial risk continued

2.3 Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities (i.e. insufficient cash available to meet commitments as and when due).

Discovery Health performs cash flow forecasting. The CFO and treasury monitor rolling forecasts of Discovery Health's liquidity requirements to ensure it has sufficient cash to meet operational needs.

Cash held by Discovery Health is managed by treasury. Treasury invests it in interest – bearing accounts, time deposits and money-market deposits, choosing instruments with appropriate maturities or sufficient liquidity to provide headroom as determined by the above-mentioned forecasts.

At the reporting date, Discovery Health had cash and cash equivalents of R291 million (2018: R338 million) and other liquid assets of R5 592 million (2018: R3 727 million).

The table below analyses Discovery Health's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date, on an undiscounted basis.

R million	Total	< 1 year	1-2 years	3 - 5 years	6 - 10 years
At 30 June 2018					
Borrowings	2 587	52	2 535	-	-
Derivatives - hedges	4	3	1	-	-
Trade and other payables	2 079	2 055	17	5	2
Total Liabilities	4 670	2 110	2 553	5	2
At 30 June 2019					
Borrowings ¹	3 548	30	3 518	-	-
Derivatives - hedges	35	35	-	-	-
Trade and other payables	2 081	2 069	6	6	-
Total Liabilities	5 664	2 134	3 524	6	-

2.4 Fair value estimation

Discovery Health's financial instruments measured at fair value have been disclosed using a fair value hierarchy. The hierarchy has three levels that reflect the significance of the inputs used in measuring fair value. These are as follows:

Level 1 includes financial instruments that are measured using unadjusted, quoted prices in an active market for identical financial instruments. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

2. Management of financial risk continued

2.4 Fair value estimation continued

Level 2 includes financial instruments that are valued using techniques based significantly on observable market data. Instruments in this category are valued using:

- Quoted prices for similar instruments or identical instruments in markets which are not considered to be active, or
- Valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.

Level 3 includes financial instruments that are valued using valuation techniques that incorporate information other than observable market data and where at least one input (which could have a significant effect on instruments' valuation) cannot be based on observable market data.

R million	Level 1	Level 2	Level 3	Total
30 June 2018				
Financial assets				
Available-for-sale investments				
- Equity securities	100	-	-	100
- Money market securities	-	126	-	126
Derivatives - hedges	-	167	-	167
Total	100	293	-	393
Financial liabilities				
Derivatives - hedges	-	4	-	4
Total	-	4	-	4
30 June 2019				
Financial assets				
Equity investments at fair value through FVOCI	101	-	-	101
Derivatives - hedges	-	86	-	86
Total	101	86	-	187
Financial liabilities				
Derivatives - hedges	-	35	-	35
Total	-	35	-	35

There were no transfers between level 1 and 2 during this current financial year.

Specific valuation techniques used to value financial instruments in level 2

The fair value of the hedged derivatives is calculated by the issuers of those instruments, as follows:

- The fair value of call options is calculated based on a Black-Scholes model.
- The fair value of the return swaps is calculated by discounting the future cash flows of the instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

Discovery Health Proprietary Limited
Notes to the annual financial statements
for the year ended 30 June 2019

3. Property and equipment

R million	Furniture, fittings and equipment ¹	Computer equipment and operating systems ²	Motor vehicles	Leasehold improvements ¹	Total
Year ended 30 June 2018					
Opening balance	47	191	8	446	692
Additions	-	-	-	387	387
Derecognition	-	-	-	(728)	(728)
Disposals					
-cost	-	(*)	(2)	(9)	(11)
-accumulated depreciation	-	*	2	9	11
Impairment					
-cost	(84)	(220)	-	(119)	(423)
-accumulated depreciation	82	220	-	119	421
Depreciation charge	(18)	(74)	(3)	(31)	(126)
Closing balance	27	117	5	74	223
At 30 June 2018					
Cost	170	333	26	207	736
Accumulated depreciation	(143)	(216)	(21)	(133)	(513)
Closing balance	27	117	5	74	223
Year ended 30 June 2019					
Opening balance	27	117	5	74	223
Additions	12	-	-	40	52
Disposals					
-cost	(50)	(12)	-	(76)	(138)
-accumulated depreciation	32	9	-	-	41
Depreciation charge	(5)	(52)	(2)	(14)	(73)
Closing balance	16	62	3	24	105
At 30 June 2019					
Cost	132	321	26	171	650
Accumulated depreciation	(116)	(259)	(23)	(147)	(545)
Closing balance	16	62	3	24	105

* Amount is less than R500 000

¹ During the year, some of the furniture and fittings and leasehold improvements amounting to R18 million and R76 million respectively were disposed to Discovery Central Services (Pty) Ltd a related party at cost (carrying value). Refer to note 22.

² Computer and operating systems include leased assets to the value of R34 million (2018: R67 million).

