ANNUAL REPORT 2011/12

WHEN IT MATTERS MOST
HIRSLANDEN PRIVATE HOSPITAL GROUP

hirslanden

CONTENTS

The present English Annual Report is an excerpt from the comprehensive German and French Annual Report/Quality Report.

EDITORIAL

Dear Hirslanden friends
Ladies and gentlemen

Hirslanden Private Hospital Group is able to look back on a financial year which has been characterised by the most far-reaching changes in the Swiss health sector since the introduction of the new KVG health insurance law in 1996. On 1 January 2012, the new system of hospital financing and planning was introduced, and with it the new system of medical treatment billing via the fixed fee per medical case system (DRG). The aim of this system is to strengthen competition and therefore improve the quality and economic efficiency of the health system. As a private sector company, Hirslanden was ideally prepared for the changeover to this new system. Even though at the time of going to print there are still some instances of ambiguity and inconsistency in some cantons, the direction of the systematic change is correct!

One of the main aims of the KVG reforms is to raise the quality of medical treatment. More transparency and competition in the market should result in a concentration of medical service provision at medical treatment providers that provide the best clinical outcome. However, this competition-based system does not function in cantons whose health departments wish to saddle the new hospital planning system with limitations on the numbers of beds that hospitals may provide, or the numbers of patients they may treat. In instances where Hirslanden is affected by such limitations, the company forcefully defends its justified interests – for the benefit of both patient and taxpayer.

In the financial year covered by this report, Hirslanden Private Hospital Group is once again underlining its commitment to service quality by publishing together with this report a comprehensive measurement of quality. Alongside the large university hospitals, there are just a few service providers willing to publish quality data to a similar degree of transparency. The Quality Report not only makes it easier for the patient and referring doctor to come to decisions, but is above all understood as a substantial contribution to the intensive public debate on quality in the health sector.

Alongside the major challenges which the preparation for the new system of hospital financing in the health sector has meant for all parties involved, including doctors and above all our staff, Hirslanden Private Hospital Group has during the last financial year been able to continue growth. From year to year, more and more patients are entrusting us with their health. Furthermore, our 14 hospitals, along with Hirslanden Head Office in Zurich, have been very busy with numerous investment projects. These deal with expansion, renewal, upkeep and innovative technology, all of which have directly contributed towards strengthening the Group's quality and spirit of innovation.

We would therefore like to take the opportunity of offering our sincere thanks to all individuals and parties who have supported us in surmounting these challenges.

Dr. Edwin de la H. Hertzog
President of the Board of Directors

Dr. Ole Wiesinger
Chief Executive Officer

EXECUTIVE COMMITTEE REPORT

In spite of profound changes in the Swiss hospital sector and corresponding challenges, Hirslanden Private Hospital Group has during the past financial year succeeded in continuing with its growth plan. In the period under review, from 1 April 2011 until 31 March 2012, a total of 80 588 patients benefitted from the Group's medical services. This shows a growth of 3.8 per cent on the previous year's figure. The number of patient days increased during the same period by 2.2% to 469 347, which meant a reduction in the average length of stay from 5.9 to 5.8 days. This is an indication of the efficiency and effectiveness of the medical treatment offered by the 14 Hirslanden hospitals. Hirslanden Private Hospital Group's turnover has increased during the past financial year by a figure of 4.3 per cent to a total figure of 1.27bn Swiss francs. In the area of in-patient care, the growth in turnover stood at 3.9 per cent; that of out-patient care lay at 4.6 per cent. In the year under report, Hirslanden was again heavily involved in education: during the financial year 2011/12, 703 apprentices and students from 27 different professions were in education (at the level of state diploma, higher professional school, university, post degree studies). Included in this figure were 599 apprentices and students in health professions, as well as 89 assistant doctors. In addition there were many internship places.

New hospital financing

The entering into force of the new hospital financing law on 1 January 2012 represents a historic structural transformation in the Swiss health sector. The preparations for the new regulations have forced Hirslanden to undertake substantial work. Complex tariff discussions with insurers on service billing for basic insurance (KVG) had to be undertaken: this during a period when many of the regulations on cantonal and federal level (hospital lists and data release respectively) were by no means clear. In most cases, Hirslanden succeeded in concluding contracts. In practically no cantons were these accepted, with the result that Hirslanden had to fall back on provisional working tariffs. In the few instances where no agreement could be reached, the respective canton opened a tariff definition case. With the exception of Klinik Im Park in Zurich, all of the Group's hospitals have made it onto the cantonal hospital lists, admittedly not always with the full range of medical treatments the hospitals offer. Hirslanden Private Hospital Group has introduced legal proceedings against these limitations, as well as the exclusion of Klinik Im Park, as the Group is of the opinion that the cantonal decisions contradict the intentions of the new KVG.

