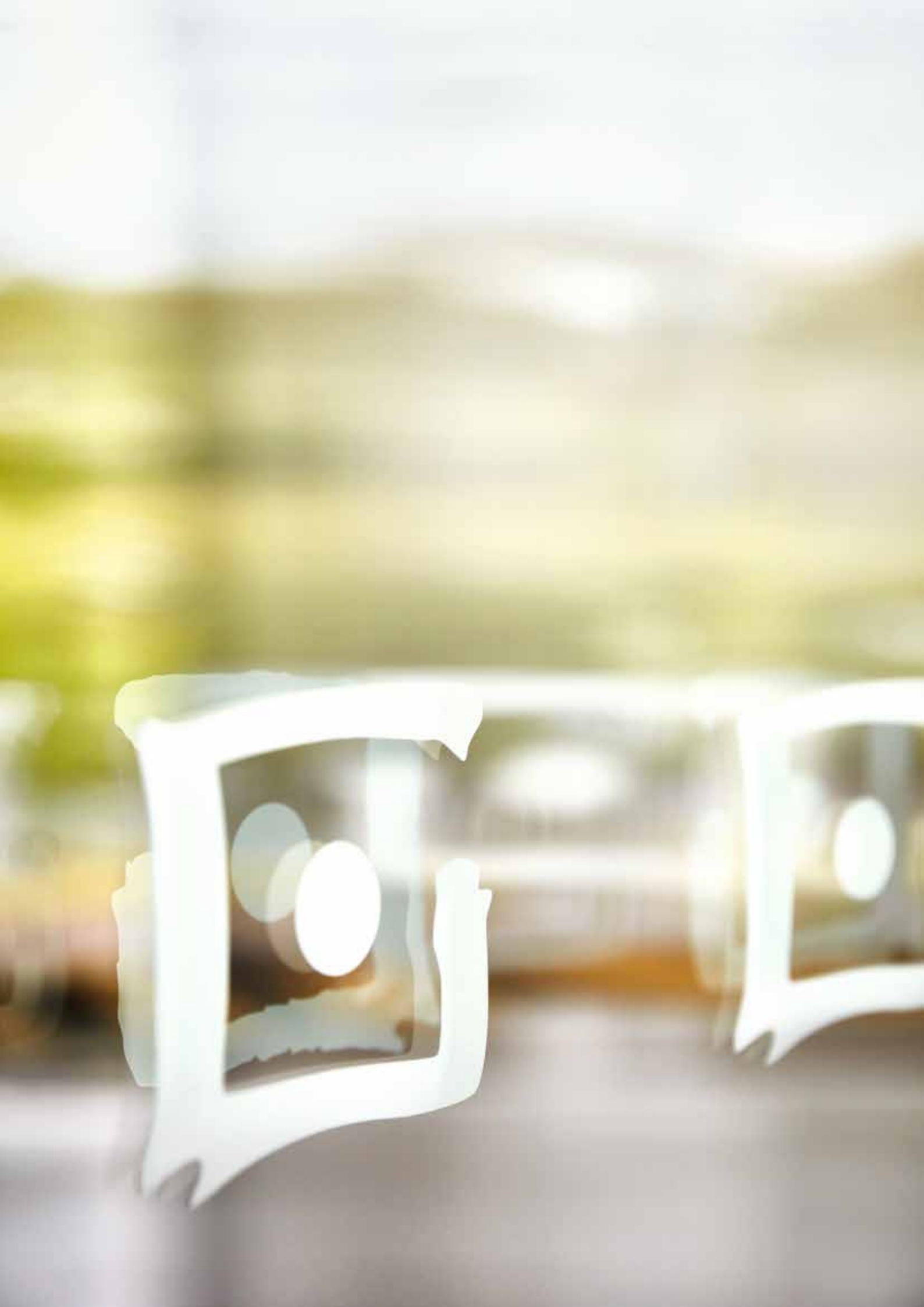


# ANNUAL REPORT 2017/18



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***Hirslanden AG***

***Opfikon***

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

***on the consolidated financial  
statements 2017/18***





# ***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 2018 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 2018 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.

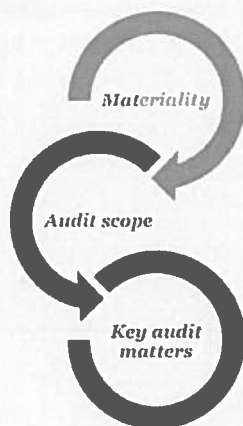
### ***Basis for opinion***

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 8'250'000
- Full audit procedures were performed at 18 out of 25 reporting units
- Our audit scope addressed 99% of the Group's revenue

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

- Impairment assessment: Goodwill and brand assets
- Impairment assessment: Buildings

### ***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.

### ***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 8'250'000
<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 Board of Directors that we would report to them misstatements above CHF 825'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

### ***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: Goodwill and brand assets

Key audit matter	How our audit addressed the key audit matter
<p>The Group balance sheet includes a material amount of goodwill and intangible assets. In the year ended 31 March 2018 goodwill of CHF 400 million was fully impaired and a partial impairment of brand assets of CHF 349 million was recognised.</p> <p>The impairment assessment of goodwill and brand assets is considered a key audit matter due to the size of goodwill and brand assets pre impairment on the total assets, the timing of the impairment charge and the estimation uncertainty inherent in management's assumptions. The main assumptions relate to the future cash flows of the underlying businesses as well as the discount rates applied to derive the recoverable amounts.</p> <p>Please refer to page 12 (Summary of significant accounting policies – 2.5 Intangible assets) and page 28 (Note 6 – Intangible asset) of the notes to consolidated financial statements.</p>	<p>We have obtained all impairment tests prepared by management and performed the following tests:</p> <ul style="list-style-type: none"> <li>• We assessed the appropriateness of the models used, especially the methodology applied to determine the terminal value forming part of the recoverable amount.</li> <li>• We assessed the appropriateness of the allocation of goodwill and brand assets to the respective cash-generating unit or group of cash-generating units.</li> <li>• We obtained the recoverable amount calculations and reconciled the estimated future cash flows of the 5 year forecast period to the business plan approved by the Board of Directors.</li> <li>• We have assessed the reasonableness of the growth rates applied to the 5 year forecast period with historically achieved growth rates and the results achieved in the current year and understood the reasons behind the deterioration behind these forecasts as compared to the prior year.</li> <li>• With support of our internal valuation specialist 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 as well as the underlying return assumptions on the Group's business.</li> <li>• We compared the current year actual results with the forecasted figures for the current year included in the prior years' impairment tests.</li> <li>• We verified the timing of the impairment charge through an understanding of the regulatory changes and management's assessment of their impact on future profitability.</li> <li>• We audited the additions to the goodwill and the brand assets resulting from the acquisition of Privatklinikgruppe Linde with the support of our internal valuation specialists.</li> </ul> <p>Based on our work performed, we obtained adequate assurance of the appropriateness of management's assumption and how the impairment assessment was performed and the recoverability of the remaining carrying value of the brand assets.</p>

## Impairment assessment: Buildings

Key audit matter	How our audit addressed the key audit matter
<p>As per 31 March 2018 the Group holds property, equipment and vehicles of CHF 3'810 million, of which CHF 3'518 million relate to land and buildings. In the year ended 31 March 2018 buildings of CHF 112 million were partially impaired.</p> <p>The impairment assessment of buildings is considered a key audit matter due the size of land and buildings compared to total assets as well as the estimation uncertainty inherent in management's assumptions. The main assumptions relate to the future cash flows of the respective cash generating units or group of cash generating units as well as the discount rates applied to derive the associated recoverable amounts.</p> <p>Buildings are measured at their fair values at first-time recognition and are subsequently depreciated over 100 years if the expected fair value at the end of the useful life is below the carrying value. The Group management monitors the buildings carefully for potential impairment indicator. A decline in the market value of a building or a decline in sales and or the profitability of the respective hospital represent, among other factors, indicators of a potential impairment. For buildings where impairment indicators were identified management performed an impairment test.</p> <p>Please refer to page 12 (Summary of significant accounting policies – 2.4 Property, equipment and vehicles) and pages 26-28 (Note 5 – Property, equipment and vehicles of the notes to the consolidated financial statements).</p>	<p>We have obtained management's impairment trigger analysis and the respective impairment tests prepared by management and performed the following tests:</p> <ul style="list-style-type: none"> <li>• We reviewed events and thresholds defined in management's impairment trigger analysis and conclude that these are appropriate. Where management relies on the support of a third party real estate appraiser, we tested the respective appraisal as well as the qualification and competency of the appraiser.</li> <li>• We assessed the appropriateness of the allocation of buildings to the respective cash-generating unit or group of cash-generating units.</li> <li>• For all impairment tests prepared by management we ensured that the recoverable amount calculations are based on the latest approved business plans.</li> <li>• We compared the current year actual results with the assumptions for the current year included in the prior years' impairment tests.</li> <li>• We inquired with the respective 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.</li> <li>• With support of our internal valuation specialist 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.</li> </ul> <p>Based on our work performed, we obtained adequate assurance of the appropriateness of management's assumption and how the impairment assessment was performed and the recoverability of the remaining carrying value of buildings.</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 of Hirslanden AG and our auditor's reports thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we will 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.

***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, 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

Gian Franco Bieler  
Audit expert

Zürich, 9 May 2018

Enclosure:

- Consolidated financial statements (consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes)

**Hirslanden AG**

**ANNUAL CONSOLIDATED FINANCIAL STATEMENTS 2018**

**HIRSLANDEN** 

**MEDICLINIC**   
INTERNATIONAL

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for the year ended 31 March

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## **GENERAL INFORMATION**

for the year ended 31 March

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### **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 seventeen 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

### **EXECUTIVE MANAGEMENT**

Dr. T. O. Wiesinger (Chief Executive Officer)  
Dr. D. Liedtke (Chief Operating Officer)  
Mr. A. H. Kappeler (Chief Financial Officer)  
Dr. C. H. A. Westerhoff (Chief Clinical Officer)

### **BOARD OF DIRECTORS**

Dr. T. O. Wiesinger (President)  
Dr. D. Liedtke  
Mr. A. H. Kappeler

### **COMPANY SECRETARY**

Ms. M. Seikel

### **AUDITORS**

PricewaterhouseCoopers AG, Switzerland, Zürich

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March

		GROUP	
	Notes	2018 CHF 000	2017 CHF 000
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>3'956'998</b>	<b>4'626'953</b>
Property, equipment and vehicles	5	3'809'692	3'779'331
Intangible assets	6	141'896	840'542
Equity accounted investments	7	2'313	2'038
Other investments and loans	8	1'545	2'348
Deferred income tax assets	9	1'552	2'694
<b>Current assets</b>		<b>652'651</b>	<b>693'301</b>
Inventories	10	58'259	54'094
Trade and other receivables	11	508'330	459'110
Cash and cash equivalents	12	86'062	180'097
<b>Total assets</b>		<b>4'609'649</b>	<b>5'320'254</b>
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	13	551'882	551'882
Share premium	13	1'007'302	1'007'302
Capital contribution reserve		127	260
Retained earnings	14.1	(301'691)	288'689
Hedge reserve	14.2	-	(2'091)
<b>Attributable to equity holders of the company</b>		<b>1'257'620</b>	<b>1'846'042</b>
Non-controlling interests	15	559	211
<b>Total equity</b>		<b>1'258'179</b>	<b>1'846'253</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>		<b>3'063'382</b>	<b>3'116'750</b>
Borrowings	16	1'713'647	1'658'169
Loans from related parties	29.1	697'367	677'559
Deferred income tax liabilities	9	616'888	652'841
Provisions	17	31'134	28'455
Retirement benefit obligations	18	4'310	90'491
Derivative financial instruments	19	-	9'195
Cash-settled share-based payment liability	20	36	40
<b>Current liabilities</b>		<b>288'088</b>	<b>357'251</b>
Trade and other payables	21	234'684	274'796
Borrowings	16	35'867	50'293
Provisions	17	15'355	22'985
Income tax payables	27.2	2'182	9'177
<b>Total liabilities</b>		<b>3'351'470</b>	<b>3'474'001</b>
<b>Total equity and liabilities</b>		<b>4'609'649</b>	<b>5'320'254</b>

The notes on page 9 to 60 are an integral part of these consolidated financial statements.

