

ANNUAL REPORT 2018/19



EXPERTISE YOU CAN TRUST.





Hirslanden AG

Opfikon

***Report of the
statutory auditor to the
General Meeting***

***on the consolidated financial
statements for the year ended
31 March 2019***



Report of the statutory auditor to the General Meeting of Hirslanden AG

Opfikon

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Hirslanden AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the annual consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



- Overall Group materiality: CHF 7'150'000
- Full audit procedures were performed at 17 out of 24 reporting units
- Our audit scope addressed 97% of the Group’s revenue

As key audit matters the following areas of focus have been identified:

- Impairment assessment of non-current assets
- Accounting for the acquisition of Grangettes Healthcare SA



Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

<i>Overall Group materiality</i>	CHF 7'150'000
<i>How we determined it</i>	Based on 2.5% of earnings before interest, tax, depreciation and amortisation (EBITDA, before any impairment charge on intangible and tangible assets), rounded
<i>Rationale for the materiality benchmark applied</i>	As a basis for their decisions, Management uses EBITDA as it believes that it reflects the underlying operating performance of the Group. We took this measure into account in determining our materiality since we concur with management that it is the benchmark against which the performance of the Group is most commonly measured.

We agreed with the Audit Committee that we would report to them misstatements above CHF 715'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at each reporting unit. As all components are located in Switzerland, members of the Group engagement team were involved in audits of several reporting units and were able to have direct oversight on the audits at other components. We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain, such as the recovering value of intangible assets including goodwill. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment assessment of non-current assets

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>As per 31 March 2019 the Group reports goodwill of CHF 126.4 million, brand name intangible assets of CHF 56.7 million and land and buildings of CHF 3'264.9 million.</p> <p>In the year ended 31 March 2019 impairment charges for brand assets of CHF 70.3 million and for buildings and other fixed assets of CHF 241.3 million were recorded.</p> <p>The impairment assessment of non-current assets is considered a key audit matter due to the magnitude of the assets compared to the total assets as well as the estimation uncertainty inherent in management's assumptions relating to the recoverability of the assets.</p> <p>The main assumptions relate to the future cash flows of the respective cash generating units or group of cash generating units (CGUs) as well as the discount rates applied to derive the associated recoverable amounts.</p> <p>Refer to the notes to the consolidated financial statements, specifically the summary of significant accounting policies, note 5 "Property, equipment and vehicles" and note 6 "Intangible assets".</p>	<p>We have obtained management's impairment tests for each of the CGUs.</p> <p>We discussed with management the appropriateness of the CGU's determined and tested the allocation of net assets to the respective CGUs.</p> <p>We assessed whether the impairment model applied is appropriate. Specifically we performed the following procedures:</p> <ul style="list-style-type: none"> • We reconciled the estimated future cash flows of the 5 year forecast period to the business plan approved by the Board of Directors. • We discussed the key assumptions included in the model with management. • We assessed the methodology applied to calculate the terminal value for its adequacy. • With support of our internal valuation specialists we tested the reasonableness of the discount rate and reconciled the respective inputs to observable market data. Furthermore, we assessed the reasonableness of the growth rate after the forecast period by comparison to external projections for the healthcare sector. • We tested the mathematical correctness of the model. • We compared the current year actual results with the assumptions for the current year included in the prior years' impairment tests. • We inquired with the selected hospital Directors and other management representatives about the relevant milestones in the respective business plan as well as management's ability and intent to achieve these. <p>In cases where a CGU had a recoverable amount below the carrying value of the net assets we tested the value attributed to these net assets, specifically the buildings. Management, supported by a third party real estate appraiser determined the recoverable amount of properties. With the support of our internal real estate valuation specialists we tested a sample of these appraisals as well as the qualification and competency of the appraiser.</p> <p>In instances where the carrying value of the net assets remained below its net present value subsequent to the impairment of intangible assets or properties we assessed whether the remaining net assets are recoverable.</p> <p>Based on our work performed, we obtained adequate assurance of the appropriateness of management's assumptions and how the impairment assessments were performed and the recoverability of the remaining carrying values of non-current assets.</p>

Accounting for the acquisition of Grangettes Healthcare SA

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p>Effective on 22 October 2018, the Group acquired a controlling interest in Grangettes Healthcare SA and its subsidiaries Clinique des Grangettes SA and Dianecho SA (collectively Grangettes). After combining Hirslanden Clinique La Colline SA with Grangettes, the Group has a 60% controlling interest in the new established, combined entity Hirslanden La Colline Grangettes SA.</p> <p>The complexity and the magnitude of the transaction is considered a key audit matter given the significant accounting judgments required and estimates made as part of the determination of the purchase price allocation as well as the accounting for the put option over the remaining 40% of Hirslanden La Colline Grangettes SA.</p> <p>Please refer to the notes to the consolidated financial statements, specifically the summary of significant accounting policies and note 31 “Business combinations”.</p>	<p>We have read the respective contractual agreements.</p> <p>We audited the opening balance sheet adjustments.</p> <p>We assessed whether the acquisition date, being 22 October 2018, can be supported.</p> <p>We have obtained management’s purchase price allocation and performed the following procedures:</p> <ul style="list-style-type: none"> • We tested the value of the consideration transferred amounting to CHF 150.9 million consisting of cash payments and fair values of the share of the business obtained and the share of the business given up. • We assessed the process to determine separately identified intangible assets. For the single intangible asset identified, being the Grangettes brand, we assessed management’s valuation with the support of our valuation specialists. We focused on the adequacy of the royalty relief model for the purpose of the valuation as well as the parameters applied to the valuation, such as the royalty rate, the terminal value calculation and the discount rate. • We assessed the other aspects of the purchase price allocation including the appropriateness of the goodwill. <p>We discussed with management the correctness of allocating Grangettes to the respective CGU for impairment test purposes.</p> <p>We audited the valuation of the financial liability relating to the put option recognized in equity at the acquisition date as well as the movements recognized in the income statement as at the balance sheet date.</p> <p>Based on our work performed, we obtained adequate assurance of the appropriateness of management’s assumptions applied in the purchase price allocation as well in the inclusion of the Grangettes results in the consolidated financial statements for the year ended 31 March 2019.</p>

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and our auditor’s reports thereon.



Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group'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 Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 Swiss law, ISAs and Swiss Auditing Standards 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of 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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of 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.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Bruno Rossi
Audit expert
Auditor in charge

Sven Rumpel
Audit expert

Zurich, 14 May 2019

Enclosure:

- Consolidated financial statements (consolidated statement of financial position as at 31 March 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the annual consolidated financial statements)

Hirslanden AG

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS 2019

HIRSLANDEN 

MEDICLINIC 
INTERNATIONAL

CONTENTS

for the year ended 31 March

General Information	3
Consolidated statement of financial position	4
Consolidated income statement	5
Consolidated statement of comprehensive income	6
Consolidated cash flow statement	7
Consolidated statement of changes in equity	8
Notes to the annual consolidated financial statements	9
1. General Information	
2. Summary of significant accounting policies	
3. Financial risk management	
4. Critical accounting estimates and judgements	
5. Property, equipment and vehicles	
6. Intangible assets	
7. Equity accounted investments	
8. Other investments and loans	
9. Deferred taxation	
10. Inventories	
11. Trade and other receivables	
12. Cash and cash equivalents	
13. Share capital and share premium	
14. Reserves	
15. Non-controlling interests	
16. Borrowings	
17. Retirement benefit obligations	
18. Provisions	
19. Derivative financial instruments	
20. Cash-settled share-based payment liability	
21. Trade and other payables	
22. Revenue	
23. Expenses by nature	
24. Other gains and losses	
25. Finance income and cost	
26. Taxation	
27. Other comprehensive income	
28. Cash flow information	
29. Commitments	
30. Intercompany balances and related party transactions	
31. Business combinations	
32. Segment reporting	
33. Financial instruments - additional disclosures	
34. Impacts of adoption of new IFRS standards	
35. Investments in subsidiaries and associates	
36. Events after the balance sheet date	

GENERAL INFORMATION

for the year ended 31 March

NATURE OF ACTIVITIES

The main business of the Group is to enhance the quality of life of patients by providing comprehensive, high-quality hospital services on a cost-effective basis.

GENERAL REVIEW OF ACTIVITIES

The Group currently operates eighteen hospitals in Switzerland.

The financial results are fully disclosed in the consolidated income statement and in the consolidated financial statements.

COMPANY NAME

Hirslanden AG ("Group")

COMPANY REGISTRATION NUMBER

CHE-113.796.171

ULTIMATE HOLDING COMPANY

Mediclinic International plc

REGISTERED OFFICE

Boulevard Lilienthal 2, 8152 Glattpark (Opfikon)

EXECUTIVE MANAGEMENT

Mr. D. Liedtke (Chief Executive Officer from 1 January 2019)
Dr. T. O. Wiesinger (Chief Executive Officer until 31 December 2018)
Mr. P.-A. Binard (Chief Financial Officer from 1 September 2018)
Mr. A. Kappeler (Chief Financial Officer until 31 August 2018)
Dr C. H. A. Westerhoff (Chief Clinical Officer)
Mr. M. Bechtiger (Chief Human Resources Officer from 1 September 2018)
vacant (Chief Operating Officer from 1 January 2019)
Mr. D. Liedtke (Chief Operating Officer until 31 December 2018)

BOARD OF DIRECTORS

Dr. T. O. Wiesinger (President and Board Member until 25 March 2019)
Mr. D. Liedtke (President from 25 March 2019)
Mr. P.-A. Binard (appointed 14 September 2018)
Mr. A. H. Kappeler (resigned 14 September 2018)

COMPANY SECRETARY

Ms. M. Seikel

AUDITORS

PricewaterhouseCoopers AG, Switzerland, Zürich

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March

GROUP

	Notes	2019 CHF 000	2018 CHF 000
ASSETS			
Non-current assets			
		3'783'098	3'956'998
Property, equipment and vehicles	5	3'540'363	3'809'692
Intangible assets	6	232'812	141'896
Equity accounted investments	7	2'111	2'313
Other investments and loans	8	3'420	1'545
Deferred income tax assets	9	4'392	1'552
Current assets			
		797'291	652'651
Inventories	10	60'458	58'259
Trade and other receivables	11	591'608	508'330
Cash and cash equivalents	12	145'225	86'062
Total assets		4'580'389	4'609'649
EQUITY			
Capital and reserves			
Share capital	13	551'882	551'882
Share premium	13	976'056	986'056
Retained earnings	14.1	(420'229)	(280'445)
Hedge reserve	14.2	-	-
Share-based payment reserve	14.3	-	127
Redemption liability reserve	33	(113'477)	-
Attributable to equity holders of the Company		994'232	1'257'620
Non-controlling interests	15	38'716	559
Total equity		1'032'948	1'258'179
LIABILITIES			
Non-current liabilities			
		3'136'741	3'063'382
Borrowings	16	1'664'618	1'713'647
Loans from related parties	30.1	718'586	697'367
Deferred income tax liabilities	9	533'688	616'888
Retirement benefit obligations	17	68'244	4'310
Provisions	18	37'682	31'134
Redemption liability	33	113'921	-
Cash-settled share-based payment liability	20	2	36
Current liabilities			
		410'700	288'088
Trade and other payables	21	285'044	234'684
Borrowings	16	102'922	35'867
Provisions	18	13'115	15'355
Current income tax liabilities	28.2	9'619	2'182
Total liabilities		3'547'441	3'351'470
Total equity and liabilities		4'580'389	4'609'649

The notes on page 9 to 72 are an integral part of these consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 March

GROUP

		2019	2018
	Notes	CHF 000	CHF 000
Revenue	22	1'778'179	1'735'435
Cost of sales (incl depreciation and amortisation)	23	(1'051'388)	(1'122'158)
Administration and other operating expenses (incl depreciation and amortisation)	23	(572'557)	(400'340)
Impairment of properties and intangible assets	5/6	(311'604)	(861'039)
Other gains and losses	24	-	10'941
Operating loss		(157'370)	(637'161)
Finance income	25	137	1'596
Finance cost	25	(51'219)	(82'807)
Share of profit / (loss) of equity accounted investments	7	56	(47)
Loss before taxation		(208'396)	(718'419)
Income tax income	26	62'452	62'831
Loss for the year		(145'944)	(655'588)
Attributable to:			
Equity holders of the Company		(149'897)	(655'578)
Non-controlling interests	15	3'953	(10)
		(145'944)	(655'588)

The notes on page 9 to 72 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March

		GROUP	
		2019	2018
Notes	CHF 000	CHF 000	CHF 000
Loss for the year		(145'944)	(655'588)
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
		-	2'091
Derivative financial instruments - gross gain	14.2/27	-	2'652
Derivative financial instruments - tax	14.2/27	-	(561)
Items that will not be reclassified to profit or loss			
	14.1	(45'652)	75'245
Actuarial gains / (losses) - gross	17/27	(57'424)	94'648
Actuarial gains / (losses) - tax	9/27	11'772	(19'403)
Other comprehensive income / (loss), net of tax		(45'652)	77'336
Total comprehensive loss for the year		(191'596)	(578'252)
Attributable to:			
Equity holders of the Company		(192'141)	(578'242)
Non-controlling interests	15	545	(10)
		(191'596)	(578'252)

The notes on page 9 to 72 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

as at 31 March

GROUP

	Share capital (note 13)	Share premium (note 13)	Share based payment reserve (note 14.3)	Hedge reserve (note 14.2)	Redemption liability reserve (note 33)	Retained earnings (note 14.1)	Shareholders' equity	Non- controlling interests (note 15)	Total equity
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
Balance at 01 April 2017	551'882	996'056	260	(2'091)	-	299'935	1'846'042	211	1'846'253
Loss for the year	-	-	-	-	-	(655'578)	(655'578)	(10)	(655'588)
Other comprehensive income, net of tax	-	-	-	2'091	-	75'245	77'336	-	77'336
Total comprehensive income for the year	-	-	-	2'091	-	(580'333)	(578'242)	(10)	(578'252)
Share based payment expense	-	-	45	-	-	-	45	-	45
Purchase of shares	-	-	(173)	-	-	-	(173)	-	(173)
Share-based payment reclassification	-	-	(5)	-	-	5	-	-	-
Business combinations - note 31	-	-	-	-	-	-	-	393	393
Transactions with non-controlling interests	-	-	-	-	-	(52)	(52)	42	(10)
Distributions to non-controlling interests	-	-	-	-	-	-	-	(77)	(77)
Distributions to shareholder	-	(10'000)	-	-	-	-	(10'000)	-	(10'000)
Balance at 31 March 2018	551'882	986'056	127	-	-	(280'445)	1'257'620	559	1'258'179
(Loss) / profit for the year	-	-	-	-	-	(149'897)	(149'897)	3'953	(145'944)
Other comprehensive loss, net of tax	-	-	-	-	-	(42'244)	(42'244)	(3'408)	(45'652)
Total comprehensive loss for the year	-	-	-	-	-	(192'141)	(192'141)	545	(191'596)
Purchase of shares	-	-	(102)	-	-	-	(102)	-	(102)
Share-based payment reclassification	-	-	(25)	-	-	25	-	-	-
Business combinations - note 31	-	-	-	-	-	52'297	52'297	16'363	68'660
Transactions with non-controlling interests	-	-	-	-	-	35	35	21'251	21'286
Redemption liability - note 33	-	-	-	-	(113'477)	-	(113'477)	-	(113'477)
Distributions to non-controlling interests	-	-	-	-	-	-	-	(2)	(2)
Distributions to shareholder	-	(10'000)	-	-	-	-	(10'000)	-	(10'000)
Balance at 31 March 2019	551'882	976'056	-	-	(113'477)	(420'229)	994'232	38'716	1'032'948

The notes on page 9 to 72 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March

GROUP

		2019	2018
	Notes	CHF 000 Inflow/ (outflow)	CHF 000 Inflow/ (outflow)
CASH FLOW FROM OPERATING ACTIVITIES			
Cash received from customers		1'720'519	1'721'910
Cash paid to suppliers and employees		<u>(1'444'737)</u>	<u>(1'463'303)</u>
Cash generated from operations	28.1	275'782	258'607
Interest received	28.3	137	773
Interest paid	28.3	(26'630)	(34'934)
Taxation paid	28.2	<u>(19'925)</u>	<u>(23'642)</u>
NET CASH FLOW FROM OPERATING ACTIVITIES		229'364	200'804
CASH FLOW FROM INVESTMENT ACTIVITIES			
		(155'998)	(254'369)
Investment to maintain operations	28.4	(42'849)	(95'866)
Investment to expand operations	28.5	(59'173)	(55'116)
Proceeds on sale of property, equipment and vehicles		1'949	546
Acquisition of investments in associates	7	-	(350)
Dividends received from equity accounted investments	7	308	28
Proceeds from loans	8	7'948	-
Loans granted	8	-	(215)
Business combinations, net of cash acquired	31	<u>(64'181)</u>	<u>(103'396)</u>
Net cash generated before financing activities		73'366	(53'565)
CASH FLOW FROM FINANCING ACTIVITIES			
		(14'203)	(40'470)
Distributions to non-controlling interests		(2)	(76)
Transactions with non-controlling interests		(222)	-
Distributions to shareholder	14.1	(10'000)	(10'000)
Proceeds from borrowings	16	103'000	-
Long term incentive scheme dividends	14.3	(102)	(173)
Repayment of swap	19	-	(4'270)
Repayment of borrowings	16	(102'212)	(3'792)
Refinancing transaction costs	16	(4'665)	(15'936)
Repayments to related parties	30.1	<u>-</u>	<u>(6'223)</u>
Net increase / (decrease) in cash and cash equivalents		59'163	(94'035)
Opening balance of cash and cash equivalents		86'062	180'097
Closing balance of cash and cash equivalents		145'225	86'062

The notes on page 9 to 72 are an integral part of these consolidated financial statements.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

1. GENERAL INFORMATION

Hirslanden AG (company registration number: CHE-113.796.171) and its subsidiaries, Hirslanden Private Hospital Group ("The Group"), operates multi-disciplinary private hospitals in Switzerland.