A place on a cantonal hospital list makes not only the targeted number of hospital patient cases attainable, but above all removes the competitive disadvantage that contract hospitals have compared to listed hospitals. This is particularly the case since the introduction of the new hospital financing, which at last regulates on an equal footing the financing of private and public listed hospitals. Hirslanden positions itself as a leading provider in the additional (private/semi-private) health insurance segment via quality leadership. Based on this background, the Group's Hirslanden Privé programme was launched in 2009, which has met exceptionally positive resonance amongst the patients.

Dr. Ole Wiesinger
CEO

Investments and building projects
For the purposes of maintaining quality leadership and guaranteeing solid growth, Hirslanden invests on average ten per cent of its turnover in maintenance, replacement, purchase, expansion and new construction projects. In the year under report, large investments were carried out: the Klinik St. Anna in Lucerne, which celebrated its centenary in 2011, opened a new competence centre, St. Anna im Bahnhof, on 1 April 2011 in Lucerne's main station. Alongside the treatment of the locomotor system, the centre offers medical services in the areas of health and prevention.
The investments at the Klinik Beau-Site in Berne have been concentrated on three projects. The first two, the new doctors' centre and the expansion of the intensive care unit, were completed in autumn and December 2011 respectively. The third project concerns the renovation of Villa Ruffy, which is due to be opened in autumn 2012. At Klinik Stephanshorn in St. Gallen, a health centre has been under construction since March 2012. Planned to be opened in September 2012, the centre will consist of four attending doctor practices for orthopaedics, spinal surgery, internal medicine and gynaecology. In addition, there will be a walk-in emergency practice, enabling the hospital to be able to admit emergency patients.

Klinik Hirslanden in Zurich has since November 2010 been building a new wing, the Enzenbühltrakt. The wing will house doctors' practices and new rooms for privately and semi-privately insured patients. In addition, an expanded intensive care nursing station, an operating theatre, and technical and storage rooms will find space in the new wing. In the year under report, the construction project was continued without any incidents. The completion of the structure is set for July 2012, with the opening planned for spring 2013.

Expansion and structural maintenance
Investment in structural maintenance and the expansion of the hospitals is of great importance for the continual improvement of all services and processes. In order to relieve pressure on its emergency unit, the Hirslanden hospital in Aarau opened a trauma centre on 1 July 2011. The primary care of non-polytraumatised accident patients, as well as subsequent treatment, is now undertaken at the trauma centre. On 17 January 2012, the Clinique Bois-Cerf in Lausanne opened its new institute for radiology. With the musculoskeletal radiology, it will especially strengthen orthopaedics and sport medicine. In the new treatment rooms, Professor Nicolas Theumann offers amongst other treatment the CT-steered treatment of spinal disc cases. The new centre for radiology, also located in the Clinique Cecil in Lausanne, is due to open at the end of 2012. The hospital aims to expand its position in the area of oncology. In March 2012, Clinique Cecil in Lausanne brought into service a state-of-the-art computer tomograph, which offers a better quality of examination at a far lower level of radiation. As a result, the range of indications can be expanded, and screening of heart disease can be carried out. Finally, Hirslanden has also invested in the institute for radiology and nuclear medicine at Klinik Hirslanden in Zurich. As of May 2012, it offers SPECT and PET/CT examinations (positron emission tomography/computer tomography).

Magnus Oetiker
Chief Hospital Services Officer

Andreas Kappeler
CFO

André Steiner
COO Region East

Adrian Dennler
COO Region West

EXECUTIVE COMMITTEE REPORT

Trendsetting Public Private Partnership

As a part of a Public Private Partnership (PPP) with the hospital in Männedorf, Hirslanden is planning a radiotherapy centre at Spital Männedorf to offer out-patient cancer treatment. In March 2012, the Spital Männedorf delegates approved the building contract with Hirslanden. The opening is expected to take place in 2014. A partnership of this manner offers advantages for both parties. Hirslanden is open towards further PPPs, and is seeking other such opportunities.

Introduction of SwissDRG

The year under review was characterised by preparations for the introduction of the flat rate per case system (SwissDRG). These preparations covered the analysis and simulation of the current range of services and the construction of medical controlling. Simultaneously, there was the need to convert the IT systems for the documentation of the treatment, coding and billing, as well as controlling. Prior to this, the coding processes and structures had to be prepared, which included the construction of a central coding for some of the hospitals. Finally, the contracts with the affiliated doctors and the purchasing processes needed to be adjusted, constantly with observance of the hospital list guidelines.