## CONSOLIDATED INCOME STATEMENT

for the year ended 31 March

			GROUP	
	Notes	2018 CHF 000	2017 CHF 000	
<b>Revenue</b>		<b>1'735'435</b>	<b>1'704'047</b>	
Cost of sales (incl depreciation and amortisation)	22	(1'122'158)	(1'065'444)	
Administration and other operating expenses (incl depreciation and amortisation)	22	(400'340)	(379'642)	
Impairment of properties and intangible assets	5/6	(861'039)	-	
Other gains and losses	23	10'941	-	
<b>Operating (loss) / profit</b>		<b>(637'161)</b>	<b>258'961</b>	
Finance income	24	1'596	125	
Finance cost	24	(82'807)	(57'320)	
Share of profit of equity accounted investments	7	(47)	329	
<b>(Loss) / profit before taxation</b>		<b>(718'419)</b>	<b>202'095</b>	
Income tax income / (expenses)	25	62'831	(41'592)	
<b>(Loss) / profit for the year</b>		<b>(655'588)</b>	<b>160'503</b>	
<b>Attributable to:</b>				
Equity holders of the Company		(655'578)	160'481	
Non-controlling interests	15	(10)	22	
		<b>(655'588)</b>	<b>160'503</b>	

The notes on page 9 to 60 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March

		GROUP	
	Notes	2018 CHF 000	2017 CHF 000
<b>(Loss) / profit for the year</b>		<b>(655'588)</b>	<b>160'503</b>
<b>Other comprehensive income</b>			
<b>Items that may be subsequently reclassified to profit or loss</b>		<b>2'091</b>	<b>1'673</b>
Derivative financial instruments - gross gain	14.2/26	2'652	2'122
Derivative financial instruments - tax	14.2/26	(561)	(449)
<b>Items that will not be reclassified to profit or loss</b>		<b>75'245</b>	<b>46'088</b>
Actuarial gains - gross	14.1/26	94'648	57'972
Actuarial losses - tax	14.1/26	(19'403)	(11'884)
<b>Other comprehensive income, net of tax</b>		<b>77'336</b>	<b>47'761</b>
<b>Total comprehensive (loss) / income for the year</b>		<b>(578'252)</b>	<b>208'264</b>
<b>Attributable to:</b>			
Equity holders of the company		(578'242)	208'242
Non-controlling interests	15	(10)	22
		<b>(578'252)</b>	<b>208'264</b>

The notes on page 9 to 60 are an integral part of these consolidated financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 March

		GROUP	
		(Re-presented)*	
		2018	2017
		CHF 000	CHF 000
Notes		Inflow/ (outflow)	Inflow/ (outflow)
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
		1'721'910	1'689'849
		(1'463'303)	(1'363'908)
	<b>Cash generated from operations</b>	<b>258'607</b>	<b>325'941</b>
	Interest received	773	112
	Interest paid	(34'934)	(42'704)
	Taxation paid	(23'642)	(15'812)
	<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>	<b>200'804</b>	<b>267'537</b>
<b>CASH FLOW FROM INVESTMENT ACTIVITIES</b>			
		(254'369)	(145'308)
	Investment to maintain operations	(95'866)	(79'444)
	Investment to expand operations	(55'116)	(65'521)
	Proceeds on sale of property, equipment and vehicles	546	578
	Acquisition of investments in associates	(350)	(806)
	Dividends received from equity accounted investments	28	212
	Loans granted	(215)	(327)
	Business combinations, net of cash acquired	(103'396)	-
	<b>Net cash generated before financing activities</b>	<b>(53'565)</b>	<b>122'229</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
		(40'470)	(118'162)
	Distributions to non-controlling interests	(76)	(9)
	Distributions to shareholder	(10'000)	(10'000)
	Long term incentive scheme dividends	(173)	-
	Repayment of swap	(4'270)	-
	Repayments of borrowings	(3'792)	(50'343)
	Refinancing transaction costs	(15'936)	-
	Repayments to related parties	(6'223)	(57'810)
	<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(94'035)</b>	<b>4'067</b>
	<b>Opening balance of cash and cash equivalents</b>	<b>180'097</b>	<b>176'030</b>
	<b>Closing balance of cash and cash equivalents</b>	<b>86'062</b>	<b>180'097</b>

\*refer to note 2.1

The notes on page 9 to 60 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	Hedge reserve (note 14.2)	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
<b>Balance at 01 April 2016</b>	<b>551'882</b>	<b>1'007'302</b>	<b>145</b>	<b>(3'764)</b>	<b>92'120</b>	<b>1'647'685</b>	<b>210</b>	<b>1'647'895</b>
Profit for the year	-	-	-	-	160'481	160'481	22	160'503
Other comprehensive income, net of tax	-	-	-	1'673	46'088	47'761	-	47'761
Total comprehensive income for the year	-	-	-	1'673	206'569	208'242	22	208'264
Share-based payment expense	-	-	115	-	-	115	-	115
Transactions with non-controlling interests	-	-	-	-	-	-	(19)	(19)
Distributions to non-controlling interests	-	-	-	-	-	-	(2)	(2)
Distributions to shareholder	-	-	-	-	(10'000)	(10'000)	-	(10'000)
<b>Balance at 31 March 2017</b>	<b>551'882</b>	<b>1'007'302</b>	<b>260</b>	<b>(2'091)</b>	<b>288'689</b>	<b>1'846'042</b>	<b>211</b>	<b>1'846'253</b>
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 loss 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 30	-	-	-	-	-	-	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)
<b>Balance at 31 March 2018</b>	<b>551'882</b>	<b>1'007'302</b>	<b>127</b>	<b>-</b>	<b>(301'691)</b>	<b>1'257'620</b>	<b>559</b>	<b>1'258'179</b>

The notes on page 9 to 60 are an integral part of these consolidated financial statements.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 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

On 30 June 2017, Hirslanden AG acquired 99.62% of the outstanding share capital of Linde Holding Biel/Bienne AG and its subsidiaries Lindenpark Immobilien AG and Privatklinik Linde AG. Up until 31 March 2018, the equity interest was increased up to 99.69%. Furthermore, it acquired 85% of Röntgeninstitut Cham AG on 30 August 2017 which increased the Group's equity interest from 15% to 100%, obtaining control of the company.

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 financial statements have been approved for issue by the Board of Directors on 9 May 2018 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.

#### 2.1 Basis of preparation

The annual consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRS). 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, as modified by the revaluation of certain financial instruments and available for sale assets to 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 2018 contain the result of the year beginning 1 April 2017 until 31 March 2018. The comparative figures are comprised of the year from 1 April 2016 to 31 March 2017.

#### Cash flow statement reclassification

The cash flow statement for the year ended 31 March 2017 has been re-presented to reclassify certain capital expenditure from cash flows from operating activities to cash flows from investment activities. The impact of this reclassification was a decrease in cash inflows from operating activities before net interest and taxation paid from TCHF 344'270 to TCHF 325'941 and a decrease in cash outflows from investment activities from TCHF 163'637 to TCHF 145'308. This reclassification had no impact on reported cash, profits or net assets.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The new accounting standards, amendments and interpretations which have been published that are mandatory for accounting periods beginning on or after 1 April 2018 or later periods but which the Group has not early adopted are disclosed in note 2.24.

#### 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 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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

#### b) **Associates**

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 associates 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 investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates 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 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 associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate 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 in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investors' interests in the associates.

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 segments are identified as the operating platform of Switzerland. 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 that makes strategic decisions.

The following reports are therefore available: Monthly reporting of the consolidated income statement, cash flow statement and balance sheet as well as consolidated statistics and half year and year end consolidated financial statements including notes. The clinic reporting is monitored by the Operations Committee ("OPSCO") of Switzerland only.

Furthermore, the Executive Committee of Switzerland approves and monitors the Group's business plan, the budget as well as the investments on Group level. In addition, its bonus is mainly based on the Group's EBITDA.

## 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 subsequent 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.

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 program with regards to hospital buildings with the specific goal to prolong the useful lifetime of these buildings.

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 will start 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

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### 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. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. 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

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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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.

#### 2.8 **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.

#### 2.9 **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.

#### 2.10 **Trade receivables and other receivables**

Trade receivables and other receivables are recognised at fair value and subsequently measured at amortised cost, less provision for impairment. A provision for impairment of trade receivables is 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows. The amount of the provision is recognised in the income statement.

#### 2.11 **Cash and cash equivalents**

Cash and cash equivalents consist of balances with banks, post and cash on hand. Bank overdrafts are disclosed as part of borrowings in current liabilities on the statement of financial position.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.12 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.

The Group documents, at inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents 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 of cash flows of hedged items.

The fair value of the derivative instrument used for hedging purposes is disclosed in note 19. Movements on the hedging reserve in shareholders' equity are shown in note 14.2. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item's maturity is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

##### *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods when the hedged item affects profit or loss (for example, when the interest expense on hedged variable rate borrowings is recognised in the income statement). The respective recycling is recognised in the line item "Finance cost".

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

#### 2.13 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.

#### 2.14 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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.15 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.

#### 2.16 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.

#### 2.17 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.

#### 2.18 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 Company 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 substantively 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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.19 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.

##### 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) **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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.20 Revenue recognition

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.