Discovery Health Proprietary Limited
Notes to the annual financial statements
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4. Intangible assets

R:milllion	Notes	Software development ¹	Deferred acquisition costs	Total
Year ended 30 June 2018				
Opening balance		927	63	990
Additions		462	-	462
Derecognition		(3)	-	(3)
Disposals				
-cost		(219)	-	(219)
-accumulated amortisation		-	-	-
Impairment				
-cost		(86)	-	(86)
-accumulated amortisation		78	-	78
Amortisation charge		(197)	(6)	(203)
Closing balance		962	57	1 019
At 30 June 2018				
Cost		1 665	63	1 728
Accumulated amortisation		(703)	(6)	(709)
Closing balance		962	57	1 019
Year ended 30 June 2019				
Opening balance		962	57	1 019
Transition to IFRS 15	25	-	(57)	(57)
Additions		164	-	164
Derecognition				
-cost		(15)	-	(15)
-accumulated amortisation		14	-	14
Disposals				
-cost		(522)	-	(522)
-accumulated amortisation		44	-	44
Impairment				
-cost		(25)	-	(25)
-accumulated amortisation		22	-	22
Amortisation charge		(160)	-	(160)
Closing balance		484	-	484
At 30 June 2019				
Cost		1 267	-	1 267
Accumulated amortisation		(783)	-	(783)
Closing balance		484	-	484

¹ During the year, R99 million of the software and development intangible assets were sold at carrying value to Discovery Central Services (Pty) Ltd, a related party. Refer to note 22.

Discovery Health Proprietary Limited
Notes to the annual financial statements
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5. Financial assets

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 July 2018

R million	Note	IAS 39 carrying amount at 30 June 2018	Reclassification	IFRS 9 carrying amount at 1 July 2018
Available for sale investments	5.1	226	(226)	-
Derivative financial assets	5.2	167	-	167
Investment at fair value through OCI	5.3	-	100	100
Investment at fair value through PL	5.4	-	126	126
Loans and receivables	5.5	3 915	(896)	3 019
Contract assets	5.6	-	896	896
Financial assets		4 308	-	4 308

5.1 Available-for-sale investments

R million	Notes	2019	2018
Equity securities	5.3	-	100
Money market securities	5.4	-	126
Available-for-sale financial assets		-	226

Equity securities met the criteria for reclassification to investment at FVOCI while market securities met the reclassification criteria to investment at FVTPL.

5.2 Derivative financial assets

R million	2019	2018
Acquisition share scheme - cash flow hedge	1	1
Phantom share scheme - cash flow hedge	85	166
Closing balance	86	167
Current	42	67
Non-current	44	100
Derivative financial assets	86	167

Please refer to note 2.1.2 for a detailed description of the derivative financial instruments listed above.

5.3 Investment at fair value through other comprehensive income (OCI)

The investment represents Discovery Health's shareholding in its holding company, Discovery Limited. Discovery Limited is listed on the JSE.

R million	2019	2018
Investment in holding company	100	-
Unrealised gains at fair value through OCI	1	-
Investment at fair value through OCI	101	-

Discovery Health Proprietary Limited
Notes to the annual financial statements
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5.4 Investment at fair value through profit and loss (PL)

R million	2019	2018
Opening balance – 1 July 2018	126	-
Additional deposits	112	-
Interest received	*	-
Fair value adjustment	7	-
Withdrawals	(245)	-
Investment at fair value through PL	-	-

*Amounts are less than R500 000

5.5 Loans and receivables

R million	2019	2018
Closed scheme debtors	-	113
Discovery Health Medical Scheme	-	551
Vitality Group receivables	-	302
Intercompany balances	960	349
Loan to holding company	3 850	2 402
Loans to BEE initiatives	109	107
Loan to subsidiaries	3	2
Prepayments	67	34
Other debtors	46	59
Total before provision	5 035	3 919
Provision for impairment	(79)	(4)
Total after provision	4 956	3 915
Current	4 823	3 727
Non-current	133	188
Loan and receivables	4 956	3 915

The carrying value approximates the fair value of the loans and receivables. Impairment provision includes the IFRS 9 transition adjustment of R65 million (refer to note 25).

5.6 Contract assets

R million	Note	Costs of obtaining contracts	Contract receivables	Total
Opening balance – 1 July 2018	4 & 25	57	896	953
Amortised during the year		(57)	-	(53)
Revenue recognised in the year		-	7 001	6 549
Payments received		-	(7 014)	(6562)
Contract assets		-	883	883

Discovery Health Proprietary Limited
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6. Investment in subsidiaries

Subsidiary	Issued ordinary capital R		Effective percentage holding %		Investment in subsidiary R	
	2019	2018	2019	2018	2019	2018
- Discovery Third Party Recovery Services	1	1	100	100	1	1
- PrimeMed Administrators	100	100	100	100	100	20 050 000
- Discovery Health Care Services	1	1	100	100	10 100	10 100
Total					10 201	20 060 101

During the year, the investment in PrimeMed was impaired by R20 million due to the company being dormant. The administration of the NetCare scheme transferred to Discovery Health.

7. Deferred income tax

R million	Notes	2019	2018
Deferred tax asset		153	177
- current		69	117
- non-current		84	60
Deferred tax liability		(119)	(197)
- current		(8)	(85)
- non-current		(111)	(112)
Total Deferred income tax		34	(20)
Movement summary:			
Balance at beginning of year		(20)	6
Statement of comprehensive income charge		42	(17)
Deferred tax on cash flow hedge charged to other comprehensive income		10	(6)
Tax on IFRS transitional adjustments	25	2	-
Capital gains taxation charged to other comprehensive income - on equity investment		*	(3)
Balance at end of year		34	(20)

*Amounts are less than R500 000

Discovery Health Proprietary Limited
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7. Deferred income tax continued

Deferred tax comprises:

