

SWITZERLAND



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Hirslanden

HIRSLANDEN ACQUIRED TWO NEW HOSPITALS IN GENEVA AND MEGGEN, ADDING 87 BEDS TO THE GROUP

HIGHLIGHTS

+7.8%

INPATIENT
ADMISSIONS

+1.7%

AVERAGE INCOME
PER CASE

+8.8%

NORMALISED
REVENUE

92%

PATIENT
SATISFACTION
LEVEL

BUSINESS ENVIRONMENT

During the year, Hirslanden was able to further expand its position as the largest private hospital group in Switzerland. Following the acquisition of two hospitals, the group now consists of 16 hospitals. This is in addition to 3 outpatient clinics, 11 radiology and 4 radiotherapy centres. Hirslanden is the largest private medical network in Switzerland, with its primary competitor being the Swiss public hospital sector.

With a GDP growth of 2.0%, Switzerland experienced much stronger growth than the European Union (1.3%) and even double that of countries in the eurozone (0.9%). Above all, the trade of goods and services abroad (+1.4%) and private consumption (+0.5%) contributed to this growth. The stagnation or even slightly negative development of many prices has continued. The consumer mood was most recently dominated by the decision of the Swiss National Bank on 15 January 2015 to scrap the minimum exchange rate of CHF1.20 per euro. While the consumer confidence index stood at -6 points in January 2015, this still remains above the longstanding average of -9 points. The decision of the Swiss National Bank to scrap the minimum exchange rate does not have any effect on the core business at Hirslanden.

Thanks to its favourable economic situation, Switzerland remains attractive to foreign employees. In 2014, it employed more people from the EU than ever before. As in the previous year, the unemployment rate was 3.2% and thus more than three times below that of the eurozone. However, how immigration - and thus the growth in population - will develop in future is currently unclear and depends on how the Swiss vote of 9 February 2014 in favour of restrictions on foreign immigration will be put into practice. It is expected that the recruitment of foreign staff at Hirslanden will become more difficult.

An initiative to replace the current system of competition among many different health insurers with a system of one single public health insurance was rejected by a large majority in a public vote on 28 September 2014, demonstrating the public's opposition against a further nationalisation of the healthcare system. Despite this, some cantons have started to consider the introduction of a public cantonal health insurance system.



NUMBER OF EMPLOYEES

8 749



NUMBER OF BEDS

1 655



NUMBER OF HOSPITALS

16



NUMBER OF THEATRES

88

A recent study from Credit Suisse (Worry Barometer 2014) demonstrates that health – in contrast to just a few years ago – is no longer one of the most pressing concerns of the Swiss people. This is probably due to the fight against increases in insurance premiums. The health insurance premium index decreased by 0.8% in 2014 compared to the previous year. This is primarily due to the substantial reduction in supplementary insurance premiums in some cases.

Since Hirslanden is included on the hospital lists of all cantons where Hirslanden is present, the proportion of patients with basic insurance has grown continually from 35%, when the system was introduced, to a current level of 43%. However, Hirslanden continues to focus on being a leading provider of services to supplementary insurance clients.

Hirslanden, together with other service providers, forced the termination of the ongoing highly specialised medicine (“HSM”) planning before the courts. The Federal Administrative Court enforced an alteration of the tendering procedure and, at the same time, representatives from the private sector were also included in the specialist committee. The HSM planning process is currently ongoing – the outcome of which is uncertain.

BUSINESS PERFORMANCE

The 8.8% normalised revenue growth was achieved through inpatient admissions increasing by 7.8% during the reporting period, while the average length of stay remained stable and the average revenue per case increased by 1.7% due to higher acuity levels.

The normalised EBITDA margin of Hirslanden decreased from 20.8% to 19.4%.

During the period under review, Hirslanden invested the following amounts:

- R856m (CHF72m) (2014: R769m (CHF70m)) on capital projects and new equipment to enhance its business;
- R835m (CHF70m) (2014: R558m (CHF51m)) on replacing existing equipment; and

- R457m (CHF38m) (2014: R397m (CHF36m)) on repairing and maintaining property and equipment, which was charged through the income statement.