#### 2.21 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.

#### 2.22 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.

#### 2.23 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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 2.24 Standards, interpretations and amendments

*Published standards, amendments and interpretations effective for the 31 March 2018 financial period:*

The following published standards, amendments and interpretations are mandatory for the accounting period beginning on or after 1 April 2017 and have been adopted:

- IAS 7 (amendment) – Disclosure initiative
- IAS 12 (amendment) – Recognition of deferred tax assets for unrealised losses
- Annual improvements 2012 – 2014 cycle – Amendments and clarifications to existing IFRS standards (1 January 2017)

The implementation of these standards and amendments had no financial impact on the reported results or financial position of the Group.

*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 9: Financial Instruments (1 January 2018)

The IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are applied prospectively.

The Group plans to adopt the new standard on 1 April 2018 and will not restate comparative information. During the 2018 financial year, the Group has performed a detailed impact assessment of all three aspects of IFRS 9. The assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in the 2018 financial year when the Group will adopt IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity. No material change in the expected loss allowance is expected by applying the impairment requirements of IFRS 9. Additionally, the Group will implement changes in classification of certain financial instruments but with no material impact.

##### a) Classification and measurement

The Group does not expect a significant impact on its balance sheet or equity on applying the classification and measurement requirements of IFRS 9.

The equity shares in non-listed companies are intended to be held for the foreseeable future. These shares are currently classified as available-for-sale with gains and losses recorded in OCI. The Group will apply the option to continue to present fair value changes in OCI, and therefore, the application of IFRS 9 will not have a significant impact.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification of these instruments is not required.

##### b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and recorded lifetime expected credit losses on all trade receivables. Based on current estimates, the Group has determined that the provision for impairment of receivables balance will stay stable. No material change in the statement of financial position is expected.

##### c) Hedge accounting

The Group currently has no hedge relationship. However, as IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedging requirements of IFRS 9 will not have a significant impact on the Group's financial statements.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IFRS 15: Revenue from Contracts with Customers (1 January 2018)

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on 1 April 2018 using the modified retrospective application method. During the 2018 financial year, the Group performed a detailed impact assessment of IFRS 15.

Revenue primarily comprises fees charged for inpatient and outpatient hospital services.

In preparing to adopt IFRS 15, the Group considered the following:

#### a) Tariff provision

Tariff provisions are recognised in revenue when the pricing model for DRGs is based on provisional tariffs (see note 2.20). At the time of revenue recognition, the revenue based on the provisional tariff is billed and claimed from the insurer or the canton. Subsequently, when the tariffs are finalised, the insurer can claim from the healthcare provider if the tariffs are lower than the provisional tariffs billed.

Under the existing standard (IAS 37), tariff provisions are classified as a reduction in revenue, with a corresponding entry to provisions in the statement of financial position. We have concluded that the tariff adjustments should not be adjusted against accounts receivable under IFRS 15 due to the fact that the original invoices are settled before the finalisation of the tariffs. Tariff adjustments are therefore classified as provisions as is the case under the current accounting treatment and not as a reduction in accounts receivables. This view is supported by the fact that balances due to funders are not settled on a net basis.

#### b) Principal versus agent considerations

The Group's hospitals have affiliated doctors who are partners cooperating with the hospitals under a contractual agreement. The contracts with these affiliated doctors allow them to use the Group's facilities and nursing staff. The doctors are responsible for the treatment of the patient and the Group is responsible for the technical services such as the medical equipment and nursing. Swiss regulatory requirements require the Group to provide statistics to the government based on all the costs incurred for patient procedures, including doctors' fees. The Group 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. The refund paid to the doctor is recorded in 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.

The following indicators in IFRS 15 have been considered in the assessment of whether the Group is acting as a principal or as an agent in these cases:

- The affiliated doctors are responsible for fulfilling the contract of treating the patient. Every affiliated doctor needs 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.

Therefore we have concluded that the Group is acting as an agent in this scenario, and revenue will be accounted for on a net basis. The same conclusion was reached under the current revenue standard and thus there will be no change in treatment upon implementation of IFRS 15.

#### c) Presentation and disclosure requirements

The presentation and disclosure requirements in IFRS 15 are more detailed than under the current IFRS standard. The Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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. The standard replaces IAS 17 'Leases', and related interpretations. In 2018, the Group will evaluate the effect of IFRS 16 on its consolidated financial statements.

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

- IFRS 2 (amendment) – Classification and measurement of share-based payment transactions (1 January 2018)
- IFRS 4 – Clarification on the implementation approach together with IFRS 9 (1 January 2018)
- IAS 40 – Transfers of investment property (1 January 2018)
- IFRIC 22 – Foreign currency transactions and advance consideration (1 January 2018)
- Annual improvements 2014 – 2016 cycle – Amendments and clarifications to existing IFRS standards (1 January 2018)
  
- IFRIC 23 - Uncertainty over income tax treatments (1 January 2019)
- IFRS 17 - Insurance contracts (1 January 2021)
- IFRS 10 and IAS 28 (amendments) – Sale or contribution of assets between an investor and its associate or joint venture (postponed)

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 3. FINANCIAL INSTRUMENTS AND 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.

The Group used to manage its interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raised long-term borrowings at floating rates and swapped them into fixed rates. Under the interest rate swaps, the Group agreed with other parties to exchange, at specified intervals (primarily quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional amounts. However, due to the current and in the near future further expected low interest environment the Group did not enter into a new swap agreement under the new refinancing contract. For further information on the refinancing, please refer to note 16.

###### *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 2018 would decrease / increase by TCHF 1'729 / TCHF 1'733 (2017: increase / decrease by TCHF 2'070 / TCHF 2'073) mainly as a result of higher / lower interest expenses on the floating rate borrowings. The prior year was furthermore impacted by the ineffective interest rate swaps: As the floating rate on the non-derivative instrument did not allow negative interest rates the Group was exposed to an interest rate risk if the 3M Libor rate was negative which was the case as per 31 March 2017. Therefore, as per 31 March 2017, if interest rates had been 25 basis points higher / lower and all other variables were held constant, the fair value change of the swaps would have lead to an increase / decrease of the Group's profit by TCHF 3'092 / TCHF 3'105.

###### *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 2018 and 31 March 2017, 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.

	2018	2017
	CHF 000	CHF 000
The Group's unused overdraft facilities are:	500'000	50'000

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. The analysis of derivative financial instruments as per 31 March 2017 has been drawn up based on undiscounted net cash inflows/(outflows) that settle on a net basis.

	Carrying value	Contractual cash flows	< 1 year	1-5 years	> 5 years
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
<b>31 March 2018</b>					
<b>Financial liabilities</b>					
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	-	-
	Carrying value	Contractual cash flows	< 1 year	1-5 years	> 5 years
	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
<b>31 March 2017</b>					
<b>Financial liabilities</b>					
Interest-bearing borrowings	2'384'450	2'552'559	98'510	2'358'622	95'427
Derivative financial instruments	9'195	9'163	8'384	779	-
Financial leasing liabilities	1'571	2'060	456	1'567	37
Trade and other payables	222'269	222'269	222'269	-	-

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### 3.2 Categories of financial instruments

31 March 2018	Cash and cash equiv. CHF 000	Loans and receivables CHF 000	Available for sale CHF 000	Total carrying amount CHF 000
<b>Assets as per balance sheet</b>				
Other investments and loans	-	792	753	1'545
Trade and other receivables	-	508'013	-	508'013
Cash and cash equivalents	86'062	-	-	86'062
<b>Total</b>	<b>86'062</b>	<b>508'805</b>	<b>753</b>	<b>595'620</b>
	Loans and payables CHF 000	At fair value through profit or loss CHF 000	Other financial liabilities CHF 000	Total carrying amount CHF 000
<b>Liabilities as per balance sheet</b>				
Borrowings	2'444'430	-	2'451	2'446'881
Trade and other payables	186'905	-	-	186'905
<b>Total</b>	<b>2'631'335</b>	<b>-</b>	<b>2'451</b>	<b>2'633'786</b>
<b>31 March 2017</b>	Cash and cash equiv. CHF 000	Loans and receivables CHF 000	Available for sale CHF 000	Total carrying amount CHF 000
<b>Assets as per balance sheet</b>				
Other investments and loans	-	577	1'771	2'348
Trade and other receivables	-	458'590	-	458'590
Cash and cash equivalents	180'097	-	-	180'097
<b>Total</b>	<b>180'097</b>	<b>459'167</b>	<b>1'771</b>	<b>641'035</b>
	Loans and payables CHF 000	At fair value through profit or loss CHF 000	Other financial liabilities CHF 000	Total carrying amount CHF 000
<b>Liabilities as per balance sheet</b>				
Borrowings	2'384'450	-	1'571	2'386'021
Trade and other payables	222'269	-	-	222'269
Derivative financial instruments	-	9'195	-	9'195
<b>Total</b>	<b>2'606'719</b>	<b>9'195</b>	<b>1'571</b>	<b>2'617'485</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

#### 3.3 Fair values of financial instruments

The fair value of financial instruments is determined as follows:

##### Cash and cash equivalents, trade and other receivables:

The carrying amounts reported in the statement of financial position approximate fair values because of the short-term maturities of these amounts.

##### Other investments and loans:

The other investments and loans are categorised as available for sale financial assets and therefore are carried at fair value. They are classified as level 3, see below.

##### Borrowings and trade and other payables:

The fair value of the bonds amounts to TCHF 241'863 (2017: TCHF 243'850). The carrying amount of the other borrowings and trade and other payables reported in the balance sheet approximate fair values.

**Derivative financial instruments:** In prior year, the fair value of the interest rate swap was calculated by use of discounted cash flow analysis using the applicable yield curve for the duration of the instrument, see note 19. Based on the degree to which the fair value of the interest rate swap was observable, it was classified as level 2, see below.

The different levels have been defined as follows:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs)

#### 3.4 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 29.1 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 an annual basis.

	2018	2017
	CHF 000	CHF 000
Borrowings - notes 16 and 29.1	2'444'430	2'384'450
Less: cash and cash equivalents	(86'062)	(180'097)
<b>Net debt</b>	<b>2'358'368</b>	<b>2'204'353</b>
<b>Total equity</b>	<b>1'258'179</b>	<b>1'846'253</b>
<b>Debt to capital ratio</b>	<b>1.87</b>	<b>1.19</b>

The debt to capital ratio increased to 1.80.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

##### 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 value-in-use 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) 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 a significant 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 bigger than an operating segment. Management assesses goodwill at a Group level.

The Hirslanden brand name cannot be allocated on a reasonable and consistent basis to the cash generating units that consist of individual hospitals (refer to note 6). As a result, the carrying amount of the net assets of the group of cash-generating units (including the allocation of brand name) is tested for impairment at Group level.

##### 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 25.

##### 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 18.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

#### 4.2 Critical judgements in applying the Group's accounting policies

##### a) *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 will start to amortise the Hirslanden brand name straight line over 75 years and the other local brand names straight line 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 HIT2020 project, 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 2018 and 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.