R million	Opening balance	Charge for the year	Closing balance
Year ended 30 June 2019			
Provisions	56	11	67
Difference between wear and tear and depreciation	(118)	39	(79)
Other temporary differences:			
- Deferred revenue	36	(36)	-
- Deferred acquisition cost	(14)	14	-
- Operating lease	4	(3)	1
- Share-based payments	76	2	78
- Finance leases	5	*	5
- Cash flow hedge	(37)	26	(11)
- Prepayments	(8)	*	(8)
- Derivatives	-	1	1
- Capital gains tax on unrealised gains on available-for-sale financial assets	(20)	(*)	(20)
Total	(20)	54	34

*Amounts are less than R500 000

R million	Opening balance	Change for the year	Closing balance
Year ended 30 June 2018			
Provisions	64	(8)	56
Difference between wear and tear and depreciation	(100)	(18)	(118)
Other temporary differences:			
- Deferred revenue	19	(2)	17
- Deferred acquisition cost	(17)	3	(14)
- Operating lease	8	(4)	4
- Share-based payments	73	3	76
- Deferred revenue	37	(18)	19
- Finance leases	*	5	5
- Cash flow hedge	(33)	(4)	(37)
- Prepayments	(28)	20	(8)
- Capital gains tax on unrealised gains on available-for-sale financial assets	(17)	(3)	(20)
Total	6	(26)	(20)

*Amounts are less than R500 000

Discovery Health Proprietary Limited
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8. Share capital and share premium

R	2019	2018
<i>Authorised</i>		
1 100 ordinary shares of R1 each	1 100	1 100
<i>Issued</i>		
1 032 ordinary shares of R1 each	1 032	1 032
Share premium	270 999 968	270 999 968
Share capital and share premium	271 001 000	271 001 000

9. Borrowings at amortised cost

R million	2019	2018
Interest bearing loans		
- Discovery Limited	2 597	2 353
- Discovery Insure Limited	150	150
Finance lease liability	51	84
Closing balance	2 798	2 587
Current	28	52
Non-current	2 770	2 535
Borrowings at amortised cost	2 798	2 587

Interest bearing borrowings

Discovery Limited

Discovery Health borrowed R2 010 million from Discovery Limited. The loan for R727 million is repayable on 30 June 2021. The loan for R1 283 million is repayable on 31 July 2022. Interest on the loan is calculated using a floating interest rate which is payable quarterly or may be capitalised to the loan.

The balance at 30 June 2019 is R2 597 million (2018: R2 353 million). Interest accrued for the year is R244 million (2018: R222 million).

Discovery Insure

Discovery Health borrowed R150 million from Discovery Insure Limited in the 2016 financial year. The loan bears interest at the three-month JIBAR plus 240 basis points per annum. The borrowings are repayable after five years and interest is paid quarterly.

The balance at 30 June 2019 is R150 million (2018: R150 million). Interest accrued for the year is R14 million (2018: R14 million).

Discovery Health Proprietary Limited
Notes to the annual financial statements
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9. Borrowings at amortised cost continued

Movement analysis of interest bearing loans

R million	2019	2018
Opening balance	2 503	2 073
Loans raised	-	212
Interest accrued (note 16)	258	236
Interest paid	(14)	(18)
Closing balance	2 747	2 503

Capitalised finance lease liability

Discovery Health leases certain computer and office equipment that is unsecured, as the rights to the leased asset remain with the lessee in event of a default.

R million	Minimum lease payments	Finance cost	Present value
30 June 2018			
Due within one year	56	(4)	52
Due between two to five years	34	(2)	32
Closing balance	90	(6)	84
30 June 2019			
Due within one year	30	(2)	28
Due between two to five years	23	(*)	23
Closing balance	53	(2)	51

*Amounts are less than R500 000

10. Derivative financial liability

R million	2019	2018
Phantom share scheme - cash flow hedge liability	35	1
Forward exchange contract- cash flow hedge	-	3
Closing balance	35	4
Current	-	3
Non-current	35	1

Refer to note 2.1.2 for a detailed description of the derivative financial instruments listed above.

Discovery Health Proprietary Limited
Notes to the annual financial statements
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11. Trade and other payables

R million	2019	2018
Payables and accrued liabilities	192	300
Intercompany balances	1 354	1 156
Payroll creditors	443	394
Security deposits on derivatives	61	112
Straight-lining operating lease payments	3	15
Value-added tax	75	52
Other creditors	29	103
Closing balance	2 157	2 132
Current	2 155	2 108
Non-current	2	24

12. Deferred revenue

R million	Notes	2019	2018
Opening balance		59	67
IFRS 9 transitional adjustment	25	(59)	(8)
Closing balance - 1 July 2018		-	59
Current		-	7
Non-current		-	52

13. Employee benefits

R million	2019	2018
Opening balance	100	110
Additional provision raised	138	47
Used during the year	(119)	(47)
Paid to terminated employees	(9)	(10)
Closing balance	110	100
Current	90	83
Non-current	20	17

14. Contract liabilities

R million	2019	2018
Opening balance - 1 July 2018	59	-
Income recognised in profit and loss	(59)	-
Closing balance	-	-

Discovery Health Proprietary Limited
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15. Investment income

R million	2019	2018
Interest income on cash and cash equivalents at amortised cost	41	51
Dividend income	51	33
Interest income on third-party loans at amortised cost	45	14
Investment income	137	98