The main business of the Group is to enhance the quality of life of patients by providing comprehensive, high-quality hospital services on a cost-effective basis.

Hirslanden AG is a limited corporation company incorporated and domiciled in Switzerland. The address of its registered office is:

Hirslanden AG, Boulevard Lilienthal 2, CH-8152 Glattpark (Opfikon)

Effective on 22 October 2018, the Group acquired a controlling interest in Grangettes Healthcare SA and its subsidiaries Clinique des Grangettes SA and Dianecho SA. After combining Hirslanden Clinique La Colline with Grangettes Healthcare SA, the Group has a 60% controlling interest in the new established, combined entity Hirslanden La Colline Grangettes SA.

The ultimate holding company of the Group is Mediclinic International plc., a company listed on the London Stock Exchange ("LSE") and the Johannesburg Stock Exchange ("JSE").

Hirslanden AG is a wholly owned subsidiary of Mediclinic Luxembourg S.à.r.l.; Mediclinic Luxembourg S.à.r.l. is a wholly owned subsidiary of Mediclinic Holdings Netherlands B.V. and finally Mediclinic Holdings Netherlands B.V. is a wholly owned subsidiary of Mediclinic International plc.

These annual consolidated financial statements have been approved for issue by the Board of Directors on 14 May 2019 for the ultimate approval of the shareholders at their annual general meeting.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Group has applied IFRS 9 and IFRS 15 for the first time in the 2019 financial year and comparative information has not been restated. Refer to note 34 for descriptions on the impacts of adoption of new IFRS standards.

2.1 Basis of preparation

The annual consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are presented in Swiss Francs (CHF), which is the functional and presentation currency of all group companies and all values are rounded to the nearest thousand (CHF 000) except when otherwise indicated. The consolidated financial statements are prepared on the historical cost convention, except for the following items, which are carried at fair value or valued using another measurement basis:

- Derivative financial assets and liabilities, equity instruments measured at FVPL (2018: available-for-sale financial assets) are measured at fair value;
- Retirement benefit obligations that are measured in terms of the projected unit credit method and plan assets measured at fair value; and
- Liabilities for cash-settled share-based payments are measured at fair value.

The preparation of the consolidated 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 the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual consolidated financial statements, are disclosed in note 4.

The consolidated financial statements of the Group for the year ended 31 March 2019 contain the result of the year beginning 1 April 2018 until 31 March 2019. The comparative figures are comprised of the year from 1 April 2017 to 31 March 2018.

The new accounting standards, amendments and interpretations which have been published that are mandatory for accounting periods beginning on or after 1 April 2019 or later periods but which the Group has not early adopted are disclosed in note 2.26.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation and equity accounting

a) *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are no longer consolidated from the date control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in the income statement.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IFRS 9 (2018: IAS 39) either in the income statement or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interest are also recorded in equity.

When the Group ceases to have control any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in the income statement. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets and liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the income statement.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Associates and joint ventures*

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangement and determined it to be a joint venture.

Investments in associates and joint ventures are accounted for using the equity method of accounting.

Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition. Dividends received or receivable from equity accounted investments are recognised as a reduction in the carrying amount of the investment. The Group's investment in associates and joint venture includes goodwill identified on acquisition. If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to the income statement where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate or joint venture equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the entity.

The Group determines at each reporting date whether there is any objective evidence that the equity accounted investment is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of profit/(loss) of associates and joint ventures in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its equity accounted investments are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates and joint ventures. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group. Dilution gains and losses arising from investments in associates are recognised in the income statement.

2.3 **Segment reporting**

Consistent with internal reporting, the Group's operating segments are the eight supply regions (Argovia, Baselland, Berne, East (Appenzell, SG), Lucerne, Schaffhausen, West (GE/VD) and Zug). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of Switzerland (ExCo) that makes strategic decisions.

The following reports are reviewed by the ExCo on a monthly basis: Income statement, cash flow statement and balance sheet as well as statistics.

Since all operating segments are healthcare providers in Switzerland and as such have the same business activities and operate in the same economic and regulatory environment, have similar economic characteristics such as long-term EBITDA-margins and revenue streams and offer similar services to similar types of customers, the eight operating segments are aggregated into one reportable segment in line with the aggregation criteria of IFRS 8.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Property, equipment and vehicles

Land and buildings mainly comprise hospitals and offices. All property, plant and equipment is shown at cost less accumulated depreciation and impairment, except for land, which is shown at cost less impairment. 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 the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Building shells are not depreciated unless the asset's carrying amount is greater than the residual value. Depreciation on the other assets is calculated using the straight-line method to allocate the cost of each asset to its residual value over the estimated useful life, as follows:

- Building shells:	100 years
- Fixed installations:	20 - 30 years or over the term of the lease contract if shorter
- Leasehold improvements:	3 - 10 years
- Equipment:	3 - 10 years
- Furniture and vehicles:	3 - 10 years

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each financial year end.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

2.5 Intangible assets

a) **Brand names**

Until 31 March 2018, brand names were deemed to have an indefinite useful life as based on the analysis of all the relevant factors, there was no foreseeable limit to the period over which the assets are expected to generate net cash inflow for the Group. Following the reassessment of the longer term outlook the expected useful life was changed to 75 years for the Hirslanden brand name and 25 years for the local brand names. From 1 April 2018 on the Group started to amortise the brand names over the expected useful life using the straight line method.

b) **Goodwill**

Goodwill represents the excess of the consideration transferred over the fair value of net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill is monitored at the operating segment level which represents the lowest level at which it is monitored for internal management purposes.

c) **Computer software and projects**

Acquired computer software licences and specific IT project costs such as internally developed software programmes are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight line method over their estimated useful lives (3 - 5 years). Costs associated with maintaining computer software programs or development expenditure that do not meet the recognition criteria are recognised as an expense as incurred.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment and whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The recoverable amount is calculated by estimating future cash benefits that will result from each asset and discounting those cash benefits at an appropriate discount rate. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable and independent cash flows - CGUs. Non-financial assets, other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 Financial assets (accounting policies applied from 1 April 2018)

From 1 April 2018, the Group classifies its financial assets in the following measurement categories:

- Financial assets measured subsequently at fair value through other comprehensive income (FVOCI);
- Financial assets measured subsequently at fair value through profit or loss (FVPL) and
- Financial assets measured at amortised cost.

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its investment at initial recognition.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income. For investments in debt instruments, this will depend on the business model in which the investment is held. For investments in equity instruments, this will depend on whether the company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

a) **Equity instruments**

The Group subsequently measures all equity investments at fair value. Changes in the fair value of financial assets at fair value through profit or loss (FVPL) are recognised in other gains and losses in the income statement.

Where management has elected to present fair value gains and losses on equity investments in other comprehensive income, there is no subsequent reclassification of fair value gains and losses to profit and loss. Upon derecognition of these equity investments, any balance within the FVOCI reserve is reclassified to retained earnings. Dividends from such investments are recognised in profit or loss as other gains and losses when the Group's right to receive payments is established. Currently the Group has not elected to designate any equity instruments at FVOCI.

Impairment losses on equity investments measured at FVOCI or FVPL are not reported separately from other changes in fair value.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Debt instruments*

Subsequent measurement of debt instruments depends on the company's business model for managing the asset and the cash flow characteristics of the asset.

There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost:

Assets that are held for collection of contractual cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Trade receivables are classified as debt instruments measured at amortised cost.

- Fair value through other comprehensive income (FVOCI):

Assets that are held for collection of contractual cash flows and for selling the asset, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains and losses. Interest income from these financial assets is included in finance income using the effective interest rate method.

- Fair value through profit or loss (FVPL):

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss is recognised in profit or loss and presented in the income statement as part of other gains and losses in the period in which it arises. Interest income from these financial assets is included in finance income.

Currently the Group does not hold any debt instruments at FVOCI or FVPL.

Debt instruments are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

c) *Impairment*

The Group recognises an allowance for expected credit losses for all debt instruments not held at FVPL. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate.

Expected credit losses are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, expected credit losses are provided for credit losses that result from default events that are possible within the next 12 months. For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

For debt instruments at FVOCI and debt instruments at amortised cost, the Group applies the low credit risk simplification. At every reporting date, the Group evaluates whether the debt instrument is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (accounting policies applied until 31 March 2018)

The Group classifies its financial assets in the following categories: loans and receivables, available-for-sale financial assets and financial assets at fair value through profit or loss. The classification depends on the purpose for which the asset was acquired. Management determines the classification of its investments at initial recognition.

Purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not subsequently carried at fair value through profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

a) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest rate method.

b) **Investments available-for-sale**

Other long-term investments are classified as available-for-sale and are included within non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. These investments are carried at fair value. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in other comprehensive income in the period in which they arise. When available-for-sale investments are either sold or impaired, the accumulated fair value adjustments are realised and included in the income statement.

c) **Financial assets at fair value through profit or loss**

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these financial instruments are recognised in the income statement in the period in which they arise. Assets in this category are classified as current assets if expected to be settled within 12 months, otherwise they are classified as non-current.

d) **Impairment**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the investments are impaired. If any such evidence exists for available-for-sale financial assets, 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 the income statement – is removed from equity and recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Offsetting of 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 offset the recognised amounts, the legal enforceable right is not contingent of a future event and is enforceable in the normal course of business even in the event of default, bankruptcy and insolvency, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.10 Inventories

Inventories are valued at the lower of cost, determined on weighted average cost method, or net realisable value. The valuation excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade receivables and other receivables

Trade receivables and other receivables are recognised at fair value. From 1 April 2018, with the adoption of IFRS 9 Financial Instruments, provisions for expected credit losses are established using an expected credit loss model (ECL).

For trade receivables only, the Group applies the simplified approach permitted by IFRS 9, which requires lifetime expected credit losses to be recognised from initial recognition of the receivables. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on the payment profiles of debtors over a period of 24 months before 31 March 2018 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. Charges for doubtful trade receivables are recorded in the consolidated income statement.

Prior to the adoption of IFRS 9, a provision for impairment of trade receivables was established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Charges for doubtful trade receivables were recorded in the consolidated income statement.

Note 34 "Impacts of adoption of new IFRS standards" provides additional disclosures on the impact of adoption of IFRS 9 Financial Instruments.

2.12 Cash and cash equivalents

Cash and cash equivalents consist of balances with banks and cash on hand and are classified as debt instruments measured at amortised cost under IFRS 9 (2018: loans and receivables under IAS 39). Bank overdrafts are classified as financial liabilities at amortised cost and are disclosed as part of borrowings in current liabilities in the statement of financial position.

2.13 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently measured at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. Hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction are designated as a cash flow hedge.

At inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it applies hedge accounting and the risk management objective and strategy for undertaking the hedge.

Before 1 April 2018, the Group documented its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. The documentation also included the identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Beginning 1 April 2018, the documentation includes the identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements. A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is an economic relationship between the hedged item and the hedging instrument.
- The effect of credit risk does not dominate the value changes that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The fair values of derivative instruments used for hedging purposes are disclosed in note 19. Movements on the hedging reserve in shareholder's equity are shown in note 14.2. On the statement of financial position hedging derivatives are not classified based on whether the amount is expected to be recovered or settled within, or after, 12 months. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge relationship is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedge relationship is less than 12 months.

2.14 Share capital

Ordinary shares are classified as equity. Shares in the Company held by wholly-owned group companies are classified as treasury shares and are held at cost.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax. Where any Group company purchases the 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 until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

2.15 Trade and other payables

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

Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 Borrowing costs

Borrowing costs are expensed when incurred, except for borrowing costs directly attributable to the construction or acquisition of qualifying assets. Borrowing costs directly attributable to the construction or acquisition of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are expensed in the period they occur.

2.18 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the cantons where the Group and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; 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 profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and associates only to the extent that it is probable that the temporary differences will reverse in the future and that there is sufficient taxable profit available against which the temporary differences can be utilised.

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 same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 Employee benefits

a) Retirement benefit costs

The Group provides defined contribution plans in terms of Swiss law, the assets of which are held in separate trustee administered funds. These plans are funded by payments from the employees and the Group, taking into account recommendations of independent qualified actuaries. Due to the strict definition of defined contribution plans in IAS 19, these plans are classified as defined benefit plans for IFRS purposes since the Group takes some investment and longevity risk in terms of Swiss law.

Defined benefit plans

A defined benefit plan is a plan that is not a defined contribution plan. This plan defines an amount of pension benefit an employee will receive on retirement, dependent on one or more factors such as age, years of service and compensation. The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement. A net pension asset is recorded only to the extent that it does not exceed the present value of any economic benefit available in the form of reductions in future contributions to the plan, and any unrecognised actuarial losses and past service costs. The annual pension costs of the Group's benefit plans are charged to the income statement.

The net interest costs are calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. These costs are recognised in the social insurance expenses.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) *Employee jubilee benefits*

This provision is for benefits granted to employees for long-service. The accrued amount is included in provisions. For more details see note 17.

c) *Profit-sharing and bonus plans*

The Group recognises a liability and an expense for bonuses where a contractual obligation for short-term incentives exists or where there is a past practice that has created a constructive obligation. The amounts payable to employees in respect of the short-term incentive schemes are determined based on annual business performance targets.

d) *Equity-settled share-based compensation*

The Mediclinic Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the ultimate holding company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions
- excluding the impact of any service and non-market performance vesting conditions; and
- including the impact of any non-vesting conditions.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

e) *Cash-settled share-based compensation*

The Group operates cash-settled share-based compensation plans. The Group recognises the value of the services received (expense), and the liabilities to pay for those services, as the employees render service. The liabilities are measured, initially, and at each reporting date until settled, at the fair value appropriate to the scheme, taking into account the terms and conditions on which the rights were granted, and the extent to which the employees have rendered service to date, excluding the impact of any non-market related vesting conditions. Non-market related vesting conditions are included in the assumptions regarding the number of units expected to vest. These assumptions are revised at the end of each reporting period. All changes to the fair value of the liability are recognised in the income statement.