#### 4.3 *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	
		2018	2017
		CHF 000	CHF 000
<b>5. PROPERTY, EQUIPMENT AND VEHICLES</b>			
<b>Land - cost</b>		<b>1'084'028</b>	<b>1'067'376</b>
Cost		1'084'028	1'067'376
<b>Buildings</b>		<b>2'408'276</b>	<b>2'399'187</b>
Cost		2'765'602	2'610'592
Accumulated depreciation and impairment		(357'326)	(211'405)
<b>Land and buildings</b>		<b>3'492'304</b>	<b>3'466'563</b>
<b>Leasehold improvements</b>		<b>40'611</b>	<b>30'529</b>
Cost		69'387	54'346
Accumulated depreciation		(28'776)	(23'817)
<b>Equipment</b>		<b>220'557</b>	<b>227'935</b>
Cost		569'961	528'778
Accumulated depreciation		(349'404)	(300'843)
<b>Furniture and vehicles</b>		<b>30'053</b>	<b>29'384</b>
Cost		151'565	136'722
Accumulated depreciation		(121'512)	(107'338)
<b>Subtotal</b>		<b>3'783'525</b>	<b>3'754'411</b>
<b>Buildings under construction</b>		<b>26'167</b>	<b>24'920</b>
		<b>3'809'692</b>	<b>3'779'331</b>

## 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
<b>Year ended 31 March 2018</b>					
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)
<b>Net book value</b>	<b>3'518'471</b>	<b>40'611</b>	<b>220'557</b>	<b>30'053</b>	<b>3'809'692</b>
<b>At 31 March 2018</b>					
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)
<b>Net book value</b>	<b>3'518'471</b>	<b>40'611</b>	<b>220'557</b>	<b>30'053</b>	<b>3'809'692</b>
<b>Year ended 31 March 2017</b>					
Net opening book value	3'456'770	27'138	204'937	28'811	3'717'656
Capital expenditure	65'545	7'214	65'507	14'027	152'293
Disposals	(16)	-	(340)	(39)	(395)
Depreciation	(30'816)	(3'823)	(42'169)	(13'415)	(90'223)
<b>Net book value</b>	<b>3'491'483</b>	<b>30'529</b>	<b>227'935</b>	<b>29'384</b>	<b>3'779'331</b>
<b>At 31 March 2017</b>					
Cost	3'702'888	54'346	528'778	136'722	4'422'734
Accumulated depreciation	(211'405)	(23'817)	(300'843)	(107'338)	(643'403)
<b>Net book value</b>	<b>3'491'483</b>	<b>30'529</b>	<b>227'935</b>	<b>29'384</b>	<b>3'779'331</b>

Buildings under construction are included in land and buildings.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

		GROUP	
		2018	2017
		CHF 000	CHF 000
<b>5. PROPERTY, EQUIPMENT AND VEHICLES (CONTINUED)</b>			
<b>Capital expenditure</b>			
Capital expenditure excluding expenditure in buildings under construction		91'222	134'066
Capital expenditure in buildings under construction		15'942	18'227
<b>Total additions</b>		<b>107'164</b>	<b>152'293</b>
 Profit on sale of equipment and vehicles		 316	 183
Included in the book value of equipment above is capitalised financial lease equipment with a book value of		2'359	1'025
Capitalised borrowing costs (IAS 23) included in capital expenditure		25	1
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	3'102'820

Regulatory changes implemented during the current 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 an impairment test on the cash-generating units and assessed if there was a shortfall between the recoverable amounts and the carrying values. This assessment resulted in an impairment loss on the cash-generating unit of the supply region Bern. This cash-generating unit is part of the operating platform of Switzerland, see note 2.3.

As a result of the review, the carrying amount of the cash-generating unit Bern was determined to be higher than its recoverable amount of TCHF 599'335 and an impairment loss of TCHF 112'000 was recognised in the income statement. The discount rate used was 4.9%.

## 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
<b>Year ended 31 March 2018</b>				
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)	(348'900)	(400'139)	(757'561)
<b>Net book value</b>	<b>43'796</b>	<b>98'100</b>	<b>-</b>	<b>141'896</b>
<b>At 31 March 2018</b>				
Cost	87'575	447'000	400'139	934'714
Accumulated amortisation	(43'779)	(348'900)	(400'139)	(792'818)
<b>Net book value</b>	<b>43'796</b>	<b>98'100</b>	<b>-</b>	<b>141'896</b>
<b>Year ended 31 March 2017</b>				
Net opening book value	27'768	425'900	383'975	837'643
Additions net	11'001	-	-	11'001
Amortisation	(8'102)	-	-	(8'102)
<b>Net book value</b>	<b>30'667</b>	<b>425'900</b>	<b>383'975</b>	<b>840'542</b>
<b>At 31 March 2017</b>				
Cost	65'924	425'900	383'975	875'799
Accumulated amortisation	(35'257)	-	-	(35'257)
<b>Net book value</b>	<b>30'667</b>	<b>425'900</b>	<b>383'975</b>	<b>840'542</b>
The additions of property, equipment and vehicles and intangible assets during the year consist of				
Additions to maintain operations			81'774	89'489
Additions to expand operations			47'016	73'805
			<b>128'790</b>	<b>163'294</b>

The Group tests goodwill and indefinite useful life brand names for impairment on an annual basis or more frequently if there are indications that these assets may be impaired. The annual impairment assessment is performed at year-end 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 value in use, determined by discounting the future cash flows to be generated from the continuing use of the group of cash-generating units. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The goodwill of TCHF 400'139 (2017: TCHF 383'975) originated mainly from the Hirslanden business combination, in fact TCHF 288'335, and other business combinations. The same applies to the brand names of TCHF 447'000 (2017: TCHF 425'900) where TCHF 348'900 are allocated to the Hirslanden brand name. Refer to note 30 for more details on the business combinations of the current financial year. Key assumptions used for the value-in-use 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 value in use calculation are based on these budgets and forecasts that is calculated on a per hospital basis and considers both internal and external market information. These budgets and forecasts represent management's best view of future admissions, outpatient revenue and outpatient attendance, tariffs, bed occupancy and insurance mix.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

### 6. INTANGIBLE ASSETS (CONTINUED)

#### 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 stable 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% (2017: 1,6%) growth rate.

#### 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% (2017: 4,7%).

Regulatory changes implemented during the current 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. 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 had a significant 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 4'330'489 and an impairment loss of TCHF 861'039 was recognised in the income statement. TCHF 400'139 of the impairment loss was allocated to goodwill and TCHF 348'900 to the Hirslenden indefinite useful life brand name. As a result, the goodwill is fully impaired.

	2018	2017
	CHF 000	CHF 000
Carrying amount of goodwill	0	383'975
Carrying amount of indefinite life brand names	98'100	425'900

The useful life of both the Hirslenden brand name and the other local brand names were considered as part of the annual impairment test and was subsequently changed from an indefinite useful life to a finite useful life. The respective useful lives of the Hirslenden brand name and the other local brand names were determined based on an analysis of relevant factors, such as the effect of technological changes on the delivery of healthcare services and on patient attendance, the effect of regulatory changes in healthcare, and the possible actions by potential competitors. Based on the analysis, a useful life of 75 years was allocated to the Hirslenden brand name and a useful life of 25 years was allocated to the other local brand names.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>7. EQUITY ACCOUNTED INVESTMENTS</b>		
<i>Unlisted</i>		
<b>Carrying value of investments in associates' equity</b>	<b>2'313</b>	<b>2'038</b>
Opening balance	2'038	1'115
Addition in investments	350	806
Distribution received	(28)	(212)
Result from associates	(47)	329
Total loss of associates is TCHF 22 (2017: profit of TCHF 620) of which the Group's share is TCHF 47 (2017: TCHF 329).		
Total revenue for the associates is TCHF 25'509 (2017: TCHF 25'144).		
The aggregate information of associates that are not individually material:		
The Group's share of (loss) / profit	(47)	329
<b>The Group's share of total comprehensive (loss) / income</b>	<b>(47)</b>	<b>329</b>
Aggregate carrying amount of Group's interest in these associates	(47)	329
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.		
Further details are disclosed in note 28 and 29.		
<b>8. OTHER INVESTMENTS AND LOANS</b>		
<i>Unlisted - no active market</i>		
Loans and receivables	792	577
Investments available-for-sale: Shares	753	1'771
	<b>1'545</b>	<b>2'348</b>

Investments available-for-sale comprise of various small investments below 20% share holding. Its cost base, however, can be regarded as a reasonable approximation of fair value.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>9. DEFERRED TAXATION</b>		
<b>The movement on the deferred taxation account is as follows:</b>		
Opening balance	650'147	608'095
<b>Business combinations - note 30</b>	<b>24'703</b>	-
<i>Deferred income tax assets</i>	(2'614)	-
Long-term liabilities	(2'614)	-
<i>Deferred income tax liabilities</i>	27'317	-
Property, equipment and vehicles	22'165	-
Intangible assets	4'631	-
Current assets	521	-
Income statement (credit) / charge for the year	(79'478)	29'719
Taxation change of temporary differences recorded in other comprehensive income	19'964	12'333
<b>Balance at the end of the year</b>	<b>615'336</b>	<b>650'147</b>

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
<b>Deferred tax liabilities</b>						
<b>At 1 April 2017</b>	<b>554'474</b>	<b>100'357</b>	<b>126</b>	<b>8'899</b>	<b>20'504</b>	<b>684'360</b>
Charged/(credited) to income statement	(16'440)	(73'811)	13	(332)	(1'692)	(92'262)
Business combinations	22'165	4'631	-	521	-	27'317
<b>At 31 March 2018</b>	<b>560'199</b>	<b>31'177</b>	<b>139</b>	<b>9'088</b>	<b>18'812</b>	<b>619'415</b>
<b>At 1 April 2016</b>	<b>554'460</b>	<b>100'357</b>	<b>87</b>	<b>8'337</b>	<b>21'289</b>	<b>684'530</b>
Charged/(credited) to income statement	14	-	39	562	(785)	(170)
<b>At 31 March 2017</b>	<b>554'474</b>	<b>100'357</b>	<b>126</b>	<b>8'899</b>	<b>20'504</b>	<b>684'360</b>

Set-off of deferred tax liabilities pursuant to set-off provisions

**Net deferred tax liabilities at the end of the year**

2'527	31'519
<b>616'888</b>	<b>652'841</b>

The credit to the income statement of TCHF 16'440 on the tangible assets mainly comes from the impairment of the properties of TCHF 112'000, see note 5. The credit to the income statement of TCHF 73'811 on the intangible assets is a result of the impairment of the Hirslanden brand value to TCHF 50'000 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
<b>At 1 April 2017</b>	(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)
<b>At 31 March 2018</b>	<b>(185)</b>	<b>(3)</b>	<b>-</b>	<b>(891)</b>	<b>(3'000)</b>	<b>(4'079)</b>
<b>At 1 April 2016</b>	(45)	(3)	(5'428)	(33'511)	(37'448)	(76'435)
Charged/(credited) to income statement	(46)	-	3'034	3'068	23'833	29'889
Charged/(credited) to other comprehensive income	-	-	449	11'884	-	12'333
<b>At 31 March 2017</b>	<b>(91)</b>	<b>(3)</b>	<b>(1'945)</b>	<b>(18'559)</b>	<b>(13'615)</b>	<b>(34'213)</b>

	2018 CHF 000	2017 CHF 000
Set-off of deferred tax assets pursuant to set-off provisions	2'527	31'519
<b>Net deferred tax assets at the end of the year</b>	<b>(1'552)</b>	<b>(2'694)</b>

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 2018, the Group had unutilised tax losses of approximately TCHF 47'781 (2017: TCHF 83'381) potentially available for offset against future profits. A deferred tax asset of TCHF 3'000 (2017: TCHF 13'615) 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 carrying value of goodwill as set out in note 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

expiry in 1 year	-	785
expiry in 2 years	24'550	-
expiry in 3 to 7 years	6'243	15'956

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	
	2018	2017
	CHF 000	CHF 000
<b>10. INVENTORIES</b>		
<b>Inventories consist of:</b>		
Pharmaceutical products	57'509	53'328
Consumables	750	766
	<b>58'259</b>	<b>54'094</b>

The cost of inventories recognised as an expense and included in cost of sales amounted to TCHF 413'244 (2017: TCHF 369'753), see note 22.