Quality Leadership

Hirslanden Private Hospital Group has for many years been nurturing systematic quality management, and is subjecting it to continuous further development. For this reason, it generates numerous key figures for its hospitals for every year. These measurements will for the third year in succession be presented in an extensive quality report. The report indicates to our satisfaction that significant improvements have been achieved by the hospitals in particular with regard to device associated infections in intensive care units. In addition to the established indicator systems, the measurement programme used by the National Association for Quality Development in Hospitals and Clinics (ANQ) was employed for the first time.

The quality management at Hirslanden is strongly oriented towards processes. These include medical patient documentation, which in future will only exist in digital form. The reason for this lies in the hospital information system (KIS), which was introduced in February 2011 as part of a pilot project (Leuchtturm/Lighthouse) at the Hirslanden hospital in Aarau.

National and international hospital group

Under the motto of "From a group of hospitals to a hospital group", Hirslanden is pursuing the aim of exploiting group advantages via stronger integration. This involves the regionalisation or centralisation of supporting services in the areas of HR, Finance, Logistics, Marketing and Hospital Areas. The added value offered by this division of activities lies in relieving the individual hospitals. Integration also sees Hirslanden positioning itself as a system provider, combining the affiliated doctor system with central services which will be provided by the hospitals. Here, services such as anaesthetics, internal medicine, emergency and possibly radiology can in future be included.

With this background, Hirslanden Private Hospital Group has created a new management structure. In operation since December 2011, the structure has the 14 hospitals divided into two regions (East and West), each of which is led by a full-time regional director (COO). Each region contains seven hospitals, with hospitals in the same location operating closer together in the future. As an example, the two hospitals in Zurich have already seen their HR and Finance departments combined with those of the Group's Head Office in the same city.

Hirslanden's intentions in Switzerland mirror the international aims of Mediclinic International. In this sense, the One Mediclinic project was launched in the summer of 2011. The project examines the opportunities for synergies which can be obtained by the three Mediclinic platforms, Switzerland, Southern Africa and Middle East, working more closely together.

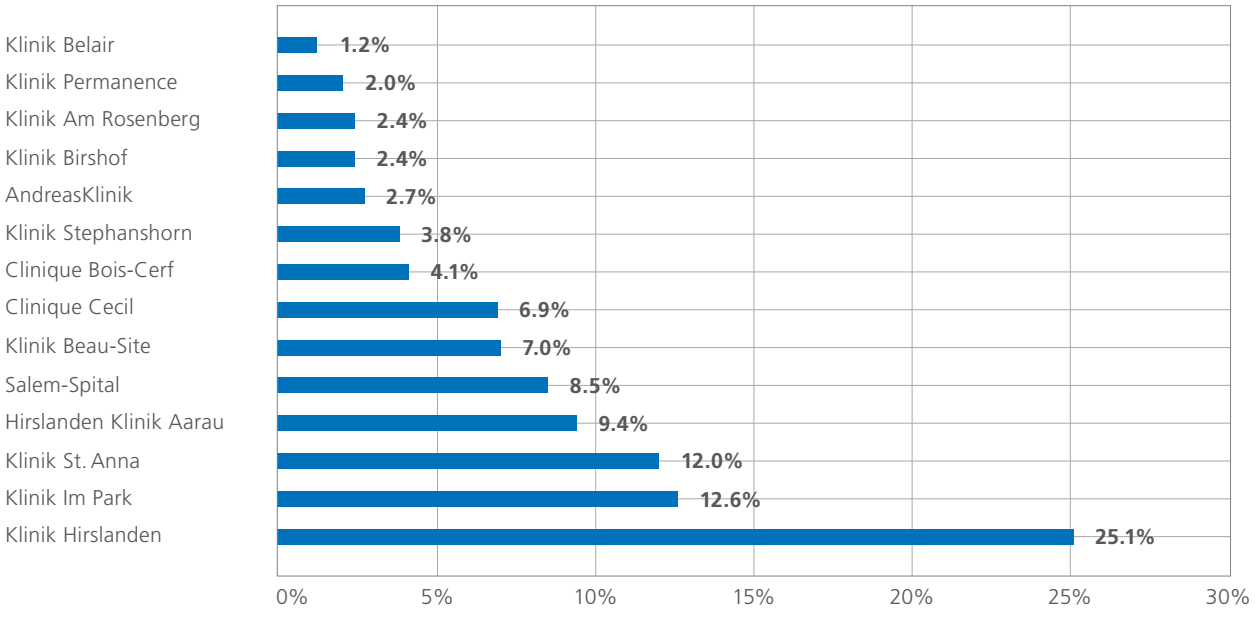
CONSOLIDATED FIGURES

The most important consolidated figures for 2011/12 with the corresponding comparative figures for the previous years