2.21 Revenue recognition (accounting policies applied from 1 April 2018)

Revenues are measured at the transaction price which is the amount of consideration that the Group expects to be entitled to in exchange for the services provided.

A performance obligation is a promise to transfer a distinct good or service to a customer. Hospital services provided to patients are regarded as a bundle of services which comprise accommodation, meals, theatre time, use of equipment, pharmacy stock and nursing services. This is considered to be a single performance obligation as the medical procedures cannot be performed without one of the above elements.

Revenue is recorded during the period in which the hospital service is provided and is based on the amounts due from patients and/or medical funding entities. Fees are calculated and billed based on various tariff agreements with funders.

For inpatient treatments the pricing model is based on diagnostic related groups ("Swiss DRGs") and can also be seen as a fixed fee arrangement. Invoicing occurs when the patient is discharged and the coding is done. Revenue is recognised over the estimated length of stay of the patient. In some cases, the pricing model for DRGs is based on provisional tariffs as delays occur in the agreement of the tariffs between the healthcare providers and the funders. When the tariffs are provisional, revenue continues to be recognised and the outstanding amount is claimed from the insurance. Provisional tariffs are only recognised in revenue to the extent that it is highly probable that the revenue will not be reversed. The tariff provisions are regularly reassessed based on the actual outcome of tariff negotiations.

For inpatient cases open over period end, revenue is accrued for by taking into account the average CMI (Case Mix Index) of the respective medical field, the baserate according to the respective category (accident, illness, inner-cantonal, external, self-payer etc.) as well as the pro rata length of stay.

For outpatient cases, the pricing model is based on the TARMED rates and considered a fixed fee arrangement. The applicable TARMED rate varies depending on the relevant canton, procedure and patient.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Group's hospitals have affiliated doctors which are partners cooperating with Hirslanden on a contractual agreement. The contracts with these affiliated doctors allow them to use the Hirslanden infrastructure, nurses, theatre etc. The doctors are responsible for the treatment of the patient and Hirslanden is responsible for the technical services such as the medical equipment, nursing care etc. Swiss regulatory requirements comply Hirslanden to provide statistics to the government based on all the costs incurred for patient procedures, including doctors' fees. Hirslanden therefore invoices its own technical services together with the doctors' fees to the insurer and subsequently refunds the amount of the doctors' services to the affiliated doctors.

Hirslanden is acting as an agent for those affiliated doctors based on the following considerations:

- The affiliated doctors are responsible for fulfilling the contract of treating the patient. Every affiliated doctor needs its own liability insurance for any claim against any human error of the doctor. The hospital is responsible for any process failures at the hospital.
- The Group does not have discretion in establishing prices, this is determined by contracts in place between the doctor and the insurer or the relevant percentage of the total revenue for DRG procedures.
- An administrative cost contribution (a form of commission) is deducted from the doctors' fees before the transfer of these fees to the doctors.
- Credit risk is considered to be insignificant, but if the insurer does not accept an invoice after the amount has been refunded to the doctor, the doctor is contractually obliged to repay the amount to the hospital.

As a result, the refund paid to the doctor is deducted from revenue and thus revenue is shown on a net basis. For DRG procedures the process is the same, but the refund is calculated using a contractually agreed-upon percentage for doctors' services.

Revenue from other sources is based on fixed fee arrangement and recognised when the control of goods and services is transferred.

The Group does not expect to have any contracts where the period between the transfer of the promised service to the patient and the payment by the patient exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for time value of money.

Note 34 "Impacts of adoption of new IFRS standards" provides additional disclosures on the impact of adoption of IFRS 15.

2.22 Revenue recognition (accounting policies applied until 31 March 2018)

Revenue comprises hospital fees and is measured at the fair value of the consideration received or receivable for services provided, net of discounts. Revenue is recognised when the significant risks & rewards of ownership have been transferred or services have been provided, the amount of revenue can be measured reliably and it is probable that the future economic benefits will flow to the Group.

Revenue for general insured medical inpatient treatments is calculated based on the allocation of each case to the diagnosis-related group (DRG). The resulting weight of each case is multiplied by a base rate which is either negotiated, fixed by the authority or estimated for cases where no agreement is in place. For semi-private and private insured treatments, the group is invoicing based on individually negotiated rates with the insurance companies.

Revenue for outpatient medical treatments is calculated based on tax points for the different outpatient treatments, which are multiplied with an individual tax point value. Specific medicaments and other material is added to determine the hospital fee. The tax point values are regularly negotiated with the insurance companies.

Tariff provisions are recognised in revenue when the Group has a present legal or constructive obligation, as a result of past events, and it is probable that an outflow of resources will be required which can be reliably estimated.

Other revenues earned are recognised on the following basis:

- a) **Interest income**
Interest income is recognised on a time-proportion basis using the effective interest rate method.
- b) **Dividend income**
Dividend income is recognised when the shareholders' right to receive payment is established.
- c) **Rental income**
Rental income is recognised on a straight-line basis over the term of the lease.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Cost of sales

Cost of sales consist of the cost of inventories, including obsolete stock, which have been expensed during the year, together with personnel costs and related overheads which are directly attributable to the provision of services.

2.24 Leased assets

Leases of property, equipment and vehicles where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in interest-bearing borrowings. The interest element of the finance charges is charged to the income statement over the lease period. The property, equipment and vehicles acquired under finance leasing contracts are depreciated over the useful lives of the assets or the term of the lease agreement if shorter and transfer of ownership at the end of the lease period is uncertain.

All other leases are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.25 Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates (the functional currency). The consolidated financial statements are prepared in Swiss Francs (CHF) which is the Company's functional and presentation currency.

Transactions in foreign currencies are translated to the functional currency at the rates of exchange ruling on the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.26 Standards, interpretations and amendments

Published standards, amendments and interpretations effective for the 31 March 2019 financial period:

The following published standards, amendments and interpretations are mandatory for the accounting period beginning on or after 1 April 2018 and have been adopted:

- IFRS 9 – Financial Instruments (1 January 2018)
- IFRS 15 – Revenue from Contracts with Customers (1 January 2018)

Published standards, amendments and interpretations not yet effective and not early adopted:

The following new standards, amendments and interpretations are expected to have an impact on the financial statements in the period of initial application.

IFRS 16 Leases (1 January 2019)

The new standard addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees (recognition of a right-of-use asset to use the leased item and a financial liability to pay the rentals). The standard replaces IAS 17 Leases, and related interpretations. The statement of profit or loss will also be affected because the total expense is generally higher in the earlier years of a lease and lower in later years. Additionally, the operating lease expense will be replaced with interest and depreciation, resulting in an expected change in EBITDA and the EBITDA margin. The Group plans to adopt the new standard on 1 April 2019 using the simplified transition approach and will not restate comparative information.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

During the 2019 financial year, the Group performed a detailed impact assessment of the implementation of IFRS 16. At 31 March 2019, the Group has non-cancellable operating lease commitments of TCHF 375'491 (refer to note 29.2). Of these commitments, approximately TCHF 5'122 relate to short term leases and low value leases which will be recognized on a straight-line basis as operating expenses in profit or loss. For the remaining lease commitments, the Group expects to recognize right-of-use assets of approximately TCHF 486'749, lease liabilities of approximately TCHF 486'749. The effect on deferred taxes is considered to be below materiality reason why no deferred tax will be recognized.

If IFRS 16 was applied to the 2019 financial year income statement, profit after tax would have been lower with approximately TCHF 2'910. EBITDA would have been higher with approximately TCHF 38'480 because the operating lease expense recognized under IAS 17 is replaced with interest and depreciation under IFRS 16 (which is excluded from EBITDA).

The following new accounting standards, interpretations and amendments will have no material impact on the financial statements:

- IAS 19 – Plan amendment, curtailment or settlement (1 January 2019)
- IAS 28 – Long term interests in associates and joint ventures amendments (1 January 2019)
- IFRS 9 – Prepayment features with negative compensation amendments (1 January 2019)
- IFRIC 23 – Uncertainty over income tax treatments (1 January 2019)
- Annual improvements 2015 – 2017 cycle – Amendments and clarifications to existing IFRS standards (1 January 2019)
- IFRS 17 – Insurance contracts (1 January 2022)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

Normal business activities of a company exposes it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The Group's overall risk management programme seeks to minimise potential adverse effects on the Group's financial performance.

a) *Market risk*

Currency risk

The Group is not exposed to any currency risk as it has no investments in foreign operations. Furthermore, there is no foreign currency exposure and consequently no forward hedge contracts.

Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

Interest rate sensitivity

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivative and non-derivative instruments at financial year end and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. If interest rates had been 25 basis points higher / lower and all other variables were held constant, the Group's profit for the year ended 31 March 2019 with a corresponding impact on equity would decrease / increase by TCHF 1'768 / TCHF 1'827 (2018: decrease / increase by TCHF 1'729 / TCHF 1'733) mainly as a result of higher / lower interest expenses on the floating rate borrowings.

Other price risk

The Group is not exposed to other price risks.

b) *Credit risk*

Financial assets which potentially subject the Group to concentrations of credit risk consist principally of cash, short-term deposits and trade and other receivables. The Group's cash equivalents and short-term deposits are placed with quality financial institutions with a high credit rating. Trade receivables are represented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is very limited due to the fact that more than 92% of the Group's customers are insurance companies and federal authorities (cantons). In addition the insurance companies are supervised by a federal body and subject to regular credit-worthiness checks (insurance companies are obliged to maintain minimum reserve levels). Therefore, credit-worthiness is very high and the risk for non payment low.

The share of the largest insurance company in relation to revenue is approximately 15%. Further 7 to 8 insurance companies contribute approximately additional 70% of the revenues. The remaining part of the revenue is mainly related to another 40 insurance companies and to the federal authorities (cantons). The policy for patients that do not have a medical scheme or an insurance company paying for the Group's service, is to require an upfront payment instead. Therefore the Group does not have any significant exposure to any individual customer or counterparty.

The carrying amounts of financial assets included in the statement of financial position represents the Group's exposure to credit risk in relation to these assets. At 31 March 2019 and 31 March 2018, the Group did not consider there to be a significant concentration of credit risk which had not been adequately provided for.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

c) *Liquidity risk*

The Group manages liquidity risk by monitoring cash flow forecasts to ensure that it has sufficient cash to meet operational needs, while maintaining sufficient headroom on its undrawn borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

In the end, the borrowing power of the Group can only be limited by the ultimate holding company. No such limitation currently exists.

	2019	2018
	CHF 000	CHF 000
The Group's unused overdraft facilities are:	250'000	500'000

The following table details the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the required and expected date of repayment. The table includes both interest and principal cash flows.

	Carrying value	Contractual cash flows	< 1 year	1-5 years	> 5 years
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
31 March 2019					
Financial liabilities					
Interest-bearing borrowings	2'482'185	2'701'769	144'784	2'464'643	92'342
Financial leasing liabilities	3'941	3'941	1'922	2'019	-
Redemption liability	113'921	117'570	-	117'570	-
Trade and other payables	245'294	245'294	245'294	-	-
	Carrying value	Contractual cash flows	< 1 year	1-5 years	> 5 years
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
31 March 2018					
Financial liabilities					
Interest-bearing borrowings	2'444'430	2'753'137	78'062	499'378	2'175'697
Financial leasing liabilities	2'451	2'801	1'014	1'787	-
Trade and other payables	186'905	186'905	186'905	-	-

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in notes 16 and 30.1 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 13 and 14 respectively. The Audit and Risk Committee of Mediclinic International plc and the Board of Directors of Hirslanden AG review the going concern status of the Group on a biannual basis.

	2019	2018
	CHF 000	CHF 000
Borrowings - notes 16 and 30.1	2'482'185	2'444'430
Less: cash and cash equivalents	(145'225)	(86'062)
Net debt	2'336'960	2'358'368
Total equity	1'032'948	1'258'179
Debt to capital ratio	2.26	1.87

The debt to capital ratio increased to 2.26

Note 33 provides additional disclosures related to financial assets and financial liabilities

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. Although these estimates and assumptions are based on management's best information regarding current circumstances and future events, actual results may differ. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next financial year are discussed below.

4.1 Critical accounting judgements

a) *Intangible assets - Indefinite life brand names*

Until March 31, 2018, the estimation of the indefinite useful life of the local brand names was based on the expectation that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the Group. This expectation required a significant degree of management judgement. Management has re-assessed the situation as per April 2018 and started to amortise the Hirslanden brand name straight line over 75 years and the other local brand names straight line over 25 years. The Hirslanden brand, however, was fully impaired during the financial year 2019 and therefore all brand names are amortised over 25 years, see note 6.

b) *Property, equipment and vehicles - useful lives*

The estimation of the useful lives of property, equipment and vehicles is based on historic performance as well as expectations about future use and therefore requires a significant degree of judgement to be applied by management. These depreciation rates represent management's current best estimate of the useful lives and residual values of the assets.

The Group sets the useful life of its buildings to 100 years and calculates the residual value on current prices considering the age and condition expected at the end of the useful life. The Group would depreciate the difference between the actual carrying amount and the residual value at the end of its useful life based on the calculation and assumption over the useful life.

For a private hospital it is fundamentally important that the earnings potential of a building is maintained on a permanent basis. The Group therefore follows a structured maintenance programme with regards to hospital buildings with the specific goal to prolong the useful lifetime of these buildings.

c) *Property, equipment and vehicles - determination of cash-generating units for impairment testing*

Property, equipment and vehicles are considered for impairment if impairment indicators are identified at an individual cash-generating unit level. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The Group defines the cash-generating unit level as individual hospitals or on a supply region consisting of several hospitals due to specific circumstances resulting in inter-dependencies between operating units. In the context of the group's strategy, the regional care networks are currently further integrated and processes standardized in order to ensure higher care quality and efficiency. Due to the current level of integration and centralization of operational processes the cash-generating units were reassessed as per 31 March 2019 and no changes were made accordingly.

The impairment assessment is performed at cash-generating unit level and any impairment loss that arise would be allocated to the cash-generating unit, see note 5.

4.2 Critical accounting estimates and assumptions

a) *Impairment of goodwill and indefinite useful life intangible assets*

The Group tests annually whether goodwill and the intangible asset with an indefinite useful life have suffered any impairment, in accordance with the accounting policy stated in note 2.6. The recoverable amounts of cash-generating units and groups of cash-generating units have been determined based on fair value less costs of disposal calculations. These calculations require the use of estimates in respect of growth and discount rates and it assumes a stable regulatory environment. Regulatory environments are subject to uncertainties that can have an impact on the recoverability of the goodwill and the intangible assets' recoverable amount.

The operational financing and tariff system for mandatory basic insured patients in Switzerland implemented on 1 January 2012 has still a number of areas that are provisional and thus still uncertain. Furthermore, regulatory changes implemented during the current financial year (especially new TARMED tariffs and an increased requirement to out-migrate care, see note 4.3) and lower than forecasted results led management to re-assess the longer term prospect of the business. As a result, management revised downward its longer term expectation of the business and at the same time introduced a new approach to calculate the value of the business after the 5 year forecast period. The revised assumptions as well as the new model used for the terminal value calculations are considered to be changes in estimates and had an impact on the business' recoverable amount. See note 4.3 for further details.

IFRS requires the impairment assessment to be performed at the level at which goodwill and brand name is monitored for impairment by management, provided that this level cannot be larger than an operating segment. Management assesses goodwill at a Group level.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

b) *Income taxes*

The Group is subject to income taxes in Switzerland. Judgement is required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made, see note 26.

c) *Pension benefits*

The present value of the pension obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of the pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 17.

4.3 *Regulatory environment*

On 1 January 2012 fixed fees for general insured services based on diagnosis-related groups (DRGs) entered into force by law and were implemented. The financing in the DRG system is split between the federal authorities (cantons) and the insurance companies.