The write-down of inventories recognised as an expense during the year has an amount of TCHF 4'044 (2017: TCHF 3'130).

### 11. TRADE AND OTHER RECEIVABLES

Trade receivables	316'529	294'913
Less provision for impairment of receivables	(4'585)	(3'866)
<b>Trade receivables - net *)</b>	<b>311'944</b>	<b>291'047</b>
Other receivables *)	196'069	167'543
Other receivables - personnel and social insurances	277	507
Other receivables - tax	40	13
	<b>508'330</b>	<b>459'110</b>

\*) Thereof financial instruments: **508'013** **458'590**

Included in the Group's other receivables balance are unbilled services of TCHF 106'185 (2017: TCHF 99'067).

The credit risk of the trade receivables that are neither past due or impaired is limited since 92% (2017: 92%) of the performing trade receivables are from insurance companies or federal and cantonal authorities, see note 3.1b.

#### The ageing of the trade receivables is as follows:

Up to 3 months	261'373	232'453
3 to 6 months	22'217	25'534
Over 6 months	32'939	36'926
	<b>316'529</b>	<b>294'913</b>

As of 31 March 2018, trade receivables of TCHF 193'665 (2017: TCHF 170'421) were fully performing.

Included in the Group's trade receivables balance are trade receivables with a carrying value of TCHF 122'863 (2017: TCHF 124'492) 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	81'563	87'929
Over 3 months past due	41'300	36'563
	<b>122'863</b>	<b>124'492</b>

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

#### Movement in the provision for impairment of receivables

Opening balance	(3'866)	(2'939)
Business combinations	(108)	-
Release used part	643	255
Decrease in the amount recognised in the income statement	387	1'183
Increase in the amount recognised in the income statement	(1'641)	(2'365)
<b>Balance at the end of the year</b>	<b>(4'585)</b>	<b>(3'866)</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>12. CASH AND CASH EQUIVALENTS</b>		
Cash on hand	383	401
Cash at post	9'878	2'199
Cash at banks	75'801	177'497
<b>Total cash and cash equivalents</b>	<b>86'062</b>	<b>180'097</b>
Under the facility agreement all bank accounts are pledged, see note 16. The counterparties have a minimum credit rating by Moody's (A2) and Standard & Poor's (A).		
<b>13. SHARE CAPITAL AND SHARE PREMIUM</b>		
Authorised and issued share capital of CHF 1 per share (fully paid in)	551'882	551'882
Share premium	1'007'302	1'007'302
<b>Total share capital and share premium</b>	<b>1'559'184</b>	<b>1'559'184</b>
<b>14. RESERVES</b>		
<b>14.1 Retained earnings</b>		
Opening balance	288'689	92'120
(Loss) / profit for the year	(655'578)	160'481
Dividend paid during the year	(10'000)	(10'000)
Other transactions	(47)	-
Actuarial gain	75'245	46'088
<b>Balance at the end of the year</b>	<b>(301'691)</b>	<b>288'689</b>
<b>14.2 Hedge Reserve</b>		
Opening balance	(2'091)	(3'764)
Changes of fair value of derivative financial instruments	2'652	2'122
Change in deferred tax on fair value of derivate financial instruments	(561)	(449)
<b>Balance at the end of the year</b>	<b>-</b>	<b>(2'091)</b>
<b>15. NON-CONTROLLING INTERESTS</b>		
Opening balance	211	210
Business combinations - note 30	393	-
Transactions with non-controlling interests	42	(19)
Dividend distributions	(77)	(2)
Share of (loss)/gain	(10)	22
<b>Balance at the end of the year</b>	<b>559</b>	<b>211</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>16. BORROWINGS</b>		
<b>Secured long-term bank loans</b>	<b>1'512'063</b>	<b>1'471'891</b>
Long-term portion	1'492'000	1'450'000
Short-term portion	35'000	50'000
Capitalised financing costs - long-term	(14'937)	(28'109)

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 2018, the Group has the following loan facility drawn:

Loan Facility A of TCHF 1'500'000: During the period from 01.11.2017 - 31.03.2018, 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 35'000 or TCHF 50'000 must be redeemed, depending on the loan-to-value ratio. The remaining balance must be redeemed on 16 October 2023.

As per 31.03.2017, the Group had two loan facilities:

Loan Facility A of TCHF 1'400'000: During the financial year 2017, this loan bore interest at a floating rate of 3M LIBOR plus 1.5% compounded quarterly, whereas the floating rate was capped at 0%. Every year on 30 September, TCHF 50'000 had to be redeemed.

Loan Facility B of TCHF 100'000 as of 31 March 2017: During the financial year 2017, this loan bore interest at a floating rate of 3M LIBOR plus 2.85% compounded quarterly, whereas the floating rate was capped at 0%.

If the extinguishment wouldn't have taken place, the two facilities would have had to be redeemed on 31 July 2020.

As per 31 October 2017, capitalised financing costs of TCHF 24'039 (31 March 2017: TCHF 28'109) relating to the existing loans were released through the line item "Finance cost". Meanwhile, an amount of TCHF 15'936 was capitalised relating to the new facility agreement. As per 31 March 2018, the non-current portion of the loans included capitalised financing costs of 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.

Furthermore, through the acquisition of the Linde Group, additional borrowings of TCHF 30'000 were acquired, see note 16. Up to 31 March 2018, the borrowed amount was decreased to TCHF 27'000 net. As per 31 March 2018, the borrowings consist of the following:

Four loans 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. The loan was considered as such in the liquidity risk analysis in note 3.1c).

Fixed interest mortgage of TCHF 10'000, bearing interest at a fixed rate of 0.9% during the period from 01 July 2017 - 31 March 2018, compounded quarterly, repayable by December 2023.

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

<b>Listed bonds</b>	<b>235'000</b>	<b>235'000</b>
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

	2018	2017
	CHF 000	CHF 000
<b>16. BORROWINGS (CONTINUED)</b>		
<b>Secured long-term finance</b>	<b>2'451</b>	<b>1'571</b>
Long-term portion	1'584	1'278
Short-term portion	867	293
<p>These liabilities bear interest at interest rates ranging between 1% and 12% and are repayable in equal monthly payments in periods ranging from 1 to 5 years. Equipment with a book value of TCHF 2'359 (2017: TCHF 1'025) is encumbered as security for these liabilities.</p>		
<b>Total Borrowings</b>	<b>1'749'514</b>	<b>1'708'462</b>
Long-term portion	1'713'647	1'658'169
Short-term portion	35'867	50'293
 <b>17. PROVISIONS</b>		
	<b>Employee jubilee benefits</b>	<b>Legal cases and other</b>
	<b>CHF 000</b>	<b>CHF 000</b>
<b>At 1 April 2017</b>	<b>21'298</b>	<b>1'224</b>
Arised during the year	3'173	580
Business combinations - note 30	640	500
Utilised	(3'109)	(243)
Unused amounts reversed	(15)	(891)
<b>At 31 March 2018</b>	<b>21'987</b>	<b>1'170</b>
Current at 31 March 2018	2'946	625
Non-current at 31 March 2018	19'041	545
<b>At 31 March 2018</b>	<b>21'987</b>	<b>1'170</b>
 <b>At 1 April 2016</b>	<b>20'772</b>	<b>2'887</b>
Arised during the year	3'526	2'416
Utilised	(2'992)	(3'491)
Unused amounts reversed	(8)	(588)
<b>At 31 March 2017</b>	<b>21'298</b>	<b>1'224</b>
Current at 31 March 2017	3'152	857
Non-current at 31 March 2017	18'146	367
<b>At 31 March 2017</b>	<b>21'298</b>	<b>1'224</b>
	<b>CHF 000</b>	<b>CHF 000</b>
<b>At 1 April 2017</b>	<b>28'918</b>	<b>51'440</b>
Arised during the year	5'269	9'022
Business combinations - note 30	1'172	2'312
Utilised	(5'047)	(8'399)
Unused amounts reversed	(6'980)	(7'886)
<b>At 31 March 2018</b>	<b>23'332</b>	<b>46'489</b>
Current at 31 March 2018	11'784	15'355
Non-current at 31 March 2018	11'548	31'134
<b>At 31 March 2018</b>	<b>23'332</b>	<b>46'489</b>
 <b>At 1 April 2016</b>	<b>35'468</b>	<b>59'127</b>
Arised during the year	8'734	14'676
Utilised	(1'394)	(7'877)
Unused amounts reversed	(13'890)	(14'486)
<b>At 31 March 2017</b>	<b>28'918</b>	<b>51'440</b>
Current at 31 March 2017	18'976	22'985
Non-current at 31 March 2017	9'942	28'455
<b>At 31 March 2017</b>	<b>28'918</b>	<b>51'440</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>17. PROVISIONS (CONTINUED)</b>		
<i>Employee jubilee benefits:</i>		
This provision is for benefits granted to employees for long service.		
<i>Legal cases and other:</i>		
The major part of this provision relates to retentions for malpractice and provisions for doctors' practices.		
<i>Tariff risks:</i>		
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 2018 and 31 March 2017 are attributable to this Swiss DRG provisions		
For more details refer to note 4.3.		
<b>At 31 March, provisions are expected to be payable during the following financial years:</b>		
Within 1 year	21'612	22'985
After one year but not more than five years	15'811	19'511
More than five years	9'066	8'944
	<b>46'489</b>	<b>51'440</b>
<b>18. RETIREMENT BENEFIT OBLIGATIONS</b>		
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)		
Röntgeninstitut Cham AG; Pension fund at foundation Swisscanto (cash balance plan)		
<b>Balance sheet</b>		
Amounts recognised in the balance sheet are as follows:		
Defined benefit obligation (DBO)	1'397'266	1'357'197
Fair value of plan assets	1'392'956	1'266'706
Deficit	4'310	90'491
<b>Net pension liabilities</b>	<b>4'310</b>	<b>90'491</b>
The movement in the <b>defined benefit obligation</b> over the year is as follows:		
Opening balance	1'357'197	1'308'971
Employer current service cost	47'080	45'584
Interest cost on DBO	7'426	5'629
Employee contributions	43'392	39'174
Benefits paid from plan assets	(45'576)	(21'199)
Actuarial loss - experience	7'667	11'464
Actuarial gain - change in demographical assumption	(39'525)	-
Actuarial gain - change in financial assumption	(25'376)	(15'428)
Plan change / Past service income	(5'395)	(16'998)
Business combinations	50'376	-
<b>Balance at the end of the year</b>	<b>1'397'266</b>	<b>1'357'197</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)</b>		
The movement of the fair value of <b>plan assets</b> over the year is as follows:		
Opening balance	1'266'706	1'145'503
Employer contributions	48'477	45'157
Plan participants contributions	43'392	39'174
Benefits paid from fund	(45'576)	(21'199)
Interest income on plan assets	7'083	5'116
Return on plan assets greater than discount rate	37'414	54'008
Business combinations	36'656	-
Administration cost paid	(1'196)	(1'053)
<b>Balance at the end of the year</b>	<b>1'392'956</b>	<b>1'266'706</b>
<b>Income statement</b>		
Amounts recognised in the income statement are as follows:		
Current service cost	47'080	45'584
Past service income	(5'395)	(16'998)
Interest cost on DBO	7'426	5'629
Interest income on plan assets	(7'083)	(5'116)
Administrative costs paid	1'196	1'053
<b>Total expense</b>	<b>43'224</b>	<b>30'152</b>
<b>Statement of comprehensive income</b>		
Amounts recognised in the OCI are as follows:		
Actuarial loss due to liability experience	(7'667)	(11'464)
Actuarial gain due to liability assumption changes	64'901	15'428
Return on plan assets greater than discount rate	37'414	54'008
<b>Total of comprehensive income</b>	<b>94'648</b>	<b>57'972</b>
<b>Statement of financial position</b>		
Amount recognised in pension liabilities are as follows:		
Opening net liability	90'491	163'468
Expense as above	43'224	30'152
Contributions paid by employer	(48'477)	(45'157)
Actuarial gain recognised in OCI	(94'648)	(57'972)
Business combinations	13'720	-
<b>Closing net liability</b>	<b>4'310</b>	<b>90'491</b>
<b>Actual return on plan assets</b>	<b>44'497</b>	<b>59'124</b>
<b>Principle actuarial assumptions on balance sheet date</b>		
Discount rate	0.75%	0.55%
Future salary increases	1.75%	1.50%
Future pension increases	0.00%	0.00%
Inflation rate	1.25%	1.00%
<b>Number of plan members</b>		
Active members	9'168	8'969
Pensioners	844	774
	<b>10'012</b>	<b>9'743</b>
<b>Experience adjustment</b>		
On plan liabilities: loss	7'667	11'464
On plan assets: gain	(37'414)	(54'008)