For the next financial year the budget is:

- CHF70m for capital projects and new equipment;
- CHF80m for replacing existing equipment; and
- CHF39m for repairs and maintenance.

Incremental EBITDA resulting from capital projects in progress or approved is budgeted to amount to CHF8m and CHF6m in 2016 and 2017 respectively.

The number of inpatient beds increased to 1 655 (2014: 1 567) during the period under review, mainly as a result of the acquisitions of two new hospitals, Hirslanden Clinique La Colline and Hirslanden Klinik Meggen.

ACQUISITIONS

The group acquired two hospitals in the reporting year. With the acquisition of the 67-bed Hirslanden Clinique La Colline, the group expanded its footprint to Geneva and is now represented in all major cities stretching from Eastern to Western Switzerland. With the newly acquired 20-bed Hirslanden Klinik Meggen in the canton of Lucerne, Hirslanden will also strengthen its business in Central Switzerland. Both facilities are included on the hospital list of their respective cantons. Hirslanden has taken on the existing personnel and continued hospital operations seamlessly at both these hospitals.

Hirslanden Clinique La Colline offers a range of multi-disciplinary medical and surgical services. The facilities include 67 inpatient beds, an emergency centre, six operating theatres and its own polyclinic. The hospital employs 290 people and works with some 150 affiliated doctors.

Hirslanden Klinik Meggen has around 40 affiliated doctors from various specialist fields supporting the hospital. The hospital includes three operating theatres and boasts 20 inpatient beds as well as a day clinic with 11 beds. The hospital employs 70 staff.

BUILDING PROJECTS

Hirslanden invests continually in infrastructural repairs and maintenance, new and replacement equipment incorporating cutting-edge medical technology, plus expansion projects and new buildings. These all have three goals in common:

- Hirslanden remains the preferred employer and partner of choice for leading affiliated doctors and experts;
- delivery of world-class medical and excellent general service; and
- ensuring further growth.

Building projects completed during the period under review include:

- In August 2014, Hirslanden Klinik Am Rosenberg opened its fifth operating theatre.
- In January 2015, the Praxiszentrum am Bahnhof in Schaffhausen opened for business as a general practitioner and walk-in practice. The first floor houses the practices of specialists who are accredited with Hirslanden Klinik Belair as affiliated doctors.
- In March 2015, Hirslanden Klinik Aarau opened its expanded private department. This also includes a lounge area, which acts as a reception and waiting room for private patients and their relatives.
- In March 2015, Hirslanden Klinik Stephanshorn opened an extension with space for 24 additional beds, as well as a new accident and emergency unit with six treatment rooms.
- Investments in medical technology during the period under review include:
 - At Hirslanden Klinik St. Anna a state-of-the-art PET/CT machine was commissioned in September 2014.
 - Hirslanden Klinik Beau-Site obtained a 3 Tesla MRI scanner in October 2014.
 - Hirslanden Klinik Im Park renovated its operating theatres and opened a hybrid operating theatre in November 2014.
 - In January 2015, Hirslanden Klinik St. Anna acquired a state-of-the-art Da Vinci surgical robot.

The major ongoing expansion projects are as follows:

- A fifth operating theatre is currently in development at Hirslanden Klinik Birshof together with new patient rooms and nurses' stations. The accident and emergency unit is also being expanded. Additionally, new doctors' practices and an additional radiology unit will also soon be in operation.
- A new outpatient clinic is currently being built close to the railway station in Düringen in the canton of Fribourg. The clinic will create 17 new jobs and will also include a radiology service.
- Hirslanden Clinique Bois-Cerf and Hirslanden Clinique Cecil in Lausanne are currently building a radiology centre in Malley (the Institut de radiologie de l'ouest lausannois), which will cooperate as a partner with the existing radiology centres of the Radiology Institute Hirslanden Lausanne.