As the financing by the federal authorities is secured, hospitals have to be on the planning list of the canton to be eligible for reimbursements of the DRG portion of the cantons. On the other hand, hospitals on the cantonal hospital list have an obligation to treat general insured patients.

All hospitals with the exception of Klinik Im Park (not on the list), the Lausanne hospitals as well as Clinique La Colline (only limited service mandates with a fixed amount of general insured cases) are on the cantonal hospital lists. In some hospitals there are certain exceptions regarding the service mandates (e.g. limitation on highly specialized treatments).

The following uncertainties persist in the new financial year:

- Outmigration of care: federal authorities define specific treatments that are no longer accepted on an inpatient basis but could only be reimbursed on an outpatient tariff
- Tarmed tariff intervention: the Swiss federal government has released a revised Tarmed tariff structure as per 1st of January. The risk of a further intervention on the tariff structure is might given, which can cause a negative impact on the revenue.
- Quote on general insured patients: hospitals on the hospital list could be forced by the cantons to accommodate a minimum number of general insured patients which could have a negative effect on the patient mix (shift towards more general insured patients)
- Highly specialized medicine developments could impact the future medical mix.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
5. PROPERTY, EQUIPMENT AND VEHICLES		
Land - cost	1'084'028	1'084'028
Cost	1'084'028	1'084'028
Buildings	2'167'689	2'408'276
Cost	2'802'047	2'765'602
Accumulated depreciation and impairment	(634'358)	(357'326)
Land and buildings	3'251'717	3'492'304
Leasehold improvements	54'603	40'611
Cost	90'097	69'387
Accumulated depreciation	(35'494)	(28'776)
Equipment	197'098	220'557
Cost	597'340	569'961
Accumulated depreciation	(400'242)	(349'404)
Furniture and vehicles	23'774	30'053
Cost	165'299	151'565
Accumulated depreciation	(141'525)	(121'512)
Subtotal	3'527'192	3'783'525
Buildings under construction	13'171	26'167
	3'540'363	3'809'692

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

5. PROPERTY, EQUIPMENT AND VEHICLES (CONTINUED)

	Land and buildings	Leasehold improvement	Equipment	Furniture and vehicles	Total
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
Year ended 31 March 2019					
Net opening book value	3'518'471	40'611	220'557	30'053	3'809'692
Capital expenditure	24'609	19'771	21'833	7'400	73'613
Business combinations	-	942	6'115	6'401	13'458
Disposals	(1'160)	(3)	(569)	(67)	(1'799)
Impairment	(235'220)	-	-	(6'040)	(241'260)
Depreciation	(41'812)	(6'718)	(50'838)	(13'973)	(113'341)
Net book value	3'264'888	54'603	197'098	23'774	3'540'363
At 31 March 2019					
Cost	3'899'246	90'097	597'340	165'299	4'751'982
Accumulated depreciation	(634'358)	(35'494)	(400'242)	(141'525)	(1'211'619)
Net book value	3'264'888	54'603	197'098	23'774	3'540'363
Year ended 31 March 2018					
Net opening book value	3'491'483	30'529	227'935	29'384	3'779'331
Capital expenditure	44'913	13'528	34'221	14'502	107'164
Business combinations	128'011	1'513	7'135	429	137'088
Disposals	(15)	-	(173)	(88)	(276)
Impairment	(112'000)	-	-	-	(112'000)
Depreciation	(33'921)	(4'959)	(48'561)	(14'174)	(101'615)
Net book value	3'518'471	40'611	220'557	30'053	3'809'692
At 31 March 2018					
Cost	3'875'797	69'387	569'961	151'565	4'666'710
Accumulated depreciation	(357'326)	(28'776)	(349'404)	(121'512)	(857'018)
Net book value	3'518'471	40'611	220'557	30'053	3'809'692

Buildings under construction are included in land and buildings.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
5. PROPERTY, EQUIPMENT AND VEHICLES (CONTINUED)		
Capital expenditure		
Capital expenditure excluding expenditure in buildings under construction	49'562	91'222
Capital expenditure in buildings under construction	24'051	15'942
Total additions	73'613	107'164
Profit on sale of equipment and vehicles	38	316
Included in the book value of equipment above is capitalised financial lease equipment with a book value of	1'552	2'359
Capitalised borrowing costs (IAS 23) included in capital expenditure	68	25
Interest rates used to capitalise borrowing costs	1.60%	1.60%
Mortgage notes on property and buildings are encumbered as security for borrowings - note 16	3'108'820	3'108'820

Regulatory changes implemented during the prior financial year (especially new TARMED tariffs and an increased requirement to out-migrate care) and lower than forecasted results led management to re-assess the longer term prospect of the business, see note 4.3.

Therefore, the Group carried out at half-year and at year-end an impairment test on the cash-generating units and assessed if there was a shortfall between the recoverable amounts and the carrying values. The recoverable amount is based on its fair value less costs of disposals.

This assessments over all resulted in an impairment loss for the current year on five different cash generating units totaling to TCHF 241'260 on property, equipment and vehicles (PEV), where the carrying amount of the CGU was determined higher than its recoverable amount:

- CGU Zürich recoverable amount TCHF 1'509'545 impairment loss recognized of TCHF 110'655 on the Im Park building
- CGU Bern recoverable amount TCHF 563'872 impairment loss recognized of TCHF 55'087 on the Salem building
- CGU Belair recoverable amount TCHF 5'079 impairment loss recognized TCHF 9'149 on the Belair building and on other PEV TCHF 2'987
- CGU Ostschweiz recoverable amount TCHF 98'446 impairment loss recognized on the Rosenberg building TCHF 50'282 and on other PEV TCHF 3'053
- CGU Andreasklinik recoverable amount TCHF 70'236 impairment loss recognized on the building of TCHF 10'047

All these cash-generating units are part of the operating platform of Switzerland, see note 2.3.

As a result of the review, the carrying amount of the above mentioned cash-generating units were adjusted as described above. The discount rate used was 5.0% (2018: 5.0%).

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

6. INTANGIBLE ASSETS	Software and projects	Brand names	Goodwill	Total
	CHF 000	CHF 000	CHF 000	CHF 000
Year ended 31 March 2019				
Net opening book value	43'796	98'100	-	141'896
Capital expenditure	20'823	-	-	20'823
Business combinations	297	31'354	126'433	158'084
Diposals	(45)	-	-	(45)
Amortisation	(15'139)	(2'462)	-	(17'601)
Impairment	-	(70'345)	-	(70'345)
Net book value	49'732	56'647	126'433	232'812
At 31 March 2019				
Cost	108'650	478'354	526'572	1'113'576
Accumulated amortisation	(58'918)	(421'707)	(400'139)	(880'764)
Net book value	49'732	56'647	126'433	232'812
Year ended 31 March 2018				
Net opening book value	30'667	425'900	383'975	840'542
Additions net	21'651	-	-	21'651
Business combinations	-	21'100	16'164	37'264
Amortisation and impairment	(8'522)	-	-	(8'522)
Impairment	-	(348'900)	(400'139)	(749'039)
Net book value	43'796	98'100	-	141'896
At 31 March 2018				
Cost	87'575	447'000	400'139	934'714
Accumulated amortisation	(43'779)	(348'900)	(400'139)	(792'818)
Net book value	43'796	98'100	-	141'896
The additions of property, equipment and vehicles and intangible assets during the year consist of				
Additions to maintain operations			39'635	81'774
Additions to expand operations			54'733	47'016
			94'368	128'790

The Group tests goodwill and brand names for impairment on an annual basis or more frequently if there are indications that these assets may be impaired. The impairment assessment is performed twice at half-year and at year-end then, when the budget process is being finalised. The Group's impairment assessment compares the carrying value of each group of cash-generating units with its recoverable amount. The group of cash-generating units for goodwill impairment assessment purposes are identified on an operating segment level where the goodwill is monitored.

The recoverable amount of a group of cash-generating units is based on its generally fair value less costs of disposals, determined by discounting the future cash flows to be generated from the continuing use of the group of cash-generating units.

The net book value of goodwill of TCHF 126'433 (2018: TCHF 0) originated from the Hirslanden business combination of Clinique des Grangettes. The net book value of the brand names of TCHF 56'647 (2018: TCHF 98'100), where TCHF 30'726 are also allocated to brand name of the business combination of Clinique des Grangettes and the remainder is allocated to Clinique La Colline. Refer to note 31 for more details on the business combinations of the current financial year.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

6. INTANGIBLE ASSETS (CONTINUED)

Key assumptions used for the fair value less costs of disposals calculations for the annual impairment testing were as follows:

Forecasts

The Group's operating divisions are required to submit budgets for the next financial year and forecasts for the following four years, which are approved by the Board. Future earnings in the fair value less costs of disposal calculation are based on these budgets and forecasts that is calculated on a per hospital basis and considers both internal and external market information and expectation. These budgets and forecasts represent management's best view of future admissions, outpatient revenue and outpatient attendance, tariffs, bed occupancy and insurance mix.

Growth rates

Growth rates are determined from budgeted and forecasted revenue for the first five years. Terminal growth rates are country specific and determined based on the forecast market growth rates and considers long term inflation. A challenging regulatory and tariff environment is assumed, despite the fact that there are some regulatory uncertainties, for further details refer to note 4.3. Growth rates have been benchmarked against external data for the relevant markets.

The terminal growth rate beyond five years are extrapolated using a 1.6% (2018: 1.6%) growth rate. The Group uses a RONIC model with a RONIC spread of 33.33% resulting in a RONIC discount rate of 6.7%.

RONIC is a calculation used to determine the expected rate of return for deploying new capital. The calculation specifically measures the returns generated when a company converts its capital into spending to create new value from core operations.

Discount rates

The weighted average cost of capital ("WACC") has been determined by considering the respective debt and equity costs and ratios. The discount rate is based on the risk-free rate for government bonds adjusted for a risk premium to reflect the increased risk in investing in equities. Discount rates are lower for the operating divisions which operate in more mature markets with low inflation and higher for those operating in markets with a higher inflation. Discount rates reflect the time value and the risks associated with the segment or operating division. The assumptions used in the calculation of the discount rate are benchmarked to externally available data.

The discount rate applied to cash flow projections is 5.0% (2018: 5.0%).

Regulatory changes implemented during the current financial year (especially new TARMED tariffs and an increased requirement to out-migrate care and a shift in patient mix) and lower than forecasted results led management to re-assess the longer term prospect of the business. As a result, management revised downward its longer term expectation of the business. The revised assumptions had an impact on the business' recoverable amount. In the end, the carrying amount of the group of cash-generating units was determined to be higher than its recoverable amount of TCHF 3'857'326 and in the year ended 31 March 2019 total impairment charges of TCHF 70'345 were recognized in the income statement. TCHF 49'667 of the impairment loss was allocated to the Hirslanden brand name and CHF 20'678 to the Linde brand name.

Sensitivity analysis

For the goodwill, recoverable amount calculated based on fair value less cost of disposal exceeded the carrying value by approximately CHF 40 million. A decrease in terminal growth rate by 0.81% or a rise in discount rate by 0.24% would remove the headroom. Furthermore, a fall in growth rate by 0.18% combined with a rise in discount rate by 0.18% would also remove the headroom.

	2019	2018
	CHF 000	CHF 000
Carrying amount of goodwill	126'433	-
Carrying amount of brand names	56'647	98'100

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
7. EQUITY ACCOUNTED INVESTMENTS		
	2'111	2'313
Investment in associates	2'061	2'313
Investment in joint venture	50	-

Investment in associates and joint venture - unlisted

Carrying value of investments in associates' and joint venture's equity

	2'111	2'313
Opening balance	2'313	2'038
Business combination	50	-
Addition in investments	-	350
Distribution received	(308)	(28)
Impairment of listed associate	-	-
Result from associates	56	(47)

Total profit of the associates and the joint venture is TCHF 271 (2018: loss of TCHF 22) of which the Group's share is TCHF 56 (2018: loss of TCHF 47).

Total revenue for the associates and the joint venture is TCHF 35'381 (2018: TCHF 25'509).

The aggregate information of associates that are not individually material:

The Group's share of (loss) / profit	56	(47)
The Group's share of total comprehensive income / (loss)	56	(47)
Aggregate carrying amount of Group's interest in these associates	56	(47)

All included financial information of the associates have a closing date as of 31 December. However, the impact of the different year end date is immaterial.

Through the acquisition of the Grangettes group, an investment in a unlisted joint venture, which is classified as equity accounted investment, was acquired.

Further information about transactions with associates and joint venture are disclosed in note 30. Note 35 provides more details about the investments.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
8. OTHER INVESTMENTS AND LOANS		
<i>Unlisted - no active market</i>		
IFRS 9 financial instruments	2'599	-
Debt instruments at amortised cost	1'823	-
Equity instruments at fair value through profit and loss (unlisted shares)	776	-
IAS 39 financial instruments	-	1'545
Loans and receivables	-	792
Investments available-for-sale: Shares	-	753
<i>Listed securities - acquired through the business combination</i>		
IFRS 9 financial instruments	821	-
Equity instruments at fair value through profit and loss (listed shares)	821	-
Total other investments and loans	3'420	1'545

During the year, the following gains/(losses) were recognised in profit or loss:

Fair value gains (losses) on equity investments at FVPL recognised in finance cost	65	-
--	----	---

Debt instruments at amorstised cost (2018: loans and receivables) include non-current loans and other receivables to doctors and other third parties.

Under IFRS 9, unlisted investments in shares were reclassified from available-for-sale to financial assets at FVPL. They do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest, and the group has not elected to recognise fair value gains and losses through OCI for those equity instruments. These investments comprise of various small investments below 20% share holding. Until 1. April 2018, it was cost base, however, can be regarded as a reasonable approximation of fair value. Therefore, no related fair value gains or losses were transferred to retained earnings on 1 April 2018.

Through the acquisition of the Granettes Group in FY 2019, listed securities were acquired, see note 31. These equity instruments are classified as financial assets at FVPL at the acquisition date. The fair value of these investements was determined by reference to published price quotations in an active market (classified as level 1 in the fair value hierarchy).

Further information about financial assets are disclosed in note 33. See note 34 for the impact of the change in accounting policy following the adpotion of IFRS 9.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2019	2018
	CHF 000	CHF 000
9. DEFERRED TAXATION		
The movement on the deferred taxation account is as follows:		
Opening balance	615'336	650'147
Business combinations - note 31	9'583	24'703
Deferred income tax assets	(2'229)	(2'614)
<i>Long-term liabilities</i>	(2'229)	(2'614)
Deferred income tax liabilities	11'812	27'317
<i>Property, equipment and vehicles</i>	1'912	22'165
<i>Intangible assets</i>	7'636	4'631
<i>Current assets</i>	385	521
<i>Long-term liabilities</i>	1'879	-
Income statement credit for the year	(83'851)	(79'478)
Taxation change of temporary differences recorded in other comprehensive income	(11'772)	19'964
Balance at the end of the year	529'296	615'336

The deferred tax relating to current assets and current liabilities contain temporary differences that are most likely to realise in the next twelve months.