As at the last valuation date, the present value of the defined benefit obligation included approximately TCHF 1'128'398 (2017: TCHF 1'093'341) relating to active employees and TCHF 268'868 (2017: TCHF 263'856) relating to members in retirement.

# NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

## 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

### Asset allocation in CHF

Plan assets are comprised as follows:

Quoted	2018		2017	
	in TCHF	%	in TCHF	%
Fixed income	469'427	33.7	421'813	33.3
Equity investments	330'131	23.7	320'477	25.3
Real estate	39'003	2.8	74'736	5.9
Other	185'263	13.3	122'870	9.7
<b>Total</b>	<b>1'023'824</b>	<b>73.5</b>	<b>939'896</b>	<b>74.2</b>

Non-quoted	2018		2017	
	in TCHF	%	in TCHF	%
Fixed income	5'572	0.4	3'800	0.3
Equity investments	16'715	1.2	15'200	1.2
Real estate	275'805	19.8	225'474	17.8
Other	71'040	5.1	82'335	6.5
<b>Total</b>	<b>369'132</b>	<b>26.5</b>	<b>326'809</b>	<b>25.8</b>

### 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%	-
		Change in assumption	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy (mortality)		1 year in expected lifetime of plan participants	-2.00%	2.00%

### Sensitivity analysis 31 March 2017

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	0.55%	0.25%	-2.70%	2.90%
Salary growth rate	1.50%	0.50%	0.70%	-0.70%
Pension growth rate	0.00%	0.25%	2.40%	-
		Change in assumption	Increase by 1 year in assumption	Decrease by 1 year in assumption
Life expectancy (mortality)		1 year in expected lifetime of plan participants	2.30%	-2.30%

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

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 2019 are TCHF 41'508 (2018: TCHF 39'932)

The weighted average duration of the defined benefit obligation is 12.9 years (2017: 13.6 years). The maturity profile of the defined benefit obligation is as follows:

	Total	< 1 year	1-5 years	> 5 years
	CHF 000	CHF 000	CHF 000	CHF 000
<b>31 March 2018</b>				
Defined benefit obligation	813'080	97'992	353'808	361'280
<b>31 March 2017</b>				
Defined benefit obligation	1'488'260	91'019	275'274	1'121'967

#### 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 2018, there was a loss due to the demographic experience of TCHF 7'667 (2017: loss of TCHF 11'464) and a gain due to the change of the economic assumptions of TCHF 25'376 (2017: gain of TCHF 15'428). Due to the implementation of the CMI Mortality Improvement tables there was a gain of kCHF 39'525. Additionally, there was a gain due to investment return different from the return implied by the discount rate of TCHF 37'414 (2017: gain of TCHF 54'008).

During the year, Privatklinik Linde and Röntgeninstitut Chame were acquired by Hirslanden on 1 July 2017 and 1 October 2017, respectively. The opening balance sheet positions are shown in the "Business combinations" line of the exhibits and the P&L cost for the fiscal year ending 31 March 2018 reflects only the partial year after the date of acquisition.

Additionally, 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 prior year, there has been a plan change per 1 June 2016 in the Hirslanden pension plan. The plan changes included the following:

- reduction in the conversion rate (with grandfathering measures for certain existing employees)
- increase in savings contributions and employee and employer contributions, interest on account balance after disability increased from 0% to 1% pa
- one-time uplift to existing account balances

Furthermore, effective 1 January 2017 active insured members for the Swissana pension plan have been transferred into the Hirslanden and VSAO pension plans.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

GROUP

### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

**The following assumptions have changed since the previous valuation**

- The discount rate used to value plan obligations has changed from 0.55% to 0.75%
- The interest credit rate on total account balance has changed from 0.55% to 0.75%
- The interest credit rate on the BVG shadow account balance has changed from 0.55% to 0.75%.
- The assumed underlying infatlon rate was increased from 1.00% to 1.25%, impacting the social security increase rate and the salary increase rate similarly.
- The future mortality improvement rates have been changed to be based on the 2016 CMI mortality improvement rates with a 1.25% long-term trend rate.

#### **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.

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.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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GROUP

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### 18. RETIREMENT BENEFIT OBLIGATIONS (CONTINUED)

#### 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	
	2018	2017
	CHF 000	CHF 000
<b>19. DERIVATIVE FINANCIAL INSTRUMENTS</b>		
<b>Liabilities</b>		
Interest rate swap		
Opening balance	9'195	25'665
Fair value adjustment through income statement - note 24	(4'925)	(16'470)
Redemption of the swap	(4'270)	-
<b>Balance at the end of the year</b>	<b>-</b>	<b>9'195</b>
Fair value portion due within 1 year	-	8'411
Fair value portion due after 1 year	-	784

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 31 March 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 (31 March 2017: TCHF 9'195). The resulting fair value gain of TCHF 4'925 (31 March 2017: TCHF 16'470) was recorded through the income statement in the line item "Finance cost", see note 24.

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 (01 April 2016 to 31 March 2017: TCHF 2'122) was recorded through the income statement in the line item "Finance cost", see note 24, reversed by deferred tax expenses of TCHF 561 (01 April 2016 to 31 March 2017: TCHF 449).