16. Finance costs

R million	2019	2018
Interest expense on:		
- Interest on borrowings	258	236
- Other interest paid	2	*
- Finance lease liability	5	18
- Credit support	4	15
Finance cost	269	269

*Amount is less than R500 000

17. Taxation

R million	2019	2018
Current tax	780	710
- Current year	790	713
- Prior year adjustment	(10)	(3)
Deferred tax	(42)	17
- Current year	(42)	17
- Prior year adjustment	-	-
South African normal taxation	738	727

Reconciliation of rate of taxation %	2019	2018
Effective rate	26.3	27.8
Capital profits and dividend income	2.6	0.3
CGT on capital gain	(0.4)	-
Disallowed expenditure	(0.5)	(0.1)
South African normal tax rate	28.0	28.0

Discovery Health Proprietary Limited
Notes to the annual financial statements
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18. Marketing and administration expenses

R million	2019	2018
Audit fees – current year	3	3
Audit fees – prior year	(*)	(1)
Fees for other services	*	1
Auditors' remuneration	3	3
Property	53	3
Computer and office equipment	35	35
Operating lease charges	88	38
Salaries, wages and allowances	1 656	1 559
Medical aid fund contributions	134	121
Defined contribution provident fund contributions	99	89
Social security levies	8	7
Share based payment expenses	200	204
- cash-settled	193	196
- equity-settled	7	8
Loss/(gain) on fair value hedge	10	(37)
Staff training	3	2
Recruitment fees	3	4
Temporary staff	1	23
Leave pay expense	19	24
Other	58	38
Staff costs including executive directors (note 22)	2 191	2 034
Amortisation of intangible assets (note 4)	160	203
Building related and office costs	58	273
Depreciation of equipment (note 3)	73	126
Gain on disposal of equipment	-	(2)
Gain on disposal of intangible assets	(110)	-
Impairment of investment in subsidiary	20	-
Impairment of intangible asset (note 4)	3	-
Derecognition of intangible asset (note 4)	1	-
IT systems and consumables	388	425
Marketing and distribution costs	162	163
Professional fees	162	163
Provision for bad debts	12	1
Vitality service fees	390	325
Other operating expenses	789	456
Other operating costs	2 108	2 133
Marketing and administration expenses	4 390	4 208

*Amounts are less than R500 000

Discovery Health Proprietary Limited
Notes to the annual financial statements
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19. Share based payment expenses

Staff incentive schemes

Discovery Limited operates various share-based payment arrangements. The details of these arrangements are described below:

1. BEE staff trust

In 2005, 5290 000 Discovery Limited shares were issued to the BEE staff share trust for current and future employees. These shares have all been allocated during prior years. As at 30 June 2018, there were 125 781 outstanding shares which have all vested during the current financial year. 980 000 additional shares have been purchased accumulatively in prior years, for future allocation to employees. 40 000 shares were purchased by the BEE staff share trust during the current year. The trusts consists of two components; the allocation scheme and the option scheme as described below:

1.1 Allocation scheme

Shares have been allocated to senior black employees based on level of seniority and length of past service. The shares vest to employees two, three, four and five years after allocation at a rate of 25% per annum. On each vesting date, the trustees shall distribute to the employees the allocated shares to which the employee may be entitled.

1.2 Option scheme

Options granted to black employees may be exercised two, three, four and five years after the option is granted at a rate of 25% per annum. Any options not exercised by the end of the fifth year from the grant date shall lapse. On exercise of the option, the employee pays cash to the trust for the full purchase price of the option.

2. The Discovery Limited Phantom share scheme

Participants earn a cash bonus based on allocation of bonus scheme units, which in turn are linked to the performance of the Discovery Limited share price. The bonus is earned if the participant is employed on each vesting date. For units issued in September, the vesting of the units is two, three, four and five years after allocation of the bonus units. The bonus may not be carried forward.

The 2013 – 2018 allocations were pre-determined combinations of units that replicate the economics of a Discovery Limited share and units that replicate the economics of a call option over a Discovery Limited share.

3. Acquisition schemes

There are various schemes offered to franchise directors, agents and employees where participants are allocated share units, which replicate the economics of a Discovery Limited share. The share units are settled as a cash bonus on vesting. The bonus is earned if the participant is employed on the vesting date. The vesting periods on the schemes vary from two to five years. The bonus may not be carried forward.

The share option schemes mentioned in 1 above have been classified as equity-settled schemes and therefore, a share-based payment reserve has been recognised. The schemes mentioned in 2 and 3 above have been classified as cash-settled schemes and a liability is raised in terms of IFRS 2.

Discovery Health Proprietary Limited
Notes to the annual financial statements
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19. Share based payment expenses continued

19.1 Staff incentive schemes continued

The following is a summary of the terms and conditions of the share options granted to Discovery Health employees:

Date granted	Option price	Final vesting date	Opening balance	Options granted	Options delivered	Options cancelled // Adjusted	Closing balance
1. BEE staff trust							
FY 2013	-	30/09/2018	4 170	-	(3 352)	-	818
FY 2014	-	30/09/2019	100 009	-	(42 145)	(469)	57 395
FY 2015	-	28/02/2020	142 499	-	(30 739)	1 678	113 438
FY 2016	-	30/09/2021	34 269	2,696	(9 421)	(5 665)	21 879
FY 2016	R122.41	01/03/2021	9 044	-	-	-	9 044
FY 2016	R121.50	31/03/2021	30 370	-	(10 123)	-	20 247
FY 2017	-	01/04/2022	110 178	-	(26 793)	(1 024)	82 361
FY 2017	R122.50	30/11/2021	127 728	-	(23 353)	2 296	106 671
FY 2018	-	30/04/2023	8 913	-	(2 662)	27 540	33 791
FY 2019	-	30/04/2024	-	10,704	-	-	10 704
2. The Phantom share scheme							
FY 2015	-	30/09/2019	293 238	-	(136 244)	(26 270)	130 725
FY 2015	R97.89	30/09/2019	586 479	-	(272 487)	(52 543)	261 449
FY 2016	-	30/09/2020	413 063	-	(136 554)	(43 727)	232 783
FY 2016	R134.94	30/09/2020	781 579	-	(236 711)	(89 067)	455 801
FY 2017	-	30/09/2021	1 156 641	-	(284 020)	(45 831)	826 790
FY 2017	R114.96	30/09/2021	243 029	-	(65 699)	19 768	197 098
FY 2018	-	30/09/2022	1 168 415	-	(9 048)	(41 322)	1 118 045
FY 2018	R84.76 - R141.65	30/09/2022	356 828	-	(13 747)	(9 196)	333 885
FY 2019	-	31/03/2024	-	980 235	-	(25 579)	954 656
3. The Acquisition share scheme							
FY 2014	-	30/06/2019	8 166	-	(6 156)	(1 585)	425
FY 2015	-	30/06/2020	16 328	-	(5 860)	(3 898)	6 570
FY 2016	-	30/06/2021	25 972	-	(6 814)	(5 188)	13 970
FY 2017	-	30/06/2022	61 658	-	(6 859)	(19 224)	35 576
FY 2018	-	30/06/2023	46 528	-	-	(9 926)	36 602
FY 2019	-	30/06/2024	-	34 571	-	-	34 571

Discovery Health Proprietary Limited
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19. Share based payment expenses continued

Staff incentive schemes continued

The Black-Scholes model was used to calculate the fair value of the following options based on the assumptions in the below table:

	Spot price	Exercise price	Option term	Volatility	Dividend yield
BEE staff share trust					
Issued in prior years	R113.00 - R127.14	R113 - R122.50	Up to 2.25 years	26.19% - 27.37%	1.31 - 1.70
Phantom scheme:					
01/07/2017 - 30/06/2018	R149.11	R141.65 - R97.89	Up to 3.25 years	24.08% - 26.23%	0.00 - 1.75
01/07/2016 - 30/06/2017	R149.11	R115.23 - R 114.96	Up to 2.25 years	25.84% - 26.24%	0.00 - 2.10
01/07/2015 - 30/06/2016	R149.11	R122.50 - R134.94	Up to 1.83 years	25.95% - 27.21%	0.00 - 1.81
01/07/2014 - 30/06/2015	R149.11	R97.89	Up to 0.25 years	24.08%	0.00 - 1.75
01/07/2017 - 30/06/2018	R149.11	R141.65 - R97.89	Up to 3.25 years	24.08% - 26.23%	-

*Refer to table on previous page for detailed option prices.

The Phantom schemes and Acquisition schemes are cash-settled and are thus repriced at each reporting date. The fair value of shares granted under these schemes during the current financial year, has been calculated using the closing price of R149.11 adjusted for expected future dividends that will be declared by Discovery Limited during the vesting period.

20. Contingencies

Discovery Health has provided the following guarantees:

- A guarantee in respect of the borrowing facilities of Discovery Limited. As at 30 June 2019, Discovery Limited owed R680 million in respect of these facilities.
 - A guarantee in respect of borrowing facilities entered into by Discovery Central Services (Pty) Ltd. As at 30 June 2019, Discovery Central Services owed R1 949 million in respect of these facilities.
- There are no material claims that have been instituted against Discovery Health.

Discovery Health Proprietary Limited
Notes to the annual financial statements
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21. Cash flow information

	R million	Note	2019	2018
21.1	Profit before taxation		2 811	2 616
	Adjusted for:			
	Finance costs	16	269	269
	Dividend income	15	(51)	(33)
	Interest income	15	(86)	(65)
	Non-cash items:			
	Deferred acquisition costs	4	-	6
	Deferred revenue	12	(59)	(7)
	Depreciation	3	73	126
	Amortisation	4	160	197
	Impairment of intangible asset	4	3	8
	Derecognition of intangible asset	4	1	3
	Derecognition of property and equipment	3	-	730
	Impairment of investment in subsidiary	18	20	-
	Operating lease payments in advance	23	(12)	(15)
	Profit on disposal of equipment	18	-	(2)
	Profit on disposal of intangible assets	18	(110)	-
	Provision for bad debts	18	75	(2)
	Provision for employee benefits	13	19	(1)
	Gain/loss from derivatives		380	-
	Fair value gain on investment at FVTPL	5.4	(7)	-
	Foreign exchange (gains)/losses		(2)	-
	Share-based payment expenses	18	201	201
	Loss/(gain) on fair value hedge	18	(48)	(41)
	Unrealised gains on investments at FVTPL		(8)	-
	Working capital changes:			
	Loans and receivables		(1 834)	(65)
	Trade and other payables		(582)	458
	Cash generated by operations		1 213	4 383
21.2	Taxation paid			
	Amounts unpaid at beginning of year		(49)	30
	Amounts charged to statement of comprehensive income		(738)	(727)
	Adjustment for movement in deferred taxation		(42)	17
	Balance at the end of the year		(12)	49
	Taxation paid		(841)	(631)
21.3	Cash movement			
	Cash at bank and on hand		103	231
	Short term deposits with bank		188	107
	Cash and cash equivalents		291	338

Discovery Health Proprietary Limited
Notes to the annual financial statements
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22. Related parties

The Company is a wholly owned subsidiary of Discovery Limited (incorporated in South Africa) and undertakes certain transactions with related parties within the Discovery Limited Group, details of which are set out below. For purposes of this section, Discovery Health will be referred to as the Company and where relevant, amounts are excluding VAT.