The deferred tax balance is comprised of temporary differences arising in separate legal entities. Offsetting has been applied when there is a legally enforceable right to offset and when the deferred income tax relates to the same fiscal authority, i.e. on a legal entity basis. The table below shows the deferred tax balances and movements in the various categories before offsetting was applied:

	Tangible assets	Intangible assets	Financial assets	Current assets	Provisions and others	Total
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
Deferred tax liabilities						
At 1 April 2018	560'199	31'177	139	9'088	18'812	619'415
Charged/(credited) to income statement	(66'639)	(15'976)	(42)	(2'890)	5'065	(80'482)
Business combinations	1'912	7'636	-	385	1'879	11'812
At 31 March 2019	495'472	22'837	97	6'583	25'756	550'745
At 1 April 2017	554'474	100'357	126	8'899	20'504	684'360
Charged/(credited) to income statement	(16'440)	(73'811)	13	(332)	(1'692)	(92'262)
Business combinations	22'165	4'631	-	521	-	27'317
At 31 March 2018	560'199	31'177	139	9'088	18'812	619'415

	2019	2018
	CHF 000	CHF 000
Gross deferred tax liabilities at the end of the year	550'745	619'415
Set-off of deferred tax liabilities pursuant to set-off provisions	17'057	2'527
Net deferred tax liabilities at the end of the year	533'688	616'888

The credit to the income statement of TCHF 66'639 (2018: TCHF 16'440) on the tangible assets comes from the impairment of the properties and equipment of TCHF 241'260 (2018: TCHF 112'000) and from the changes in income tax rates on properties, see note 5 and note 26. The credit to the income statement of TCHF 15'976 (2018: TCHF 73'811) on the intangible assets is a result of the impairment of the Hirslanden brand value and the local brand names of TCHF 70'345 (2018: TCHF 348'900) see note 6.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

9. DEFERRED TAXATION (CONTINUED)

	Tangible assets	Intangible assets	Derivatives	Long-term liabilities	Loss carry forward	Total
Deferred tax assets	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
At 1 April 2018	(185)	(3)	-	(891)	(3'000)	(4'079)
Charged/(credited) to income statement	(394)	3	-	(1'248)	(1'730)	(3'369)
Charged/(credited) to other comprehensive income	-	-	-	(11'772)	-	(11'772)
Business combinations	-	-	-	(2'229)	-	(2'229)
At 31 March 2019	(579)	-	-	(16'140)	(4'730)	(21'449)
At 1 April 2017	(91)	(3)	(1'945)	(18'559)	(13'615)	(34'213)
Charged/(credited) to income statement	(94)	-	1'384	879	10'615	12'784
Charged/(credited) to other comprehensive income	-	-	561	19'403	-	19'964
Business combinations	-	-	-	(2'614)	-	(2'614)
At 31 March 2018	(185)	(3)	-	(891)	(3'000)	(4'079)

	2019 CHF 000	2018 CHF 000
Gross deferred tax assets at the end of the year	(21'449)	(4'079)
Set-off of deferred tax assets pursuant to set-off provisions	17'057	2'527
Net deferred tax assets at the end of the year	(4'392)	(1'552)

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

At 31 March 2019, the Group had unutilised tax losses of approximately TCHF 60'168 (2018: TCHF 47'781) potentially available for offset against future profits. A deferred tax asset of TCHF 4'730 (2018: TCHF 3'000) has been recognised in respect of gross losses based on expected profitability from approved budgets and business plans. No deferred tax asset has been recognised in respect of the remaining gross losses due to the uncertainty and availability of future profit streams in the relevant jurisdictions. The financial projections used in assessing the future profitability are consistent with those used in assessing the impairment test as set out in note 5 and 6.

The rate of utilisation of these losses will occur at different rates due to the incidence and timing of profits within these entities which consequently impacts their recognition as deferred tax assets. Tax losses expire after 7 years.

Tax losses which have not been recognized as deferred tax assets	2019 CHF 000	2018 CHF 000
expiry in 1 year	24'550	-
expiry in 2 years	1'205	24'550
expiry in 3 to 7 years	11'975	6'243

There are normally no income tax consequences for the Group of paying dividends from the subsidiaries to the parent Hirslanden AG.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	<u>CHF 000</u>	<u>CHF 000</u>
10. INVENTORIES		
Inventories consist of:		
Pharmaceutical products	60'248	57'509
Consumables	210	750
	<u>60'458</u>	<u>58'259</u>

The cost of inventories recognised as an expense and included in cost of sales amounted to TCHF 364'522 (2018: TCHF 389'040), see note 23.

The write-down of inventories recognised as an expense during the year has an amount of TCHF 2'989 (2018: TCHF 4'044).

11. TRADE AND OTHER RECEIVABLES

The accounting policies were changed to comply with IFRS 9 which replaces the provisions of IAS 39. The 2019 figures are presented on an IFRS 9 basis and the 2018 figures are presented on an IAS 39 basis.

Trade and other receivables are categorised as debt instruments at amortised cost (2018: loans and receivables under IAS 39). Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade receivables	363'006	316'529
Loss allowance (2018: IAS 39 provision for impairment)	<u>(9'536)</u>	<u>(4'585)</u>
Trade receivables - net *)	353'470	311'944
Other receivables *)	237'804	196'069
Other receivables - personnel and social insurances	279	277
Other receivables - tax	55	40
	<u>591'608</u>	<u>508'330</u>
*) Thereof financial instruments:	591'274	508'013

Included in the Group's other receivables balance are unbilled services of TCHF 154'427 (2018: TCHF 106'185).

The credit risk of the trade receivables that are neither past due or impaired is limited since 92% (2018: 92%) of the performing trade receivables are from insurance companies or federal and cantonal authorities, see note 3.1b.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

The Group applies the simplified approach for providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for all trade receivables. The other receivables which includes the Swiss unbilled services have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets. There was no significant changes in the contract assets during the year. The loss allowance as at March 2019 is determined as follows:

	not due	1 - 30 days past due	31 - 60 days past due	61 - 90 days past due	< 90 days past due	Total
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
Gross carrying amount	203'679	47'817	27'408	13'553	70'549	363'006
Loss allowance	-	(222)	(241)	(129)	(8'945)	(9'537)
Net carrying amount	203'679	47'595	27'167	13'424	61'604	353'469
Expected loss rate	0.0%	-0.5%	-0.9%	-1.0%	-12.7%	-2.6%

The loss allowance for credit-impaired trade receivables as at 31 March 2019 reconciles to the opening balance for provision for impairment of receivables calculated in terms of IAS 39 as follows:

	2019 CHF 000	2018 CHF 000
Movement in the loss allowance (2018: IAS 39 provision for impairment)		
Opening balance (calculated under IAS 39)	(4'585)	(3'866)
Business combination	(2'712)	(108)
Loss allowance (2018: IAS 39 provision for impairment)	(4'111)	(1'641)
Amounts written off as uncollectible	1'239	387
Unused amounts reversed	632	643
Balance at the end of the year calculated under IFRS 9 (2018: IAS 39)	(9'537)	(4'585)

A loss allowance is recognised for all receivables, in accordance with IFRS 9 Financial Instruments, and is monitored at the end of each reporting period. In addition to the loss allowance, receivables are written off when there is no reasonable expectation of recovery, for example, when a debtor has been placed under liquidation. Receivables which have been written off are not subject to enforcement activities.

The expected credit losses for non credit-impaired receivables is not material.

Refer to note 34 for and explanation on the impact of the implementation of the new accounting policies.

The credit risk of the other classes of receivables within trade and other receivables are considered to be low risk, and thus the impairment provision recognised during the period was limited to 12 months expected credit losses. Management consider 'low risk' to be an investment grade credit rating with at least one major rating agency.

Management considers the credit quality of the trade receivables, that have not been credit impaired, to be high in light of the nature of these trade receivables as described in note 3.1(b).

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Disclosures for comparatives under IAS 39:

Included in the Group's trade receivables balance are trade receivables with a carrying value of TCHF 160'738 (2018: TCHF 122'863) which have been past due at the reporting date for which the Group did not provide for as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The ageing of these receivables are as follows:

Up to 3 months past due	89'509	81'563
Over 3 months past due	<u>70'934</u>	<u>41'300</u>
	<u>160'443</u>	<u>122'863</u>

The carrying amounts of the Group's trade and other receivables are denominated in Swiss Francs (CHF). The carrying value approximates the fair value.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
12. CASH AND CASH EQUIVALENTS		
Cash on hand	494	383
Cash at post	17'480	9'878
Cash at banks	127'251	75'801
Total cash and cash equivalents	145'225	86'062

Under the facility agreement all bank accounts are pledged, see note 16.
The counterparties have a minimum credit rating by Moody's (A1) and Standard & Poor's (A).

13. SHARE CAPITAL AND SHARE PREMIUM

Authorised and issued share capital of CHF 1 per share (fully paid in)	551'882	551'882
Share premium	976'056	986'056
Total share capital and share premium	1'527'938	1'537'938

14. RESERVES

14.1 Retained earnings

Opening balance	(280'445)	299'935
(Loss) / profit for the year	(149'897)	(655'578)
Other transactions	60	(47)
Business combination - note 31	52'297	-
Actuarial gain - note 17	(42'244)	75'245
Balance at the end of the year	(420'229)	(280'445)

14.2 Hedge reserve

Opening balance	-	(2'091)
Changes of fair value of derivative financial instruments	-	2'652
Change in deferred tax on fair value of derivate financial instruments	-	(561)
Balance at the end of the year	-	-

14.3 Share-based payment reserve

Opening balance	127	260
Share based payment expense	-	45
Purchase of shares	(102)	(173)
Transfer to retained earnings	(25)	(5)
Balance at the end of the year	-	127

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
15. NON-CONTROLLING INTERESTS		
Opening balance	559	211
Business combinations - note 31	16'363	393
Transactions with non-controlling interests	21'251	42
Dividend distributions	(2)	(77)
Share of gain / (loss)	3'953	(10)
Share of other comprehensive loss, net of tax	(3'408)	-
Balance at the end of the year	38'716	559

Details of non-wholly-owned subsidiaries that have material non-controlling interests ("NCI"):

Hirslanden La Colline Grangettes SA, Chêne-Bougeries, Geneva

As part of the acquisition of the Grangettes group, a new entity (Hirslanden La Colline Grangettes SA) was formed to effect the business combination but has no economic substance. The group holds directly 60% stake in Hirslanden La Colline Grangettes SA. Through a contribution in kind of the Grangettes group (Grangettes Healthcare SA and its subsidiaries) and Clinique la Colline into the newly formed entity, the group holds indirectly 60% of their equity.

Ownership interest held by NCI	40.0%
Accumulated non-controlling interests in statement of financial position	37'986
Profit allocated to non-controlling interests	4'318
Other comprehensive loss allocated to non-controlling interests	(3'408)

Summarised financial information in respect of the Group's subsidiary that has material NCIs is set out below. The summarised financial information below represents amounts before inter-group eliminations.

	2019
	CHF 000
Non-current assets	211'725
Current assets	94'785
Total assets	306'510
Non-current liabilities	42'887
Current liabilities	39'951
Total liabilities	82'838
Revenue	95'710
Profit for the year	10'800
Other comprehensive income	(8'521)
Total comprehensive income	2'279
Net cash inflow from operating activities	29'319
Net cash inflow from investing activities	4'762
Net cash outflow from financing activities	(11'379)
Net cash inflow	22'702

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
16. BORROWINGS		
Secured long-term bank loans	1'528'599	1'512'063
Long-term portion	1'444'500	1'492'000
Short-term portion	101'000	35'000
Capitalised financing costs - long-term	(16'901)	(14'937)

On 16 October 2017 a new facility agreement was signed with 31 October 2017 as effective date for funding. Thereby, the existing loans Facility A of TCHF 1'400'000 and Facility B of TCHF 100'000 as per 31 October 2017 were extinguished with a TCHF 1'500'000 term loan (Facility A), a TCHF 400'000 capex facility (Facility B) and a TCHF 100'000 revolving facility (Facility C). As per 31 March 2019, the Group has the following loan facility drawn:

Loan Facility A of TCHF 1'450'000 (31 March 2018 TCHF 1'500'000): During the period from 01 April 2018 - 31 March 2019, this loan bore interest at a floating rate of 3M LIBOR plus 1.25% compounded quarterly, whereas the floating rate was capped at 0%. Every year on 30 September, an amount of TCHF 50'000 must be redeemed. During the period from 01 April 2018 - 31 March 2019 an amount of TCHF 50'000 was redeemed. The remaining balance must be redeemed on 30 September 2024.

Loan Facility C of TCHF 50'000 (31 March 2018: TCHF 0): On 22 June 2018, TCHF 30'000 of the Facility C was drawn and instead of redeeming the loan after the interest period of three month, it was increased by TCHF 50'000. On 21 December 2018, another TCHF 20'000 of the Facility C was drawn. On 21 March 2019 TCHF 50'000 was redeemed. During the period from 22 June 2018 - 31 March 2019, this loan bore interest at a floating rate of 3M LIBOR plus 1.25% compounded quarterly, whereas the floating rate was capped at 0%.

The amount must be redeemed after the interest period of three months, i.e. 21 June 2019.

As per 31 October 2017, capitalised financing costs of TCHF 24'039 relating to the existing loans were released through the line item "Finance cost". Meanwhile, an amount of TCHF 20'601 was capitalised relating to the new facility agreement. During the period from 01 April 2018 - 31 March 2019, additional financing costs in the amount of TCHF 4'665 were capitalised. These costs relate to extension and amendments of the main contract. As per 31 March 2019, the non-current portion of the loans included capitalised financing costs of TCHF 16'901 (31 March 2018 TCHF 14'937).

The loan facilities granted by the funding banks under the existing as well as extinguished financing structure are secured by various collaterals granted by the Group and by certain of its subsidiaries over their assets. For details please refer to comments made under the respective notes 5 and 12.

In addition, through the acquisition of the Grangettes Group a loan in the amount of TCHF 16'000 was acquired. The loan bore interest at the floating rate of 3M LIBOR plus 1.4% compounded quarterly, whereas the floating rate was capped at 0%.

Through the acquisition of the Linde Group in 2018 four loans existed as per 31 March 2018 in a total amount of TCHF 17'000 bearing interest at the floating rate of 3M LIBOR plus 0.92% during the period from 01 July 2017 - 31 March 2018, compounded quarterly, whereas the floating rate was capped at 0%, repayable by May 2018. The loans were increased to TCHF 20'000 and extended until May 2023 with a fixed rate of 1.12% during April 2018. Every semester, an amount of TCHF 500 must be redeemed, the first time on 31 December 2018. Therefore, as per 31 March 2019, the loans amount to TCHF 19'500.

Furthermore, there is a fixed interest mortgage of TCHF 10'000, bearing interest at a fixed rate of 0.9% during the period from 01 April 2018 - 31 March 2019, compounded quarterly, repayable by December 2023.

Those loans granted by the funding banks under the existing financing structure are secured by Mortgage notes on property and buildings of the Hirslanden Klinik Linde AG.

	235'000	235'000
Listed bonds		
Long-term portion	235'000	235'000

On 25 February 2015, the Group issued TCHF 145'000 1.625% Swiss Franc bonds and TCHF 90'000 2.0% Swiss Franc bonds compounded annually to finance its expansion programme and working capital requirements. The bonds are repayable on 25 February 2021 and 25 February 2025 respectively.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
16. BORROWINGS (CONTINUED)		
Secured long-term finance	3'941	2'451
Long-term portion	2'019	1'584
Short-term portion	1'922	867

Through the acquisition of Grangettes group, secured leasing liabilities in the amount of TCHF 3'202 were acquired, see note 31.

The liabilities bear interest at interest rates ranging between 1% and 12% (2018: 1% and 12%) and are repayable in equal monthly payments in periods ranging from 1 to 4 years. Equipment with a book value of 1'552 (31 March 2018: TCHF 2'359) is encumbered as security for these loans.