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>20. CASH-SETTLED SHARE-BASED PAYMENT LIABILITY</b>		
<p>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.</p> <p>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).</p>		
Opening balance	40	-
Share-based payment (income) / expense	(4)	40
<b>Balance at the end of the year</b>	<b>36</b>	<b>40</b>
<b>A reconciliation of the movement of the LTIP units is detailed below:</b>		
Opening balance	17'071	-
Units granted during the year (LTIP)	46'908	17'071
<b>Balance at the end of the year</b>	<b>63'979</b>	<b>17'071</b>
<b>Valuation assumptions relating to outstanding units:</b>	<b>2016 allocation</b>	<b>2017 allocation</b>
Grant date	14.06.2016	01.06.2017
Vesting date	14.06.2019	01.06.2020
Outstanding units	17'071	46'908
Closing price of Mediclinic International plc share (denominated in Great British pound)	601 pence	601 pence
Risk-free rate	0.74%	0.82%
Expected dividend yield	1.31%	0.00%
Volatility	34.71%	34.67%
<b>21. TRADE AND OTHER PAYABLES</b>		
Trade payables	134'364	153'481
Other payables and accrued expenses	52'541	68'788
Other payables and accrued expenses - personnel and social insurances	46'833	51'844
Value added tax	946	683
	<b>234'684</b>	<b>274'796</b>
<b>Thereof financial instruments:</b>	<b>186'905</b>	<b>222'269</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>22. EXPENSES BY NATURE</b>		
<b>Fees paid to the Group's auditors for the following services</b>		
Audit of the parent company and consolidated financial statements	593	626
Audit company subsidiaries	523	437
Audit services	1'116	1'063
Audit related services	85	246
Tax advice	-	138
Other assurance services	119	80
All other services	2	9
	<b>1'322</b>	<b>1'536</b>
<b>Cost of inventories</b>	<b>389'040</b>	<b>369'753</b>
<b>Depreciation</b>	<b>101'615</b>	<b>90'223</b>
Buildings and fixed installations	33'921	30'816
Leasehold improvements	4'959	3'823
Equipment	48'561	42'169
Furniture and vehicles	14'174	13'415
<b>Amortisation on intangible assets</b>	<b>8'522</b>	<b>8'102</b>
<b>Employee benefit expenses</b>	<b>790'214</b>	<b>751'631</b>
Wages and salaries	671'627	645'903
Social insurance	59'849	59'393
Retirement benefit costs - defined benefit plans	43'224	30'152
Equity settled share-based payment charge	42	155
Other employee costs	15'472	16'028
<b>Doctors' fees</b>	<b>24'203</b>	<b>23'161</b>
<b>Maintenance costs</b>	<b>39'853</b>	<b>36'920</b>
<b>Managerial and administration fees</b>	<b>54'369</b>	<b>52'890</b>
<b>Operating leases</b>	<b>29'162</b>	<b>25'767</b>
Buildings	29'162	25'767
<b>Other expenses</b>	<b>84'198</b>	<b>85'103</b>
General expenses	84'468	85'286
Profit on disposal of property, equipment and vehicles	(270)	(183)
	<b>1'522'498</b>	<b>1'445'086</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>22. EXPENSES BY NATURE (CONTINUED)</b>		
<b>Classified as:</b>		
Cost of sales	1'122'158	1'065'444
Administration and other operating expenses	400'340	379'642
	<u>1'522'498</u>	<u>1'445'086</u>
<b>Thereof depreciation and amortisation classified as:</b>		
Cost of sales	90'392	83'206
Administration and other operating expenses	19'745	15'119
	<u>110'137</u>	<u>98'325</u>
<b>23. OTHER GAINS AND LOSSES</b>		
Release of stamp duty provision	10'941	-
	<u>10'941</u>	<u>-</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.		
<b>24. FINANCE INCOME AND COST</b>		
Finance cost	51'724	52'744
Less: amounts included in the cost of qualifying assets	(25)	(1)
Finance cost net	<u>51'699</u>	<u>52'743</u>
Finance cost on interest rate swap	6'925	13'252
Amortisation of capitalised financing expenses (old facility)	4'070	7'795
Release of capitalised financing expenses (old facility)	24'039	-
Amortisation of capitalised financing expenses (new facility)	999	-
Fair value gain on ineffective cash flow hedges	(4'925)	(16'470)
<b>Finance cost</b>	<u>82'807</u>	<u>57'320</u>
Finance income	(1'596)	(125)
<b>Net finance cost</b>	<u>81'211</u>	<u>57'195</u>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>25. TAXATION</b>		
<b>Income tax expense in the consolidated income statement</b>		
Current income tax		
Current income tax charge	18'967	15'126
Previous year income tax credit	(2'320)	(3'253)
Deferred income tax		
Relating to origination on reversal of temporary differences and recognized tax losses	(79'478)	29'719
<b>Income tax expense reported in the income statement</b>	<b>(62'831)</b>	<b>41'592</b>
<b>Reconciliation</b>		
Net (loss) / profit before income tax	(718'419)	202'095
Expected income tax rate	20.81%	20.12%
<b>Income tax expense calculated on theoretical tax rate</b>	<b>(149'517)</b>	<b>40'657</b>
Effect of goodwill impairment	82'029	-
Effect of changes in income tax rates	3'444	99
Adjustments for previous years	(2'320)	(3'253)
Effect of non-recognition of tax losses in current year	1'695	-
Derecognition of tax losses relating to prior years	1'400	2'041
Non-deductible expenses	330	2'048
Utilisation of previously unrecognised tax losses	108	-
<b>Total income tax</b>	<b>(62'831)</b>	<b>41'592</b>
<b>Effective income tax rate</b>	<b>8.75%</b>	<b>20.58%</b>

The Group's effective tax rate decreased from 20.58% as per 31 March 2017 to 8.75% as per 31 March 2018. The reasons for this increase are listed below:

The goodwill impairment of TCHF 400'139 (see note 6) recorded in the current financial year had no tax impact as it is not deductible for tax purposes. Furthermore, there are no deferred taxes on goodwill. Therefore, TCHF 82'209 are disclosed as "Effect of goodwill impairment".

The effect of changes in income tax rates mainly comes from the impairment of the properties and the Hirslenden brand name, see note 5 and 6 respectively.

The contingency reserve is further decreased by TCHF 2'000 as it is not needed anymore. This is the main reason for the negative adjustments for previous years.

The effect of non-recognition of tax losses in current year relates to Hirslenden Bern AG, Bern. Furthermore, the derecognition of tax losses relating to prior years is mainly coming from Hirslenden Bern AG, Bern as well. The company suffers a loss as per 31 March 2018 and the business plan had to be adjusted downwards accordingly.

As per 31 March 2017, the non-deductible expenses of TCHF 2'048 include rental fees recharged from Hirslenden AG, Zurich to its subsidiaries Klinik Birshof AG, Münchenstein, Hirslenden Klinik Aarau AG, Aarau and Hirslenden Lausanne SA, Lausanne which are not fully accepted by the cantonal tax authorities of Baselland, Aargau and Vaud respectively. This is still the case as per 31 March 2018, however, due to the fact that Hirslenden AG, Zurich has used up all the tax losses carry forward and discloses a taxable gain for this financial year, the corresponding adjustment of the cantonal tax authorities of Zurich fully comes through. Therefore, on Group level, there is only an impact due to the tax rate differences between the involved cantons.

### The following tax was charged to other comprehensive income

Deferred tax	(19'964)	(12'333)
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## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000
<b>26. OTHER COMPREHENSIVE INCOME</b>		
<b>Components of other comprehensive income:</b>		
<b>Items that may be subsequently reclassified to the income statement</b>		
Recycling of fair value adjustment of derecognised cash flow hedge	2'091	1'673
<b>Items that will not be reclassified to the income statement</b>		
Actuarial gain	75'245	46'088
<b>Other comprehensive income, net of tax</b>	<b>77'336</b>	<b>47'761</b>

Tax and non-controlling interests on other comprehensive income:

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

	Gross	Tax	Net
	CHF 000	CHF 000	CHF 000
<b>Year ended 31 March 2017</b>			
Recycling of fair value adjustment of derecognised cash flow hedge	2'122	(449)	1'673
Actuarial gain/(loss)	57'972	(11'884)	46'088
<b>Other comprehensive income / (loss), net of tax</b>	<b>60'094</b>	<b>(12'333)</b>	<b>47'761</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	Re-presented* 2017
	CHF 000	CHF 000
<b>27. CASH FLOW INFORMATION</b>		
<b>27.1 Reconciliation of (loss) / profit before taxation to cash generated from operations</b>		
Operating (loss) / profit before interest and taxation	(637'161)	258'961
Non-cash items		
Depreciation and amortisation	110'137	98'325
Impairment of properties and intangible assets	861'039	-
Movement in provisions	(7'263)	(7'687)
Movement in retirement benefit obligations	(5'271)	(15'005)
Equity settled share-based payment charge	42	155
Profit on sale of property, equipment and vehicles	(270)	(183)
<b>Operating income before changes in working capital</b>	<b>321'253</b>	<b>334'566</b>
<b>Working capital changes</b>	<b>(62'646)</b>	<b>(8'625)</b>
Movements in inventories	(2'339)	(3'246)
Movements in trade and other receivables	(36'638)	9'899
Movements in current liabilities	(23'669)	(15'278)
<b>Cash generated from operations</b>	<b>258'607</b>	<b>325'941</b>
<i>*refer to note 2.1</i>		
<b>27.2 Taxation paid</b>		
Opening balance	(9'177)	(13'116)
Provision for the year	(16'647)	(11'873)
	<b>(25'824)</b>	<b>(24'989)</b>
Liability at the end of the year	2'182	9'177
<b>Taxation paid</b>	<b>(23'642)</b>	<b>(15'812)</b>
<b>27.3 Interest paid and finance income</b>		
<b>Finance cost (income statement)</b>	<b>(82'807)</b>	<b>(57'320)</b>
Non-cash items		
Amortisation of capitalised financing expenses - note 24	29'108	7'795
Other non-cash finance expenses	18'765	6'821
<b>Interest paid (cash flow statement)</b>	<b>(34'934)</b>	<b>(42'704)</b>
<b>Finance income (income statement)</b>	<b>1'596</b>	<b>125</b>
Non-cash items		
Other non-cash finance income	(823)	(13)
<b>Finance income (cash flow statement)</b>	<b>773</b>	<b>112</b>
<b>27.4 Investment to maintain operations</b>		
Property, equipment and vehicles purchased	80'122	74'502
Intangible assets purchased	15'744	4'942
<b>Investment to maintain operations</b>	<b>95'866</b>	<b>79'444</b>
<b>27.5 Investment to expand operations</b>		
Property, equipment and vehicles purchased	46'065	61'449
Intangible assets purchased	9'051	4'072
<b>Investment to expand operations</b>	<b>55'116</b>	<b>65'521</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	G R O U P	
	2018	2017
	CHF 000	CHF 000
<b>27. CASH FLOW INFORMATION (CONTINUED)</b>		
<b>27.6 Changes in liabilities arising from financing activities</b>		
Opening balance of total borrowings	1'708'462	1'751'010
Cash flow movements		
Proceeds from borrowings	4'000	-
Repayment of borrowings	(7'792)	(50'343)
Refinancing transaction costs	(15'936)	
Non-cash items		
Capitalised financing fees	29'108	7'795
Business combinations	31'672	
<b>Closing balance of total borrowings</b>	<b>1'749'514</b>	<b>1'708'462</b>

## 28. COMMITMENTS

### 28.1 Capital commitments

Incomplete capital expenditure contracts	18'600	15'840
Capital expenses authorised by the Board of Directors but not yet contracted	20'500	24'000
	<b>39'100</b>	<b>39'840</b>

These commitments will be financed from Group and borrowed funds.

At 31 March 2018 and 31 March 2017, 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 sqq.

At 31 March 2018 and 31 March 2017, the Group is liable without limit and jointly and severally for the debts of the ordinary partnership for the car park in Cham ("Baukonsortium").

### 28.2 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	1'014	456
After one year but not more than five years	1'787	1'567
More than five years	-	37
Total minimum lease payments	<b>2'801</b>	<b>2'060</b>
Less amounts representing finance charge	(350)	(489)
Present value of minimum lease payments	<b>2'451</b>	<b>1'571</b>

Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 1% to 12% (2017: 3% to 12%) per annum.

### 28.3 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	29'453	25'163
After one year but not more than five years	91'050	68'640
More than five years	158'901	146'155
	<b>279'404</b>	<b>239'958</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

	GROUP	
	2018	2017
	CHF 000	CHF 000

### 28. COMMITMENTS (CONTINUED)

#### 28.4 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.

#### Total of net income guaranteed:

April 2017 to March 2018  
 April 2018 to March 2019  
 April 2019 to March 2020  
 April 2020 to March 2021  
 April 2021 to March 2022

7'172	6'195
-	4'628
4'491	1'567
1'691	-
540	-
450	-

### 29. INTERCOMPANY BALANCES AND RELATED PARTY TRANSACTIONS

#### 29.1 Loans due to Group companies

#### Long-term subordinated Group loans

Long-term portion

697'367	677'559
697'367	677'559

As per 31 March 2017, the Group had two loans from related parties. However, on 31 October 2017, the one loan of TCHF 6'223 (2017: TCHF 5'983) was redeemed. This loan bore interest at 3.5% and was originally repayable by December 2018.

The other loan of TCHF 697'367 (2017: TCHF 671'576) 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.