PUBLIC PRIVATE PARTNERSHIPS

Hirslanden started three partnerships with public service providers during the year. This type of partnership holds great potential that should be further developed in the coming years. The three partnerships are:

- Since May 2014, Hirslanden Klinik Aarau has cooperated with the university hospital in Berne in the field of heart surgery. The new Heart Centre at Hirslanden Klinik Aarau is part of a further cooperation with the Aarau Cantonal Hospital, which was launched in September 2014 under the name Heart Centre Aargau. The goal is to offer heart medicine of the very highest standard, with heart surgery being performed at Hirslanden Klinik Aarau.
- Since December 2014, Hirslanden Klinik Aarau has also worked closely with the Aarau Cantonal Hospital in the field of neurosurgery. With this cooperation in one of the fields of first-class medicine, Aargau patients receive the best possible treatment for their needs – regardless of their chosen hospital.
- The Hirslanden Männedorf Institute of Radiotherapy opened in April 2014. The centre is run by specialist personnel and doctors from Klinik Hirslanden and complements Männedorf Hospital's range of services in oncology and surgery.



SUSTAINABILITY

Quality

The quality management system at Hirslanden is based on the regulations of the ISO 9001:2008 standard, according to which all the hospitals are certified. Its process orientation forms the basis for the alignment of the group and hospitals with the Business Excellence model from the European Foundation for Quality Management.

The Hirslanden hospitals are among the first in Switzerland to participate in the Quality Medicine Initiative. In this scheme, each participating hospital is obliged to publish a series of quality performance indicators. External peer review procedures are carried out if necessary. Hirslanden also participates in the National Association for Quality Development in Clinics and Hospitals. The results regularly prove that Hirslanden works to the highest standards.

People

The recruitment of nursing staff, especially in specialised nursing, is a major challenge both for Hirslanden and other hospitals. For this reason, Hirslanden is committed to the further training and education of specialist nurses to provide professional recruitment practices and to offer attractive working conditions and career opportunities. As one of

the largest employers in the Swiss health sector, Hirslanden trains around 980 apprentices and students, of whom around 85% work in healthcare professions. This also includes 145 trainee registrars.

Environment

The continuous improvement of the environmental balance is part of responsible and sustainable practices at Hirslanden. All Hirslanden hospitals have been supplied with 100% sustainable electric power since the start of 2014. In order to be even more systematic in environmental management, the Hirslanden Executive Committee has defined guidelines that cover issues ranging from training and construction measures to the choice of suppliers. A structured environmental management pilot project is also ongoing at Hirslanden Klinik Belair. ISO 14001:2015 certification of this hospital is planned for the end of 2015, with the remaining hospitals in the group to follow in the future.

MANAGEMENT CHANGES

A host of changes in management have been made in the reporting year. COO André Steiner retired after more than 20 years of service and was succeeded by Dr Daniel Liedtke, previously appointed as the Hospital Manager of Klinik Hirslanden in Zurich. In addition and to ensure the optimal implementation



of the organisation's strategy, the Chief Operating Officer ("COO") will be responsible for Marketing and Hirslanden International. The Chief Strategy Officer (formerly Chief Services Officer) will manage the Strategy and People departments, which are now no longer known as Services due to the new division of tasks. With the ongoing development from an infrastructure provider to a system provider in mind, the Chief Clinical Officer, responsible for clinical services, has been appointed to the Executive Committee.

OUTLOOK

The environment in which Hirslanden is active has undergone a fundamental change in recent years: inpatient services are invoiced on a flat-rate basis; the proportion of patients with basic insurance has grown from 35% in the 2011/12 financial year to currently 43% since the inclusion on the hospital lists; increasing regulation and cost pressure; and there is a shift in medical services from the inpatient to the outpatient sector.

For these reasons, the Hirslanden 2020 strategic programme was created. Implementation of the

programme has already started and will place great demands on the group in the years ahead. The programme has two objectives: to make the existing business more efficient and to develop new areas of business. In order to increase profitability, the transformation from a group of hospitals into an integrated hospital group (as initiated in the previous One Hirslanden programme) will be driven further. Business fields, which Hirslanden wants to develop increasingly, include the outpatient sector in particular. This ranges from additional outpatient clinics to outpatient surgery centres and radiology centres.

It is clear that a programme of transformation such as this is associated with additional costs. This also applies to the additional change project that is currently ongoing, the Hirslanden Hospital Information System (HLT) project, which provides a modern, ICT-enhanced basis for medical core business and administrative activities.