Total Borrowings	1'767'540	1'749'514
Long-term portion	1'664'618	1'713'647
Short-term portion	102'922	35'867

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
17. RETIREMENT BENEFIT OBLIGATIONS		
Defined benefit pension plans of the Group:		
Pensionskasse Hirslanden (cash balance plan)		
Vorsorgestiftung VSAO (cash balance plan)		
Radiotherapie Hirslanden AG; Pension fund at foundation "pro" (cash balance plan)		
Hirslanden Clinique La Colline SA; Pension fund at banque cantonal vaudois (cash balance plan)		
Privatklinik Linde AG; Pension fund at foundation Gemini (cash balance plan)		
Clinique des Grangettes SA; Pension fund at Fondation de prévoyance du personnel de la Clinique des Grangettes SA (cash balance plan)		
Balance sheet		
Amounts recognised in the balance sheet are as follows:		
Defined benefit obligation (DBO)	1'579'507	1'397'266
Fair value of plan assets	1'511'263	1'392'956
Deficit	68'244	4'310
Net pension liabilities	68'244	4'310
The movement in the defined benefit obligation over the year is as follows:		
Opening balance	1'397'266	1'357'197
Employer current service cost	46'187	47'080
Interest cost on DBO	10'422	7'426
Employee contributions	44'907	43'392
Benefits paid from plan assets	(42'100)	(45'576)
Actuarial (gain) / loss - experience	5'510	7'667
Actuarial (gain) / loss - change in demographical assumption	-	(39'525)
Actuarial (gain) / loss - change in financial assumption	53'221	(25'376)
Plan change / Past service income	-	(5'395)
Business combinations	64'094	50'376
Balance at the end of the year	1'579'507	1'397'266

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)		
The movement of the fair value of plan assets over the year is as follows:		
Opening balance	1'392'956	1'266'706
Employer contributions	49'897	48'477
Plan participants contributions	44'907	43'392
Benefits paid from fund	(42'100)	(45'576)
Interest income on plan assets	10'651	7'083
Return on plan assets greater than discount rate	1'307	37'414
Business combinations	54'870	36'656
Administration cost paid	(1'225)	(1'196)
Balance at the end of the year	1'511'263	1'392'956
Income statement		
Amounts recognised in the income statement are as follows:		
Current service cost	46'187	47'080
Past service income	-	(5'395)
Interest cost on DBO	10'422	7'426
Interest income on plan assets	(10'651)	(7'083)
Administrative costs paid	1'225	1'196
Total expense	47'183	43'224
Statement of comprehensive income		
Amounts recognised in the OCI are as follows:		
Actuarial gain / (loss) due to liability experience	(5'510)	(7'667)
Actuarial gain / (loss) due to liability assumption changes	(53'221)	64'901
Return on plan assets greater than discount rate	1'307	37'414
Total of comprehensive income	(57'424)	94'648
Statement of financial position		
Amount recognised in pension liabilities are as follows:		
Opening net liability	4'310	90'491
Expense as above	47'183	43'224
Contributions paid by employer	(49'897)	(48'477)
Actuarial gain recognised in OCI	57'424	(94'648)
Business combinations	9'224	13'720
Closing net liability	68'244	4'310
Actual return on plan assets	11'958	44'497
Principle actuarial assumptions on balance sheet date		
Discount rate	0.45%	0.75%
Future salary increases	1.75%	1.75%
Future pension increases	0.00%	0.00%
Inflation rate	1.25%	1.25%
Number of plan members		
Active members	9'804	9'168
Pensioners	995	844
	10'799	10'012
Experience adjustment		
On plan liabilities: loss	5'510	7'667
On plan assets: gain	(1'307)	(37'414)

As at the last valuation date, the present value of the defined benefit obligation included approximately TCHF 1'252'629 (2018: TCHF 1'128'398) relating to active employees and TCHF 326'878 (2018: TCHF 268'868) relating to members in retirement.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Asset allocation in CHF

Plan assets are comprised as follows:

Quoted	2019		2018	
	in TCHF	%	in TCHF	%
Fixed income	475'444	31.46	469'427	33.75
Equity investments	363'610	24.06	330'131	23.66
Real estate	55'463	3.67	39'003	2.85
Other	190'570	12.61	185'263	13.27
Total	1'085'087	71.80	1'023'824	73.53

Non-quoted	2019		2018	
	in TCHF	%	in TCHF	%
Fixed income	41'863	2.77	5'572	0.42
Equity investments	15'868	1.05	16'715	1.20
Real estate	289'558	19.16	275'805	19.84
Other	78'887	5.22	71'040	5.01
Total	426'176	28.20	369'132	26.47

Sensitivity analysis 31 March 2019

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation			
	Base assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.45%	0.25%	-2.70%	2.90%
Salary growth rate	1.75%	0.50%	0.80%	-0.80%
Pension growth rate	0.00%	0.25%	2.40%	-
	Base assumption	Change in assumption	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy for a 65-year-old male (mortality)	21.72 years	1 year in expected lifetime of plan participants	2.20%	-2.20%
Life expectancy for a 65-year-old female (mortality)	23.61 years	1 year in expected lifetime of plan participants	2.20%	-2.20%

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Sensitivity analysis 31 March 2018

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Impact on defined benefit obligation			
	Base assumption	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0.75%	0.25%	-2.60%	2.70%
Salary growth rate	1.75%	0.50%	0.80%	-0.80%
Pension growth rate	0.00%	0.25%	2.30%	-
	Base assumption	Change in assumption	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy for a 65-year-old male (mortality)	21.68 years	1 year in expected lifetime of plan participants	2.00%	-2.00%
Life expectancy for a 65-year-old female (mortality)	23.55 years	1 year in expected lifetime of plan participants	2.00%	-2.00%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credited method at the end of the reporting period) has been applied as when calculating the pension liabilities recognised within the statement of financial position.

Expected contributions to the retirement benefit plans for the year ending 31 March 2020 are TCHF 43'556 (2019: TCHF 41'508)

The weighted average duration of the defined benefit obligation is 13.9 years (2018: 12.9 years). The expected benefit payments of the defined benefit obligation during the corresponding reporting period are as follows:

	2019
	CHF 000
April 2019 to March 2020	104'065
April 2020 to March 2021	103'697
April 2021 to March 2022	96'778
April 2022 to March 2023	90'813
April 2023 to March 2024	85'361
April 2024 to March 2029	389'070

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

Retirement benefit plans

The pension plans also cover all employees for risk benefits (death and disability). Cover for retirement benefit begins on 1 January following the 24th birthday. The retirement pension for the cash balance plans is based on the level of the retirement credits, the interest rate to be credited and the conversion rate applied at retirement age. Risk benefits are related to insured salary.

Pension plans results

The consolidated actuarial gain/(loss) consists of the gain/(loss) due to the demographic experience, demographic and economic assumption changes, as well as an investment return different from assumed during the prior period.

As of 31 March 2019, there was a loss due to the demographic experience of TCHF 5'510 (2018: loss of TCHF 7'667) and a loss due to the change of the economic assumptions of TCHF 53'221 (2018: gain of TCHF 25'376). There was no change in the demographic assumptions this year (2018: gain of TCHF 39'525). Additionally, there was a gain due to investment return different from the return implied by the discount rate of TCHF 1'307 (2018: gain of TCHF 37'414).

At 1 April 2018 Röntgeninstitut Cham was transferred into the Hirslanden plan. On 1 October 2018 Clinque des Grangettes was acquired by Hirslanden. The opening balance sheet position is shown in the "Business combinations" line of the exhibits and the P&L cost for the fiscal year ending 31 March 2019 reflects only the partial year after the date of acquisition.

There was no plan change this year end. In prior year, Radiotherapie, VSAO and Privatklinik Linde reduced their conversions rates per 1 January 2018. This led to a one-time plan change gain of TCHF 5'395 in 2018.

The following assumptions have changed since the previous valuation

- The discount rate used to value plan obligations has changed from 0.75% to 0.45%
- The interest credit rate on total account balance has changed from 0.75% to 0.45%
- The interest credit rate on the BVG shadow account balance has changed from 0.75% to 0.45%.

Pension plans — Characteristics and risks

Hirslanden Group has defined benefit pension plans in Switzerland that expose the Hirslanden Group to some actuarial or investment risks.

Pensionskasse Hirslanden

For employees of Hirslanden Group in Switzerland the Pensionskasse Hirslanden (PH) Fund provide post-employment, death-in-service and disability benefits in accordance with the Federal Law on Occupational Old-age, Survivor's and Disability Insurance (German: BVG). PH Fund is a foundation and an entity legally separate from Hirslanden Group. The Fund's governing body is composed of an equal number of employer and employee representatives. This governing body determines the level of benefits and the investment strategy for the plan assets based on asset-liability analyses performed periodically. The basis for these asset-liability analyses are the statutory pension obligations, as these largely determine the cash flows of the PH Fund. In addition, the investment of the plan assets is based on regulations developed by the governing body in accordance with the legal investment guidelines (BVV2). The investment committee of the governing body is responsible for their implementation. The governing body has mandated the investment activity to Complementa Investment Controlling AG, as the global custodian.

The investment strategy complies with the legal guidelines and is rather conservative. Alternative investments and unhedged foreign currency positions are rare.

The benefits of the pension plan are substantially higher than the legal minimum. They are determined by the employer's and employee's contributions and interest granted on the plan members' accumulated savings; the interest rate is determined annually by the governing body in accordance with the legal framework (defined contribution, as defined by the occupational pension law). The employee's and the employer's contributions are determined based on the insured salary and range from 1.25% to 15.5% of the insured salary depending on the age of the beneficiary.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

17. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

If an employee leaves Hirslanden Group or the pension plan respectively before reaching retirement age, the law provides for the transfer of the vested benefits to the new pension plan. These vested benefits comprise the employee's and the employer's contributions plus interest, the money originally brought in to the pension plan by the beneficiary. On reaching retirement age, the plan participant may decide whether to withdraw the benefits in the form of an annuity or (partly) as a lump-sum payment. The pension law requires adjusting pension annuities for inflation depending on the financial condition of the pension fund. Although the pension plan is fully funded at present in accordance with the pension law, the financial situation of the PH Fund will not allow for inflation adjustments.

The pension law in Switzerland envisages that benefits provided by a pension fund are fully financed through the annual contributions defined by the regulations. If insufficient investment returns or actuarial losses lead to a plan deficit as defined by the pension law, the governing body is legally obliged to take actions to close the funding gap within a period of 5 years to a maximum of 7 years. Besides adjustments to the level of benefits, such actions could also include additional contributions from respective group companies and the beneficiaries. The current financial situation of the PH Fund does not require such restructuring actions.

On the other hand, the group companies do not benefit from any plan surpluses.

VSAO

For employed physicians of Hirslanden Group in Switzerland the VSAO Pension Fund provide post-employment, death-in-service and disability benefits in accordance with the Federal Law on Occupational Old-age, Survivor's and Disability Insurance (German: BVG). VSAO Fund is a foundation and an entity legally separate from Hirslanden Group. The Fund's governing body is composed of an equal number of employer and employee representatives. The investment of the plan assets is in accordance with the legal investment guidelines (BVV2).

The benefits of the pension plan are substantially higher than the legal minimum. They are determined by the employer's and employee's contributions and interest granted on the plan members' accumulated savings; the interest rate is determined by the governing body in accordance with the legal framework (defined contribution, as defined by the occupational pension law).

If an employee leaves Hirslanden Group or the pension plan respectively before reaching retirement age, the law provides for the transfer of the vested benefits to the new pension plan. These vested benefits comprise the employee's and the employer's contributions plus interest, the money originally brought in to the pension plan by the beneficiary. On reaching retirement age, the plan participant may decide whether to withdraw the benefits in the form of an annuity or as a lump-sum payment. The employee's and the employer's contributions is 14% of the insured salary.

The pension law in Switzerland envisages that benefits provided by a pension fund are fully financed through the annual contributions defined by the regulations. If insufficient investment returns or actuarial losses lead to a plan deficit as defined by the pension law, the governing body is legally obliged to take actions to close the funding gap within a period of 5 years to a maximum of 7 years. Besides adjustments to the level of benefits, such actions could also include additional contributions from respective group companies and the beneficiaries. The current financial situation of the VSAO Pension Fund does not require such restructuring actions.

On the other hand, the group companies do not benefit from any plan surpluses.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019		2018	
	CHF 000	CHF 000	CHF 000	CHF 000
18. PROVISIONS				
	Employee jubilee benefits	Legal cases and other	Tariff risks	Total
	CHF 000	CHF 000	CHF 000	CHF 000
At 1 April 2018	21'987	1'170	23'332	46'489
Charged to the income statement	3'938	1'411	7'814	13'163
Business combinations	-	672	214	886
Utilised during the year	(2'831)	(62)	(441)	(3'334)
Unused amounts reversed	(377)	(61)	(5'969)	(6'407)
At 31 March 2019	22'717	3'130	24'950	50'797
Current at 31 March 2019	2'949	1'345	8'821	13'115
Non-current at 31 March 2019	19'768	1'785	16'129	37'682
At 31 March 2019	22'717	3'130	24'950	50'797
At 1 April 2017	21'298	1'224	28'918	51'440
Charged to the income statement	3'173	580	5'269	9'022
Business combinations	640	500	1'172	2'312
Utilised during the year	(3'109)	(243)	(5'047)	(8'399)
Unused amounts reversed	(15)	(891)	(6'980)	(7'886)
At 31 March 2018	21'987	1'170	23'332	46'489
Current at 31 March 2018	2'946	625	11'784	15'355
Non-current at 31 March 2018	19'041	545	11'548	31'134
At 31 March 2018	21'987	1'170	23'332	46'489

Employee jubilee benefits:

This provision is for benefits granted to employees for long service. The provision is calculated based on the employee's cost to the company as well as the estimated expected utilisation of the employee benefits.

Legal cases and other:

The major part of this provision relates to retentions for malpractice and provisions for doctors' practices.

Tariff risks:

These provisions are related to tariff risks (e.g. DRG base rate level, historic tariff disputes) in various hospitals and cantons. Due to a contractual settlement (Swiss DRG base rate) the corresponding provision was utilised. The unused amounts reversed as per 31 March 2019 and 31 March 2018 are attributable to this Swiss DRG provisions

For more details refer to note 4.3.

At 31 March, provisions are expected to be payable during the following financial years:

	2019	2018
	CHF 000	CHF 000
Within 1 year	13'115	21'612
After one year but not more than five years	28'507	15'811
More than five years	9'175	9'066
	50'797	46'489

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2019	2018
	CHF 000	CHF 000
19. DERIVATIVE FINANCIAL INSTRUMENTS		
Liabilities		
<i>Interest rate swap</i>		
Opening balance	-	9'195
Fair value adjustment through income statement - note 25	-	(4'925)
Redemption of the swap	-	(4'270)
Balance at the end of the year	-	-

In order to hedge specific exposures in the interest rate repricing profile of existing borrowings, the Group used interest rate derivatives to generate the desired interest profile. At 1 April 2017, the Group had an interest rate swap contract which was redeemed as at 19 October 2017 when the new financing agreements were signed. No new swap contract was negotiated due to the on-going low interest environment. The interest rate development is being constantly monitored.

Due to the negative interest environment the hedge relationship was not effective as the 3 month Swiss LIBOR on the borrowings was capped at a rate of 0% but was fully considered as interest payments on the swap. The last date on which effectiveness was demonstrated was 30 September 2014 where the valuation of the interest rate swap resulted in a liability of TCHF 7'960. In line with hedge accounting, the resulting fair value adjustment of TCHF 11'169 was transferred to other comprehensive income as per 30 September 2014. After that date, hedge accounting was discontinued.

The valuation of the interest rate swap before redemption as at 19 October 2017 lead to a liability of TCHF 4'270. The resulting fair value gain of TCHF 4'925 was recorded through the income statement in the line item "Finance cost", see note 25.

The amount of TCHF 7'960 deducted by deferred tax of TCHF 1'684 recorded in the other comprehensive income before hedge accounting was discontinued was recycled over the lifetime of the swap. In the period from 01 April 2017 to 31 March 2018 the remaining amount of TCHF 2'652 was recorded through the income statement in the line item "Finance cost", see note 25, reversed by deferred tax expenses of TCHF 561.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	<u>CHF 000</u>	<u>CHF 000</u>

20. CASH-SETTLED SHARE-BASED PAYMENT LIABILITY

The LTIP awards is phantom shares awarded to selected senior management. This share-based payment arrangement is accounted for as a cash-settled share-based payment transaction.

Under the LTIP, conditional phantom shares of the ultimate shareholder (Mediclinic International plc) are granted to selected employees of the company. The vesting of these shares are subject to continued employment, and is conditional upon achievement of performance targets, measured over a three-year period. The performance conditions for the year under review constitute a combination of: absolute total shareholder return ("TSR") (40% weighting) and earnings per share (60% weighting).