Discovery Limited

Discovery Health entered into a long term loan agreement with Discovery Limited. The principal amount is R2 010 million. The loan for R727 million is repayable on 30 June 2021. The loan for R1 283 million is repayable on 31 July 2022. Interest will accrue at the relevant interest rate on a day-to-day basis. Interest for the year is R244 million (2018: R222 million). The balance at year-end is R2 597 million (2018: R2 353 million).

Discovery Insure Limited

Discovery Health entered into a long-term loan agreement with Discovery Insure Limited. The principal amount is R150 million. The loan bears interest at the 3 month JIBAR plus 240 basis points per annum. The balance at year-end is R150 million (2018: R150 million). Interest accrued for the year amounted to R14 million (2018: R14 million).

Discovery Vitality Proprietary Limited

The Vitality Wellness programme is integrated with products offered by the Company. Vitality charges a service fee for this integration, which is determined on an annual basis and agreed upon contractually. Service fees paid amounted to R390 million (2018: R325 million).

Discovery Health Medical Scheme (DHMS)

The Company administers DHMS and provides managed care services for which it charges an administration fee and a managed care fee respectively. These fees are determined on an annual basis and approved by the trustees of DHMS. The fees amounted to R5 853 million (2018: R5 496 million).

DHMS owes the Company R571 million (2018: R551 million) at year-end.

The Company provided Wellness screening services to DHMS. The fees received for these services amounted to R30 million (2018: R34 million).

Discovery Health Proprietary Limited
Notes to the annual financial statements
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22. Related parties continued

Managed medical schemes

The Company administers the following restricted membership medical schemes:

- Anglo Medical Scheme
- Anglovaal Group Medical Scheme
- Bankmed Medical Scheme
- BMW Employees Medical Aid Scheme
- Glencore Medical Scheme
- LA Health Medical Scheme
- Lonmin Medical Scheme
- Malcor Medical Aid Scheme
- MMed Medical Fund
- Netcare Medical Scheme
- Quantum Medical Aid Society
- Remedi Medical Scheme
- Retail Medical Scheme
- TFG Medical Aid Scheme
- Tsogo Sun Group Medical Scheme
- University of Kwa-Zulu Natal Medical Scheme
- South African Breweries Medical Scheme
- Engen Medical Aid Scheme (effective 1 July 2018)

The Company charges these schemes administration and managed care fees, which are determined on an annual basis and approved by the trustees of the respective closed schemes. The fees amounted to R1 064 million (2018: R892 million). R94 million (2018: R113 million) is due to the Company from these schemes at year-end.

The Discovery Fund & Trust

The Discovery Fund is a fund for sustainable non-governmental healthcare projects, especially in primary healthcare. These projects complement the delivery of primary and preventative care in the public sector and help to relieve the burden on state facilities.

The Discovery Fund received contributions from the Company of R29 million during the year (2018: R29 million). The Company also paid The Discovery Fund a management fee of R2 million (2018: R2 million).

Discovery Consulting Services

The Company has established a network of 32 franchises (2018: 32 Franchises) in order to sell its products. The Company has paid R52 million (2018: R53 million) in fees to the franchises. The Discovery Consulting Services participate in the Acquisition Scheme. During the year R3 million (2018: R2 million) was accrued for in terms of this scheme. Refer to note 19 for further details.

Discovery Health Proprietary Limited
Notes to the annual financial statements
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22. Related parties continued

Fellow group companies & subsidiaries:

Discovery Health provides administrative services and system development to its fellow subsidiaries and associates. Certain subsidiaries also incur costs on behalf of the Company. These loans are interest free and are repayable on demand. The table below summarises the total value of fees charged and received for these services and the balances outstanding at 30 June:

R' million	Receivable / (Payable)		Fees received / (paid)	
	2019	2018	2019	2018
Discovery Bank	(*)	1	(3)	166
Discovery Central Services	220	178	(1 106)	(1 029)
Discovery Connect	8	8	11	8
Discovery Health Care Services	*	*	-	-
Discovery Life	(1 309)	(1 134)	(59)	(61)
Discovery Life Collective Investments	*	(1)	-	1
Discovery Limited	3 850	2 402	-	-
Discovery Medical Suppliers	27	6	(5)	-
Discovery Partner Markets Services	-	(3)	(24)	(17)
Discovery Third Party Recovery Services	3	2	*	*
Discovery Vitality	(4)	15	56	29
Discovery Insure	(18)	18	3	(1)
Discovery Life Investment Services	17	(11)	4	4
Grove Nursing Services	34	27	-	-
Ping An Health	(3)	(10)	7	10
PrimeMed Administration services	(*)	(*)	-	*
Quantium Australia	1	2	(1)	3
Quantium South Africa	1	-	(1)	-
Southern RX Distributors	101	88	(*)	-
Vitality Corporate Services	28	-	37	-
Vitality Group International Inc	522	3	1 152	74
Vitality Health	(2)	(7)	(4)	(7)
Vitality Life	5	4	57	45

*Amount is less than R500 000

Sale of assets to group companies

During the financial year, the Company sold assets at cost (carrying amount) to the value of R193 million (2018: R218m) to Discovery Central Services (Pty) Ltd (refer to note 3 and 4). No sale of assets transpired between the Company and Discovery Bank Limited in 2019 (2018: R28m). In the 2019 financial year, the company sold assets to Vitality Group International that resulted in a loss of R131m.