#### 29.2 Related party transactions

	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
<b>Entities with significant influence over the Group</b>						
Mediclinic Luxembourg S.à.r.l, Luxembourg	-	-	-	-	20'753	697'367
Mediclinic CHF Finco Limited, Jersey	-	-	-	-	127	-
Mediclinic International plc, UK	-	-	-	4'642	-	362
<b>Associate</b>						
Zentrallabor Zürich	-	2'002	1'076	11'403	-	1'125

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 29. INTERCOMPANY BALANCES AND RELATED PARTY TRANSACTIONS (CONTINUED)

	Interests from	Other Income from	Amounts owed by	Purchases from	Interests paid to	Amounts owed to
as per 31 March 2017	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000	CHF 000
<b>Entities with significant influence over the Group</b>						
Mediclinic Luxembourg S.à.r.l, Luxembourg	-	-	-	-	19'625	676'614
Mediclinic CHF Finco Limited, Jersey	-	-	-	-	1'521	6'170
Mediclinic International plc, UK	-	-	-	3'875	-	-
<b>Associate</b>						
Zentrallabor Zürich	-	1'441	503	12'299	-	-

#### 29.3 Transactions with associates

Zentrallabor Zürich, Zürich (ZLZ): The Group has a 49.96% (2017: 52.99%) interest in the ordinary partnership ZLZ.

Ordinary partnership for a car park ("Baukonsortium"), Cham: The Group has a 24% (2017: 24%) interest in the Baukonsortium.

Ordinary partnership for the management of parking spaces ("EFG Parkierung Rigistrasse"), Cham: The Group has a 25% (2017: 25%) interest in the EFG Parkierung Rigistrasse.

La Colline, Centre de Rééducation et Physiothérapie SA (CRP), Genève: The Group has a 20% (2017: 20%) interest in CRP.

La Colline, Centre de Physiothérapie du Sport Sàrl (CPS), Genève: The Group has a 23% (2017: 23%) interest in CPS.  
CORTS AG, Maur: The Group has a 30% (2017: 0%) interest in CORTS AG.

#### Terms and conditions of transactions with related parties and associates

Purchases from related parties and fees for services rendered to related parties are made at normal market prices. TCHF 2'002 (2017: TCHF 1'441) 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 2018 and 31 March 2017, 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.

#### 29.4 Key management compensation

	2018 CHF 000	2017 CHF 000
Short-term employee benefits	10'263	9'933
Post-employment pension benefits	1'168	1'075
<b>Total compensation paid to key management</b>	<b>11'431</b>	<b>11'008</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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### 30. BUSINESS COMBINATIONS

With a public takeover offer on 30 June 2017, Hirslanden AG acquired within 4 closings a total of 99.62% of the outstanding share capital of Linde Holding Biel/Bienne AG for TCHF 106'891 and obtained control over the company. Lindenpark Immobilien AG and Privatklinik Linde AG are both 100% subsidiaries of Linde Holding Biel/Bienne AG (Linde Group). The business combination disclosed in the interim financial statements as of 30 September 2017 had to be adjusted due to the revaluation of the brand and equipment value. As a result, the fair value of the line item intangible assets was decreased by TCHF -1'500 and the fair value of the line item property, equipment and vehicles by TCHF -1'272. The goodwill was adjusted by TCHF 2'155 (net of deferred tax) accordingly.

Linde Group is a leading private hospital in the Biel-Seeland-Bernese Jura region offering a wide range of medical care, focusing on movement and sports medicine, interdisciplinary cancer treatment, breast cancer center, obstetrics, urology and radiology. Adherence to high quality standards is illustrated by numerous certifications. It provides the Group with the opportunity to enter the hospital market of the Biel-region, including improved access to the private- and semi-private patient market in the region. Furthermore, Linde Group will serve as an important referring hospital ("portal hospital") to Hirslanden Bern AG and Hirslanden Klinik Aarau AG, facilitating recruitment of highly-specialized medicine patients (heart surgery, thoracic surgery) from the growing area of the Espace Mittelland.

The goodwill of TCHF 3'577 arising from the acquisition is attributable to the acquired workforce and economies of scale expected from combining the operations of the Group and Linde Group. None of the goodwill recognised is expected to be deductible for income tax purposes.

The following table summarises the consideration paid for the Linde Group, the fair value of assets acquired and liabilities assumed at the acquisition date.

Consideration at 30 June 2017	CHF 000
Cash	106'891
<b>Total consideration transferred</b>	<b>106'891</b>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
<b>Assets</b>	
Property, equipment and vehicles - note 5	136'121
Intangible assets - note 6	21'100
Inventories	1'729
Investments available-for-sale	263
Trade and other receivables	11'680
Cash and cash equivalents	14'782
<b>Total assets</b>	<b>185'675</b>
<b>Liabilities</b>	
Borrowings - note 16	31'418
Provisions - note 17	2'312
Pension liabilities - note 18	12'963
Deferred tax liabilities - note 9	24'953
Trade and other payables	10'322
<b>Total liabilities</b>	<b>81'968</b>
<b>Total identifiable net assets at fair value</b>	<b>103'707</b>
Non-controlling interest at fair value	(393)
Goodwill	3'577
<b>Consideration transferred for the business</b>	<b>106'891</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 30. BUSINESS COMBINATIONS (CONTINUED)

Acquisition-related costs of TCHF 266 have been charged to administrative expenses in the consolidated income statement.

The fair value of trade and other receivables is TCHF 11'680 and includes trade receivables with a fair value of TCHF 10'283. The gross contractual amount for trade receivables due is TCHF 10'389. The best estimate at acquisition date of the contractual cash flows not expected to be collected are TCHF 106.

From the date of acquisition, Linde Group has contributed TCHF 52'144 of revenue and TCHF 2'382 to the net profit before tax of the Group. If the combination had taken place at the beginning of the financial year, revenue from continuing operations would have been TCHF 74'731 higher and the net loss before tax from continuing operations for the Group would have been TCHF 3'805 lower.

#### Analysis of cash flow on acquisition

Total consideration transferred	(106'891)
Net cash acquired with the subsidiary	14'782
<b>Net cash flow on acquisition</b>	<b>(92'109)</b>

The goodwill of TCHF 3'577 was impaired as per 31.03.2018, see note 6 for details.

On 30 August 2017, Hirslanden AG acquired 85% of the share capital of Röntgeninstitut Cham AG for TCHF 11'500. As a result, the Group's equity interest in Röntgeninstitut Cham AG increased from 15% to 100%, obtaining control of the company.

A radiology is an integral part of a hospital and therefore, almost every hospital of the Group has an own radiology. The Röntgeninstitut Cham AG will form the radiology of Andreasklink AG Cham. The goodwill of TCHF 12'587 arising from the acquisition is attributable to this relationship.

The following table summarises the consideration paid for Röntgeninstitut Cham AG, the fair value of assets acquired and liabilities assumed at the acquisition date.

<b>Consideration at 30 August 2017</b>	<b>CHF 000</b>
Cash	11'500
<b>Total consideration transferred</b>	<b>11'500</b>
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>	
<b>Assets</b>	
Deferred tax asset	250
Property, equipment and vehicles - note 5	967
Inventories	96
Trade and other receivables	900
Cash and cash equivalents	213
<b>Total assets</b>	<b>2'426</b>
<b>Liabilities</b>	
Borrowings	254
Pension liabilities - note 18	757
Trade and other payables	502
<b>Total liabilities</b>	<b>1'513</b>
<b>Total identifiable net assets at fair value</b>	<b>913</b>
Fair value of the Group's existing 15% portion	(2'000)
Goodwill	12'587
<b>Consideration transferred for the business</b>	<b>11'500</b>

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 March

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### 30. BUSINESS COMBINATIONS (CONTINUED)

The goodwill disclosed in the interim consolidated financial statements amounted to TCHF 11'500 and was based on provisional values.

No material acquisition-related costs have been charged to the consolidated income statement.

The fair value of trade and other receivables is TCHF 900 and includes trade receivables with a fair value of CHF 770. The gross contractual amount for trade receivables due is TCHF 772. The best estimate at acquisition date of the contractual cash flows not expected to be collected are TCHF 2.

The remeasurement to fair value of the Group's existing 15% interest in Röntgeninstitut Cham AG resulted in a gain of TCHF 746 (TCHF 2'000 less the TCHF 1'254 carrying amount of the investment available for sale accounted investee at the date of acquisition). This amount has been included in the line item "Finance income".

From the date of acquisition, Röntgeninstitut has contributed TCHF 3'194 of revenue and TCHF 949 to the net profit before tax of the Group. If the combination had taken place at the beginning of the financial year, revenue from continuing operations would have been TCHF 6'388 higher and the net loss before tax from continuing operations for the Group would have been TCHF 1'898 lower.

#### Analysis of cash flow on acquisition

Total consideration transferred	(11'500)
Net cash acquired with the subsidiary	213
<b>Net cash flow on acquisition</b>	<b>(11'287)</b>

The goodwill of TCHF 12'587 was impaired as per 31.03.2018, see note 6 for details.

## NOTES TO THE ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

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### 31. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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:

On 30 June 2017, Hirslanden AG acquired 99.62% of the outstanding share capital of Linde Holding Biel/Bienne AG and its subsidiaries Lindenpark Immobilien AG and Privatklinik Linde AG. Up until 31 March 2018, the equity interest was increased up to 99.69%. Furthermore, it acquired 85% of Röntgeninstitut Cham AG on 30 August 2017 which increased the Group's equity interest from 15% to 100%, obtaining control of the company. See note 30 for more details on the business combinations.

On 11 December 2017, Herzchirurgie Hirslanden Bern AG was established by Hirslanden AG.

	Country of incorporation	Investments in % 2018	Investments in % 2017
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	100.0	100.0
IMRAD SA, Lausanne	Switzerland	80.0	80.0
Hirslanden Freiburg AG, Düringen, Düringen	Switzerland	100.0	100.0
Linde Holding Biel/Bienne AG, Biel	Switzerland	99.7	-
Lindenpark Immobilien AG, Biel	Switzerland	99.7	-
Privatklinik Linde AG, Biel	Switzerland	99.7	-
Röntgeninstitut Cham AG, Cham	Switzerland	100.0	15.0
Herzchirurgie Hirslanden Bern AG, Bern	Switzerland	100.0	-
<b>Associates</b>			
Zentrallabor Zürich, Zürich (ZLZ) *)	Switzerland	50.0	53.0
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	-

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

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### 32. SEGMENT REPORTING

Consistent with internal reporting, the Group's segments are identified as the operating platform of Switzerland. 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 that makes strategic decisions, see note 2.3. 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.

#### Entity-wide information

Breakdown of revenues by products and services:

	2018	2017
	CHF 000	CHF 000
<b>Analysis of revenue by category:</b>		
Inpatient	1'318'089	1'317'657
Outpatient	322'325	299'793
Other revenue	95'021	86'597
<b>Total</b>	<b>1'735'435</b>	<b>1'704'047</b>

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.

### 33. 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.