Opening balance	36	40
Share-based payment (income) / expense	(34)	(4)
Balance at the end of the year	<u>2</u>	<u>36</u>

A reconciliation of the movement of the LTIP units is detailed below:

Opening balance	63'979	17'071
Units granted during the year (LTIP)	74'870	46'908
Units cancelled/lapsed during the year (LTIP)	(41'774)	-
Balance at the end of the year	<u>97'075</u>	<u>63'979</u>

	2016 allocation	2017 allocation	2018 allocation
Grant date	14.06.2016	01.06.2017	15.06.2018
Vesting date	14.06.2019	01.06.2020	15.06.2021
Outstanding units	17'071	37'543	42'461
Closing price of Mediclinic International plc share (denominated in Great British pound)	305 pence	305 pence	305 pence
Risk-free rate	0.67%	0.67%	0.68%
Expected dividend yield	0.00%	0.00%	0.00%
Volatility	41.30%	41.30%	38.20%

21. TRADE AND OTHER PAYABLES

Trade payables	162'813	134'364
Other payables and accrued expenses	82'481	52'541
Other payables and accrued expenses - personnel and social insurances	37'770	46'833
Value added tax	1'980	946
	<u>285'044</u>	<u>234'684</u>
Thereof financial instruments:	245'294	186'905

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	<u>CHF 000</u>	<u>CHF 000</u>
22. REVENUE		
The group has recognised the following amounts relating to revenue in the income statement:		
Revenue from hospital services	1'682'343	1'640'414
Revenue from other sources	95'836	95'021
Total Revenue	<u>1'778'179</u>	<u>1'735'435</u>

The group derives revenue from hospital services in the following major categories:

Inpatient revenue	1'337'908	1'318'089
Outpatient revenue	344'435	322'325
Rental income	24'678	21'906
Other income	71'158	73'115
Total Revenue	<u>1'778'179</u>	<u>1'735'435</u>

Revenue primarily comprises fees charged for inpatient and outpatient hospital services. Those services include charges for accommodation, theatre, medical professional services, equipment, radiology, laboratory and pharmaceutical goods used.

Inpatient revenue on private and semi-private patients is recorded and recognised during the period in which the hospital service is provided, based on the contractually agreed and therefore covered activities with the supplementary insurances.

Outpatient revenue is recorded when the performance obligations are satisfied, i.e. right after treatment of the patient as this is the moment when the performance obligation is completed.

Revenue from other sources is recognised when the control of goods and services is transferred.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
23. EXPENSES BY NATURE		
Fees paid to the Group's auditors for the following services		
Audit of the parent company and consolidated financial statements	637	593
Audit company subsidiaries	506	523
Audit services	1'143	1'116
Audit related services	116	85
Tax advice	-	-
Other assurance services	175	119
All other services	-	2
	1'434	1'322
Cost of inventories	401'539	389'040
Depreciation (Note 5)	113'341	101'615
Buildings and fixed installations	41'812	33'921
Leasehold improvements	6'718	4'959
Equipment	50'838	48'561
Furniture and vehicles	13'973	14'174
Amortisation on intangible assets (Note 6)	17'601	8'522
Employee benefit expenses	832'593	790'214
Wages and salaries	702'856	671'627
Social insurance	65'925	59'849
Retirement benefit costs - defined benefit plans (Note 17)	47'183	43'224
Share-based payment (income) / charge	(34)	42
Other employee costs	16'663	15'472
Doctors' fees	25'348	24'203
Maintenance costs	40'939	39'853
Managerial and administration fees	60'041	54'369
Operating leases	38'064	29'162
Buildings	38'064	29'162
Other expenses	93'045	84'198
General expenses *	93'083	84'468
Profit on disposal of property, equipment and vehicles	(38)	(270)
	1'623'945	1'522'498

* General expenses mainly consist of expenses for electricity and water, catering and laundry cost.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
23. EXPENSES BY NATURE (CONTINUED)		
Classified as:		
Cost of sales	1'051'388	1'122'158
Administration and other operating expenses	572'557	400'340
	<u>1'623'945</u>	<u>1'522'498</u>
Thereof depreciation and amortisation classified as:		
Cost of sales	101'002	90'392
Administration and other operating expenses	29'940	19'745
	<u>130'942</u>	<u>110'137</u>
24. OTHER GAINS AND LOSSES		
Release of stamp duty provision	-	10'941
	<u>-</u>	<u>10'941</u>

In the year ended March 31, 2018 a liability of TCHF 10'941 was derecognised through "Other gains and losses". The liability was recognised in 2007 during a purchase price allocation process following an acquisition. The creditor did not request a payment and the liability was de-recognised as the liability reached its statute of limitation.

25. FINANCE INCOME AND COST

Finance cost	48'586	51'724
Less: amounts included in the cost of qualifying assets	(68)	(25)
Finance cost net	48'518	51'699
Finance cost on interest rate swap	-	6'925
Amortisation of capitalised financing expenses (old facility)	-	4'070
Release of capitalised financing expenses (old facility)	-	24'039
Amortisation of capitalised financing expenses (new facility)	2'701	999
Fair value gain on ineffective cash flow hedges	-	(4'925)
Finance cost	51'219	82'807
Finance income	(137)	(1'596)
Net finance cost	51'082	81'211

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	<u>CHF 000</u>	<u>CHF 000</u>
26. TAXATION		
Income tax (income) / expense in the consolidated income statement		
Current income tax		
Current income tax charge	19'712	18'967
Previous year income tax income / (credit)	1'687	(2'320)
Deferred income tax		
Relating to origination on reversal of temporary differences and recognized tax losses (Note 9)	<u>(83'851)</u>	<u>(79'478)</u>
Income tax income reported in the income statement	<u>(62'452)</u>	<u>(62'831)</u>
Reconciliation of tax rate		
Net (loss) / profit before income tax	(208'396)	(718'419)
Expected income tax rate	<u>18.50%</u>	<u>20.81%</u>
Income tax expense calculated on theoretical tax rate	(38'556)	(149'517)
Effect of goodwill impairment	-	82'029
Effect of changes in income tax rates	(7'176)	3'444
Adjustments for previous years	(19'409)	(2'320)
Effect of non-recognition of tax losses in current year	1'563	1'695
(Recognition) / Derecognition of tax losses relating to prior years	452	1'400
Non-deductible (income) / expenses	674	330
Utilisation of previously unrecognised tax losses	-	108
Total income tax	<u>(62'452)</u>	<u>(62'831)</u>
Effective income tax rate	<u>29.97%</u>	<u>8.75%</u>

The Group's effective tax rate increased from 8.75% as per 31 March 2018 to 29.97% as per 31 March 2019. The reasons for this decrease are listed below:

The tax rate applied for the measurement of deferred taxes on real estate properties has been adjusted as it can vary from year to year based on the expected tax impact of the reversal of temporary differences in the different cantons where the real estate is located. The effect of the adjustment resulted in a reconciling item.

The effect of non-recognition of tax losses in current year, mainly relates to the losses of Klinik Am Rosenberg Heiden AG.

Furthermore, the recognition of tax losses related to current and prior year is mainly coming from Hirslanden Bern AG. Due to the revised medium-term planning, 20.8m of loss carryforwards were capitalised at Hirslanden Bern AG. As per 31 March 2019, the non-deductible expenses include rental fees recharged from Hirslanden AG, (Zurich) to its subsidiaries Klinik Birshof AG (Münchenstein), Hirslanden Klinik Aarau AG (Aarau) and Hirslanden Lausanne SA (Lausanne) which are not fully accepted by the cantonal tax authorities of Baselland, Aargau and Waadt.

The following tax was (charged) / credited to other comprehensive income

Deferred tax	11'772	(19'964)
--------------	--------	----------

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2019	2018
	CHF 000	CHF 000
27. OTHER COMPREHENSIVE INCOME		
Components of other comprehensive income:		
Items that may be subsequently reclassified to the income statement		
Recycling of fair value adjustment of derecognised cash flow hedge	-	2'091
Items that will not be reclassified to the income statement		
Actuarial gain	(45'652)	75'245
Other comprehensive income, net of tax	(45'652)	77'336

Tax and non-controlling interests on other comprehensive income:

	Gross	Tax	Net
	CHF 000	CHF 000	CHF 000
Year ended 31 March 2019			
Actuarial gain/(loss)	(57'424)	11'772	(45'652)
Other comprehensive income / (loss), net of tax	(57'424)	11'772	(45'652)

	Gross	Tax	Net
	CHF 000	CHF 000	CHF 000
Year ended 31 March 2018			
Recycling of fair value adjustment of derecognised cash flow hedge	2'652	(561)	2'091
Actuarial gain/(loss)	94'648	(19'403)	75'245
Other comprehensive income / (loss), net of tax	97'300	(19'964)	77'336

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
28. CASH FLOW INFORMATION		
28.1 Reconciliation of (loss) / profit before taxation to cash generated from operations		
Operating loss before interest and taxation	(157'370)	(637'161)
Non-cash items		
Depreciation and amortisation - note 23	130'942	110'137
Impairment of properties and intangible assets	311'604	861'039
Movement in provisions	3'422	(7'263)
Movement in retirement benefit obligations	(2'714)	(5'271)
Equity settled share-based payment charge	(34)	42
Profit on sale of property, equipment and vehicles	(38)	(270)
Operating income before changes in working capital	285'812	321'253
Working capital changes	(10'030)	(62'646)
Movements in inventories	462	(2'339)
Movements in trade and other receivables	(78'972)	(36'638)
Movements in current liabilities	68'480	(23'669)
Cash generated from operations	275'782	258'607
28.2 Taxation paid		
Opening balance	(2'182)	(9'177)
Business combinations	(5'961)	-
Provision for the year	(21'401)	(16'647)
	(29'544)	(25'824)
Liability at the end of the year	9'619	2'182
Taxation paid	(19'925)	(23'642)
28.3 Interest paid and finance income		
Finance cost (income statement)	(51'219)	(82'807)
Non-cash items		
Amortisation of capitalised financing expenses - note 25	2'701	29'108
Other non-cash finance expenses	21'888	18'765
Interest paid (cash flow statement)	(26'630)	(34'934)
Finance income (income statement)	137	1'596
Non-cash items		
Other non-cash finance income	-	(823)
Finance income (cash flow statement)	137	773
28.4 Investment to maintain operations		
Property, equipment and vehicles purchased	32'848	80'122
Intangible assets purchased	10'001	15'744
Investment to maintain operations	42'849	95'866
28.5 Investment to expand operations		
Property, equipment and vehicles purchased	45'362	46'065
Intangible assets purchased	13'811	9'051
Investment to expand operations	59'173	55'116

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	<u>CHF 000</u>	<u>CHF 000</u>
28. CASH FLOW INFORMATION (CONTINUED)		
28.6 Changes in liabilities arising from financing activities		
Opening balance of total borrowings	1'749'514	1'708'462
Cash flow movements		
Proceeds from borrowings	103'000	4'000
Repayment of borrowings	(102'212)	(7'792)
Refinancing transaction costs	(4'665)	(15'936)
Non-cash items		
Capitalised financing fees	2'701	29'108
Business combinations	19'202	31'672
Closing balance of total borrowings	<u>1'767'540</u>	<u>1'749'514</u>

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000
29. COMMITMENTS		
29.1 Capital commitments		
Incomplete capital expenditure contracts	18'977	18'600
Capital expenses authorised by the Board of Directors but not yet contracted	20'500	20'500
	39'477	39'100

These commitments will be financed from Group and borrowed funds.

At 31 March 2019 and 31 March 2018, some Group companies are liable jointly and individually for possible losses of their participation in "Zentrallabor, Zürich" according to Swiss Code of Obligations § 530 et seq.

At 31 March 2019 and 31 March 2018, the Group is liable without limit and jointly and severally for the debts of the ordinary partnership for the car park in Cham ("Baukonsortium").

29.2 Operating lease commitments

The Group has entered into commercial leases on items of buildings. There are no restrictions placed upon the lessee by entering into these contracts. The respective expense is recognised in the rental expenses.

Future minimum rentals payable under non-cancellable rental contracts as at 31 March are as follows:

Within one year	41'867	29'453
After one year but not more than five years	136'869	91'050
More than five years	196'755	158'901
	375'491	279'404

29.3 Financial lease commitments

The Group has entered into financial lease agreements on equipment.

At 31 March, future non-cancellable minimum lease rentals are payable during the following financial years:

Within 1 year	1'922	1'014
After one year but not more than five years	2'019	1'787
More than five years	-	-
Total minimum lease payments	3'941	2'801
Less amounts representing finance charge	(279)	(350)
Present value of minimum lease payments	3'662	2'451

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1% to 12% (2018: 1% to 12%) per annum.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

29. COMMITMENTS (CONTINUED)

29.4 Income guarantees

As part of the expansion of its network of specialist institutes and centres of expertise the Group has agreed to guarantee a minimum net income to these specialists for a start-up period of three to five years. Payments under such guarantees become due, if the net income from the collaboration does not meet the amounts guaranteed. There were no payments under the above mentioned income guarantees in the reporting period as the net income individually generated met or exceeded the amounts guaranteed.

	2019	2018
	CHF 000	CHF 000
Total of net income guaranteed:	5'916	7'172
April 2018 to March 2019	-	4'491
April 2019 to March 2020	3'366	1'691
April 2020 to March 2021	1'850	540
April 2021 to March 2022	700	450

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2019	2018
	CHF 000	CHF 000
30. INTERCOMPANY BALANCES AND RELATED PARTY TRANSACTIONS		
30.1 Loans due to Group companies		
Long-term subordinated Group loans	718'586	697'367
Long-term portion	718'586	697'367

The loan of TCHF 718'586 (2018: TCHF 697'367) bears interest at 3.5% plus 12M Libor and was originally repayable by 1 August 2020 but was extended until 31 December 2023 on 1 November 2017.

30.2 Related party transactions

	Interests from	Other Income from	Amounts owed by	Purchases from	Interests paid to	Amounts owed to
as per 31 March 2019	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
Entities with significant influence over the Group						
Mediclinic Luxembourg S.à.r.l, Luxembourg	-	-	-	-	21'219	718'586
Mediclinic CHF Finco Limited, Jersey	-	-	-	-	-	-
Mediclinic International plc, UK	-	-	-	4'682	-	-
Associate						
Zentrallabor Zürich	-	1'986	855	11'114	-	122
as per 31 March 2018						
	Interests from	Other Income from	Amounts owed by	Purchases from	Interests paid to	Amounts owed to
as per 31 March 2018	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
Entities with significant influence over the Group						
Mediclinic Luxembourg S.à.r.l, Luxembourg	-	-	-	-	20'753	697'367
Mediclinic CHF Finco Limited, Jersey	-	-	-	-	127	-
Mediclinic International plc, UK	-	-	-	4'642	-	362
Associate						
Zentrallabor Zürich	-	2'002	1'076	11'403	-	1'125

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

30. INTERCOMPANY BALANCES AND RELATED PARTY TRANSACTIONS (CONTINUED)

30.3 Transactions with associates and joint ventures

Zentrallabor Zürich, Zürich (ZLZ): The Group has a 49.20% (2018: 49.96%) interest in the ordinary partnership ZLZ.

Ordinary partnership for a car park ("Baukonsortium"), Cham: The Group has a 24% (2018: 24%) interest in the Baukonsortium.

Ordinary partnership for the management of parking spaces ("EFG Parkierung Rigistrasse"), Cham: The Group has a 25% (2018: 25%) interest in the EFG Parkierung Rigistrasse.

La Colline, Centre de Rééducation et Physiothérapie SA (CRP), Genève: The Group has a 20% (2018: 20%) interest in CRP.

La Colline, Centre de Physiothérapie du Sport Sàrl (CPS), Genève: The Group has a 23% (2018: 23%) interest in CPS.
CORTS AG, Maur: The Group has a 30% (2018: 30%) interest in CORTS AG.

GRGB Santé SA, Genève: Through the acquisition of Grangettes group, the Group has a 50% (2018: 0%) interest in GRGB Santé SA.