Discovery Health Proprietary Limited
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22. Related parties continued

Discovery staff retirement funds

A pension and provident fund has been set-up specifically for the Discovery Limited group staff. Contributions made to this fund during the year amounted to R99 million (2018: R89 million).

Key management personnel of Discovery Limited, families of key management (as defined in IAS 24) and entities significantly influenced or controlled by key management

During the current financial year the following transactions occurred between Discovery Limited and key management personnel, their families (as defined in IAS 24) and entities significantly influenced or controlled by key management:

- CSI donations and management fees of R31 million (2018: R29 million) were paid to the Discovery Fund & Trust in which an executive director of Discovery Limited has significant influence.
- Sponsorship and enterprise development grants were made to organisations where members of key management personnel have significant influence to the value of R0.8 million in the prior year
- Discovery Limited acquired paintings and other services to the value of R0.4 million in the prior financial year from a company controlled by a family member of key management personnel.

Discovery Health Proprietary Limited
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22. Related parties continued

Payments to directors for the year ended 30 June 2019 for services rendered:

R'000	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits (1)	Total
A Gore	-	6 910	6 590	6 259	1 036	391	21 186
HD Kallner	-	5 176	7 922	10 016	259	157	23 530
NS Koopowitz (2)	-	16 344	17 334	7 922	180	429	42 209
HP Mayers (3)	-	15 823	18 394	3 235	1 657	384	39 493
Dr A Ntsaluba	-	4 338	4 278	4 894	325	252	14 087
A Pollard (4)	-	6 433	2 486	5 689	129	250	14 987
JM Robertson	-	3 956	3 841	4 881	813	108	13 599
B Swartzberg	-	5 165	5 090	5 122	266	160	15 803
DM Viljoen	-	4 510	4 440	2 748	688	77	12 463
Executive subtotal	-	68 655	70 375	50 766	5 353	2 208	197 357
Dr J Broomberg	-	4 863	3 899	3 593	243	150	12 748
Prescribed officer	-	4 863	3 899	3 593	243	150	12 748
AL Owen(5)	2 755	-	-	-	-	194	2 949
MI Hillkowitz(5)	4 213	-	-	-	-	-	4 213
R Farber(6)	3 074	-	-	-	-	3 072	6 146
SV Zilwa	1 741	-	-	-	-	-	1 741
DR TV Maphai	1 011	-	-	-	-	-	1 011
SE De Bruyn	1 247	-	-	-	-	-	1 247
Sebotsa	-	-	-	-	-	-	-
Dr BA Brink	1 306	-	-	-	-	-	1 306
HL Bosman(7)	1 448	-	-	-	-	-	1 448
FN Khanyile(8)	631	-	-	-	-	-	631
TT Mboweni	317	-	-	-	-	-	317
L Chuime	138	-	-	-	-	-	138
Non-Executive Subtotal	17 881	-	-	-	-	3 266	21 147
Total	17 881	73 518	74 274	54 359	5 596	5 624	231 252
Less: paid by subsidiaries	-	(4 863)	(3 899)	(3 593)	(243)	(150)	(12 748)
Paid by Company	17 881	68 655	70 375	50 766	5 353	5 474	218 504

(1) "Other benefits" comprise medical aid contributions, travel and other allowances.

(2) Salary and incentive are paid in GBP.

(3) Remuneration consists of GBP and Rands components.

(4) Salary and incentive are paid in USD.

(5) Director's fees for services rendered are paid in GBP.

(6) Director's fees for services rendered by R Farber were paid in AUD and Rand components.

(7) Directors' fees for services rendered by HL Bosman were paid to Rand Merchant Insurance Holdings Limited.

(8) Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

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22. Related parties continued

Payments to directors for the year ended 30 June 2018 for services rendered:

R(000)	Services as directors	Basic salary	Performance bonus	Phantom scheme bonus	Provident fund contributions	Other benefits (1)	Total
Dr J Broomberg	-	4 614	3 645	5 754	231	136	14 380
A Gore	-	6 600	5 412	6 406	990	313	19 721
HD Kallner	-	4 913	5 070	9 526	246	141	19 896
NS Koopowitz ⁽²⁾	-	15 304	15 215	13 115	173	419	44 226
HP Mayers ⁽³⁾	-	15 358	12 787	6 901	1 651	377	37 074
Dr P Mومakwa	-	1 903	2 669	5 094	204	57	9 927
Dr A Ntsaluba	-	4 127	3 719	6 399	309	223	14 777
A Pollard ⁽⁴⁾	-	5 679	5 100	6 943	228	270	18 220
B Swartzberg	-	4 906	4 355	5 874	252	142	15 529
D Viljoen	-	4 277	750	-	652	71	5 750
JM Robertson	-	3 760	3 100	6 112	770	93	13 835
Executive subtotal	-	71 441	61 822	72 124	5 706	2 242	213 335
HL Bosman ⁽⁵⁾	1 278	-	-	-	-	-	1 278
Dr BA Brink	1 286	-	-	-	-	-	1 286
LM Chiume ⁽⁵⁾	378	-	-	-	-	-	378
SE de Bruyn	1 371	-	-	-	-	-	1 371
Sebotsa							
MI Hilikowitz	4 200	-	-	-	-	-	4 200
F Khanyile ⁽⁷⁾	614	-	-	-	-	-	614
Dr TV Maphai	859	-	-	-	-	-	859
TT Mboweni	1 317	-	-	-	-	-	1 317
AL Owen ⁽⁸⁾	2 621	-	-	-	-	-	2 621
SV Zilwa	1 577	-	-	-	-	-	1 577
R Farber ⁽⁶⁾	1 353	4 351	5 320	5 011	-	413	16 448
Non-Executive Subtotal	16 854	4 351	5 320	5 011	-	413	31 949
Total	16 854	75 792	67 142	77 135	5 706	2 655	245 284
Less: paid by subsidiaries	(1 353)	(56 691)	(51 266)	(52 464)	(3 406)	(1 890)	(167 070)
Paid by Company	15 501	19 101	15 876	24 671	2 300	765	78 214

(1) "Other benefits" comprise medical aid contributions, travel and other allowance.

(2) Salary and incentive are paid in USD.

(3) Salary and incentive paid in GBP.

(4) Salary and incentive paid in USD.

(5) Director's fees for services rendered by HL Bosman and LM Chiume were paid to Rand Merchant Insurance Holdings Limited.

(6) R Farber resigned as executive director on 1 April 2018 and commenced his tenure as non-executive director on the same day.

(7) Director's fees for services rendered by F Khanyile were paid to WDB Investment Holdings Proprietary Limited.

(8) Director's fees are paid in GBP.

Discovery Health Proprietary Limited
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23. Operating lease commitments

Discovery Health has various operating lease agreements. Most leases contain renewal options. Lease terms do not contain restrictions on Discovery Health's activities concerning dividends, additional debt or further leasing.

R million	2019	2018
Discovery Health leases certain land and buildings under operating leases. The remaining lease periods ranges from one month to five years. The future minimum commitments are as follows:		
Due within one year	1	5
Due within two to five years	2	8
Due after five years	-	2
Cash flow commitment	3	15
Accrued to a liability (refer to note 11)	(3)	(15)
Land and buildings	-	-

24. Financial guarantee contracts

Discovery Health issued financial guarantee contracts, to the value of R24 million, for Discovery Limited's syndicate and Domestic Term Note programme loans totaling R6 806million.

Another issue of financial guarantee contracts, to the value of R109 million, was to Discovery Central Services (Pty) Ltd for the Investec loans amounting to R1 949 million.

The prior year financial guarantee contracts issued were assessed as immaterial.

R million	2019
Financial guarantee issued are as follows:	
- Discovery Limited	24
- Discovery Central Services (Pty) Ltd	109
Closing balance	133
Current	3
Non-current	130

25. Change in accounting policy

25.1 IFRS 9: Financial Instruments

25.1.1 Classification

IFRS 9 introduces new requirements for the classification of financial assets based on Discovery Health's business model for managing the financial asset and its contractual cash flow characteristics. Discovery Health is still provided the option to designate a financial asset at initial recognition at fair value if doing so eliminates or reduces and accounting mismatch.

Discovery Health Proprietary Limited
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25. Change in accounting policy continued

25.1.2 Impairment

IFRS 9 introduces a new impairment model which will result in earlier recognition of losses based on the expected credit loss method. The impairment requirements relate to financial assets measured at amortised cost, contract assets and lease receivables. For Discovery Health, this relates to items disclosed on the statement of financial position as Financial assets - Loans and receivables. Discovery Health has assessed these balances for impairment and raised R65 million (with related deferred income tax of R2 million) for expected credit losses on balances outstanding at 1 July 2018.

25.2 IFRS 15: Revenue from contracts with customers

IFRS 15 establishes a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of goods or services transfer to a customer.

Discovery Health has performed detailed assessments on underlying contractual arrangements with customers. This included detailed assessments in respect of fee income from administration and managed care services. There is no impact on the timing or amount of revenue recognition, therefore no IFRS 15 adoption adjustments were applicable.

Effect of changes in IFRS 9 & 15 on date of initial application

R million	30 June 2018 Previously reported Audited	IFRS 9 Adjustments	IFRS 9 / 15 Reclassification	1 July 2018 Restated
Assets				
Deferred acquisition costs	57	-	(57)	-
Contract assets from customers	-	-	953	953
Financial assets				
- Available-for-sale Investments	226	-	(226)	-
- Investments at FVTPL	-	-	126	126
- Investments at FVTOCI	-	-	100	100
- Loans and receivables	3 915	(65)	(896)	2 954
Equity				
Retained earnings	574	(63)	-	511
Liabilities				
Deferred income tax	20	2	-	22
Deferred revenue	59	-	(59)	-
Contract liabilities	-	-	59	59

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26. Events after reporting date

There are no other significant events after the reporting date, being 30 June 2019, to the date the approval of the annual financial statements, namely, 2 September 2019.