Terms and conditions of transactions with related parties, associates and joint ventures

Purchases from related parties and fees for services rendered to related parties are made at normal market prices. TCHF 1'986 (2018: TCHF 2'002) from ZLZ represent a special discount granted on purchases since ZLZ is a non-profit organisation.

Interests earned from related parties correspond with commercial borrowing rates. There have been no guarantees provided or received for any related parties receivables or payables. For the years ended 31 March 2019 and 31 March 2018, the Group has not made any provision for doubtful debts relating to amounts owed by related parties. This assessment is undertaken each financial year through examining the financial position of each related party.

30.4 Key management compensation

Short-term employee benefits

Post-employment pension benefits

Total compensation paid to key management

	2019	2018
	<u>CHF 000</u>	<u>CHF 000</u>
	10'378	10'263
	<u>1'379</u>	<u>1'168</u>
	<u>11'757</u>	<u>11'431</u>

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

31. BUSINESS COMBINATIONS

Effective on 22 October 2018, Hirslanden AG acquired a 60% stake in Grangettes Healthcare SA through a newly formed structure, and obtained control over the company. A new entity, Hirslanden La Colline Grangettes SA, was formed to effect the business combination, but has no economic substance. The new entity was established by contribution in kind of the investment in Grangettes Healthcare SA. In addition and as part of the consideration transferred, the investment in Hirslanden Clinique La Colline SA was transferred to the newly founded entity. Clinique des Grangettes SA and Dianecho SA are 100% and 73.16%, respectively, subsidiaries of Grangettes Healthcare SA. Before the acquisition, Hirslanden AG owned directly 100% of Hirslanden Clinique La Colline SA. As per acquisition date, Hirslanden AG holds indirectly 60% stake in Hirslanden Clinique La Colline SA, Clinique des Grangettes SA and 43.9% in Dianecho SA.

Clinique des Grangettes is a leading private hospital in Geneva offering a wide range of medical services, specialising in maternity care, paediatrics, cardiology, oncology, radiology and emergency care. The Clinique des Grangettes has state-of-the-art equipment diagnostic and treatment equipment, which is used by more than 450 affiliated doctors. The Clinique La Colline is known for its competence centres in orthopaedics, neurosurgery, visceral surgery and sports medicine. The medical services of the two hospitals thus complement each other perfectly. The combination of the Clinique des Grangettes and the Hirslanden Clinique La Colline enables operational synergies and cost savings.

The goodwill of TCHF 126'433 arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of the Group and Grangettes Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the Grangettes Group (consisting of Clinique des Grangettes SA, Dianecho SA and Grangettes Healthcare SA), the fair value of assets acquired and liabilities assumed at the acquisition date.

	CHF 000
Consideration at 1 October 2018	
Cash	76'984
Portion given up of investment in Clinique La Colline	73'920
Total consideration transferred	150'904
Recognised amounts of identifiable assets acquired and liabilities assumed	
Assets	
Property, equipment and vehicles - note 5	13'458
Intangible assets - note 6	31'651
Equity accounted investments - note 7	50
Other investments and loans - note 8	9'823
Deferred tax assets - note 9	2'229
Inventories	2'660
Trade and other receivables	32'294
Cash and cash equivalents	12'803
Total assets	104'968
Liabilities	
Borrowings - note 16	19'202
Provisions - note 17	886
Pension liabilities - note 18	9'224
Deferred tax liabilities - note 9	11'812
Current income tax liabilities	5'961
Trade and other payables	17'049
Total liabilities	64'134
Total identifiable net assets at fair value	40'834
Non-controlling interest	(16'363)
Goodwill	126'433
Consideration transferred for the business	150'904

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

31. BUSINESS COMBINATIONS (CONTINUED)

Accounting policy choice for non-controlling interest

The Group elected to recognise the non-controlling interest at its proportionate share of the acquired net identifiable assets.

Transactions with non-controlling interests

As part of the consideration transferred, 40% of the previously fully owned Hirslanden Clinique la Colline SA was transferred to the seller of Grangettes group. This transfer is accounted for as a transaction with non-controlling interest, as it does not result in a loss of control. The difference between fair value of the consideration transferred and the carrying value of the net assets of Hirslanden Clinique La Colline at the acquisition date is recorded in equity (TCHF 52'297)

Acquisition-related costs of TCHF 281 have been charged to administrative expenses in the consolidated income statement.

The fair value of trade and other receivables is TCHF 32'294 and includes trade receivables with a fair value of TCHF 31'297. The gross contractual amount for trade receivables due is TCHF 24'008. The best estimate at acquisition date of the contractual cash flows not expected to be collected are TCHF 2'711.

From the date of acquisition, Grangettes Group has contributed TCHF 57'726 of revenue and TCHF 8'277 to the net profit before tax of the Group.

Analysis of cash flow on acquisition

Total consideration transferred in cash	(76'984)
Net cash acquired with the subsidiary	12'803
Net cash flow on acquisition	(64'181)

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

32. SEGMENT REPORTING

Consistent with internal reporting, the Group's operating segments are the eight supply regions (Aargau, Baselland, Berne, East (Appenzell, SG), Lucerne, Schaffhausen, West (GE/VD) and Zug). The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee of Switzerland (ExCo) that makes strategic decisions., see note 2.3.

Since all operating segments are healthcare providers in Switzerland and as such have the same business activities and operate in the same economic and regulatory environment, have similar economic characteristics such as long-term EBITDA-margins and revenue streams and offer similar services to similar types of customers, the eight operating segments are aggregated into one reportable segment in line with the aggregation criteria of IFRS 8.

The information reported to the chief operating decision-maker is in line with IFRS standards and is in line with the consolidated financial statements in this report. Therefore, no separate segment information is disclosed.

The breakdown of revenues by products and services is disclosed in note 22.

Revenues from external customers attributed to foreign countries are not material. Furthermore, there are no non-current assets located in foreign countries.

For information on major customers, please refer to note 3.1b.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

33. FINANCIAL INSTRUMENTS - ADDITIONAL DISCLOSURES

Financial instruments measured at fair value in the statement of financial position, are classified using a fair value hierarchy that reflects the significance of the inputs used in the valuation. The fair value hierarchy has the following levels:

Level 1:

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:

Input (other than quoted prices included within level 1) that is observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3:

Input for the asset or liability that is not based on observable market data (unobservable input).

Financial instruments carried at fair value in the statement of financial position

	2019 CHF 000	2018 CHF 000
Financial assets		
Other investments and loans	1'597	753

Debt instruments at FVPL (part of other investments and loans):

Fair value is based on appropriate valuation methodologies being discounted cash flow or actual net asset value of the investment. These assets are grouped as level 1 (listed securities) and level 2 (unlisted securities).

Financial instruments not carried at fair value in the statement of financial position

	2019 CHF 000	2018 CHF 000
Financial assets		
Other investments and loans	1'823	792
Trade and other receivables	591'608	508'330
Cash and cash equivalents	145'225	86'062
Financial liabilities		
Borrowings	1'767'540	1'749'514
Trade and other payables	285'044	234'684

Cash and cash equivalents, trade and other receivables and other investments and loans:

Due to the expected short-term maturity of these financial instruments, their carrying value approximate their fair value.

Borrowings:

The fair value of long-term borrowings is based on discounted cash flows using the effective interest rate method. As the interest rates of long-term borrowings are all market related, their carrying values approximate their fair value.

Trade and other payables

Due to the expected short-term maturity of these financial instruments, their carrying value approximate their fair value.

Financial instruments not carried at fair value in the statement of financial position

	2019 CHF 000	2018 CHF 000
Financial liabilities		
Redemption liability	113'921	-

Redemption liability:

Through the acquisition of the Grangettes group, the group entered into a put / call agreement over the remaining 40% interest in the combined company. The options are exercisable after 4 years and the consideration on exercise will be determined based on the profitability of the combined company at that time. The exercise price is formula based. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount and discounted based on the most recent mid-term plan of the underlying entities with a corresponding charge directly to equity. The charge to equity is recognised separately as written put options over non-controlling interests (TCHF 113'477). As the exercise price is formula based, the liability is subsequently adjusted for changes in the estimated performance and accreted through finance charges up to the redemption amount that is payable at the date at which the option first becomes exercisable. These fair value adjustment are grouped as level 3.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

34. IMPACTS OF ADOPTION OF NEW IFRS STANDARDS

This note explains the impact of the adoption of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments on the Group's financial statements.

34.1 IFRS 15 Revenue from contracts with customers

The Group adopted IFRS 15 from 1 April 2018. Based on the assessment of the five-step approach of IFRS 15 performed, the adoption did not have a material impact on the Group's accounting policies.

The Group is in the business of providing hospital services to patients. Approximately 80% of the Group's revenue is derived from inpatient admissions which are billed as an integrated service and represent a single performance obligation. In addition, these services are provided over a short period of time, an average of 4.5 days. Outpatient revenue is billed when the performance obligations are satisfied. Other revenue is recognised when the control of goods and services is transferred. For all of these revenue streams the revenue recognition is unchanged compared to IAS 18.

The same is applicable for revenue from affiliated doctors, where the Group is acting as an agent and revenue is accounted for on a net basis. The same conclusion was reached under the old revenue standard and thus there was no change in treatment upon implementation of the IFRS 15.

In accordance with the transitional provisions in the standard, the Group followed the modified retrospective approach. The comparative information is presented based on the requirements of IAS 18 Revenue and no adjustment to opening retained earnings was required.

34.2 IFRS 9 Financial Instruments

As of 1 April 2018, the accounting policies were changed to comply with IFRS 9 which replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets; and hedge accounting.

The adoption of IFRS 9 Financial Instruments had no impact to the line items of the 1 April 2018, consolidated balance sheet. In accordance with the transitional provisions in the standard, comparative figures have not been restated (modified retrospective approach). Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings. The adjustments arising from the new impairment rules are therefore not reflected in the statement of financial position as at 31 March 2018, but are recognised in the opening balance of retained earnings on 1 April 2018.

The changes due to the implementation of IFRS 9 are described below:

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

34. IMPACTS OF ADOPTION OF NEW IFRS STANDARDS (CONTINUED)

Classification and measurement

Under IFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortised cost or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent solely payments of principal and interest on the principal amount outstanding.

The assessment of the Group's business model was made as of the date of initial application, 1 April 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The classification and measurement requirements of IFRS 9 did not have a significant impact to the Group. The following are the changes in the classification of the Group's financial assets:

Trade receivables and other loans and receivables classified as "loans and receivables" at 31 March 2018 are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. These are classified and measured as "debt instruments at amortised cost" beginning 1 April 2018. There was no transition impact on those financial instruments.

Equity investments in non-listed companies classified as "investments available for sale" at 31 March 2018 are classified and measured as "financial assets at fair value through profit or loss" beginning 1 April 2018. These investments do not meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. This reclassification had no impact on equity because the equity reserve relating to these available for sale investments was nil at 1 April 2018.

The equity investments in listed companies were acquired through the business combination effective on 22 October 2018.

There are no changes in classification and measurement for the Group's financial liabilities.

Impairment of financial assets

Under IFRS 9, the impairment of financial assets, including trade receivables is assessed using the expected credit loss model. For trade receivables, the Group applied the simplified approach to measure the expected credit losses. This approach requires the use of the lifetime expected loss provision for all trade receivables.

Other financial assets classified as debt instruments at amortised cost are considered to be low risk, and therefore the impairment provision is determined as 12 months expected credit losses.

Given the nature of the Group's financial assets, the Group had no significant impact to its provisions for doubtful accounts or impairments from this change.

Hedge accounting

At the date of initial application, no hedging relationship existed or was entered into during the period.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

	2019	2018
	CHF 000	CHF 000

35. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The ultimate shareholder is "Mediclinic International plc" which owns 100% of the shares.

Subsidiaries

The consolidated financial statements include the financial statements of Hirslanden AG and the subsidiaries listed in the following table:

Effective on 22 October 2018, the Group acquired a controlling interest in Grangettes Healthcare SA and its subsidiaries Clinique des Grangettes SA and Dianecho SA. After combining Hirslanden Clinique La Colline with Grangettes Healthcare SA, the Group has a 60% controlling interest in the new established, combined entity Hirslanden La Colline Grangettes SA. As part of the consideration transferred, 40% of Hirslanden Clinique La Colline was transferred to the vendor. See note 30 for more details on the business combinations.

With the merger balance sheet as per 1 April 2018, Linde Holding Biel/Bienne AG and Lindenpark Immobilien AG were merged into Hirslanden AG. With the merger balance sheet as per 1 April 2018, Röntgeninstitut Cham AG was merged into AndreasKlinik AG Cham.

	Country of incorporation	Investments	Investments
		in % 2019	in % 2018
Hirslanden Klinik Aarau AG, Aarau	Switzerland	100.0	100.0
Hirslanden Bern AG, Bern	Switzerland	100.0	100.0
Hirslanden Lausanne SA, Lausanne	Switzerland	100.0	100.0
Klinik Belair AG, Schaffhausen	Switzerland	100.0	100.0
AndreasKlinik AG Cham, Cham	Switzerland	100.0	100.0
Klinik Birshof AG, Münchenstein	Switzerland	99.7	99.7
Hirslanden Klinik Am Rosenberg AG, Heiden	Switzerland	100.0	100.0
Klinik am Rosenberg Heiden AG, Heiden	Switzerland	99.2	99.2
Klinik St. Anna AG, Luzern	Switzerland	100.0	100.0
Klinik Stephanshorn AG, St. Gallen	Switzerland	100.0	100.0
Radiotherapie Hirslanden AG, Aarau	Switzerland	100.0	100.0
Hirslanden Clinique La Colline SA, Genève	Switzerland	60.0	100.0
IMRAD SA, Lausanne	Switzerland	80.0	80.0
Hirslanden Freiburg AG, Düdingen, Düdingen	Switzerland	100.0	100.0
Linde Holding Biel/Bienne AG, Biel	Switzerland	-	99.7
Lindenpark Immobilien AG, Biel	Switzerland	-	99.7
Hirslanden Klinik Linde AG, Biel	Switzerland	100.0	99.7
Röntgeninstitut Cham AG, Cham	Switzerland	-	100.0
Herzchirurgie Hirslanden Bern AG, Bern *	Switzerland	-	100.0
Hirslanden La Colline Grangettes SA, Genève	Switzerland	60.0	-
Grangettes Healthcare SA, Genève	Switzerland	60.0	-
Clinique des Grangettes SA, Genève	Switzerland	60.0	-
Dianecho SA, Genève	Switzerland	43.9	-

* During the financial year 2019, 98.0% of the investment in Herzchirurgie Hirslanden Bern AG was sold. The investment, classified as subsidiary in financial year 2018, is now classified as an equity instruments at fair value through profit and loss (see note 8).

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

		GROUP	
		2019	2018
		<u>CHF 000</u>	<u>CHF 000</u>
35. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES			
	(CONTINUED)		
Associates and Joint ventures			
Zentrallabor Zürich, Zürich (ZLZ) ¹⁾	Switzerland	49.2	50.0
Ordinary partnership for a car park ("Baukonsortium"), Cham	Switzerland	24.0	24.0
Ordinary partnership for the management of parking spaces ("EFG Parkierung Rigistrasse"), Cham	Switzerland	25.0	25.0
La Colline, Centre de Rééducation et Physiothérapie SA, Genève	Switzerland	20.0	20.0
La Colline, Centre de Physiothérapie du Sport Sàrl, Genève	Switzerland	23.0	23.0
CORTS AG, Maur	Switzerland	30.0	30.0
GRGB Santé SA, Genève ²⁾	Switzerland	30.0	-

¹⁾ The Group does not control ZLZ as it has no power over the company.

²⁾ From a Group point of view, the 50% stake in GRGB Santé SA is 30%, as it is held indirectly through Clinique des Grangettes SA.

NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

36. EVENTS AFTER THE BALANCE SHEET DATE

Other than the facts and developments reported in the annual report, there have been no material changes in the affairs of financial position of the Company and the Group between the end of the reporting period and the date when the financial statements were authorised for issue.