	2007	2008/09	2009/10	2010/11	2011/12	Change compared to 2010/11 in %
Patients						
Patient, maternity patients[1]	69 642	73 167	73 582	77 643	**80 588**	**3.8%**
Patient days[2]	416 988	433 737	435 240	459 289	**469 347**	**2.2%**
Length of stay[3]	6.0	5.9	5.9	5.9	**5.8**	**–1.5%**
Turnover						
Turnover total (in CHF, millions)	983	1 091	1 134	1 218	**1 270**	**4.3%**
Turnover inpatients services (in CHF, millions)	748	821	859	929	**965**	**3.9%**
Turnover outpatient services (in CHF, millions)	184	216	218	230	**241**	**4.6%**
Other operating income (in CHF, millions)	52	54	56	59	**64**	**9.4%**
No. of employees						
Average FTEs[4]	3 764	4 069	4 167	4 392	**4 649**	**5.9%**

1 Inpatient
2 Adult patients and maternity patients according to H+
3 Average in days according to H+
4 According to H+, excl. doctors

Operating income per hospital of total 2011/12



POLITICS DOMINATES THE SWISS HEALTH SECTOR

On 1 January 2012, the new hospital financing system came into force – the first larger reform of the health insurance law (KVG) since its introduction in 1996. Some cantons have expressed difficulty with the parallel existence of public and private hospitals. The multi-role position of some cantons as regulator, hospital list compiler and operator, tariff authority and co-financer of hospital services confronts private hospitals – and also Hirslanden Private Hospital Group as the largest private hospital operator – with substantial challenges.

In the view of the lawmaker, three alterations should lead to more efficiency and quality in the Swiss health sector. These are the new hospital financing system, the DRG – billing according to fixed fees per medical case, and the new hospital planning system, which creates a hospital market with free choice of hospital for the patient. Hirslanden Private Hospital Group therefore took the decision in 2011 to obtain listed status for all its hospitals. The correctness of this decision was demonstrated after just a few months: 13 out of the Group's 14 hospitals were included on the Swiss cantons' hospital lists, a basically positive situation. However, the inclusion on a cantonal hospital list is not in itself the last word on a hospital's health: the tariffs and the statutory regulations, which vary substantially from canton to canton, play an important role.

Cantons with and without lists

In many cantons, hospital planning has been, or is shortly to be, completed. These cantons include Appenzell-Ausserrhoden, Basel-Land and Lucerne, where there are no differences between Hirslanden and the health departments. The situation is similarly unproblematic in the cantons of Aargau and Zug, where with the exception of isolated limitations requiring decisions, the partnership is basically characterised by the same ideas on cantonal hospital planning. In the cantons of St. Gallen and Schaffhausen, the planning process is still proceeding or the lists were at the time of going to press not yet approved. However, major issues are not expected here. In the canton of Vaud, Hirslanden was able to obtain a deal on the partial listing of both its Lausanne hospitals. How this agreement will act in practice remains to be seen.

Berne and Zurich with hidden steering

In the cantons of Berne and Zurich, Hirslanden is currently confronted with its biggest challenges. The Berne cantonal hospital list for 2011 was so poorly compiled that it had to be completely overhauled. However, the revised list of 1 May 2012 is to be fought by the Berne private hospitals in the federal courts. Thus for the time being, the 2005 hospital list remains in force, as the list from 2010 failed in the federal court. The key problem is as follows: with the new hospital list, the cantonal health department is attempting to transfer highly specialised medical cases from the private hospitals exclusively to the university hospital, although many areas of highly specialised medicine (HSM) have not yet even been planned by the responsible inter-cantonal organ. And it is this organ which has the responsibility in this area, not the individual cantons. The canton is thus taking a political decision at the cost of the private hospitals which goes against the KVG. In the KVG, an appropriate consideration of the private hospitals with regard to hospital planning is explicitly demanded. For many years, the canton would not in any way have been able to provide the Berne population with medical care. Even now, it is questionable whether the University Hospital could even muster the required resources and capacities. The situation is even more complex in the canton of Zurich. Klinik Im Park was the only one of Hirslanden's hospitals not to obtain listed hospital status. The cantonal health department's decision was justified on the grounds of apparently too high costs. Hirslanden Private Hospital Group is fighting this with an appeal at the federal court. Within the realms of the new hospital planning system, the costs no longer play a role. It is the price which lies in the centre of the measurement of cost effectiveness.

Another delicate issue concerns the canton of Zurich setting the provisional tariffs over the heads of the contractual partners currently in negotiation. Thus negotiations on tariffs are in the true sense of the word effectively prevented.

Hospital Funds
Shortly before going to print, it was announced that the Zurich electorate had passed the Hospital Planning and Financing Law on 17 June 2012, while simultaneously rejecting the Future and Support Fund and the opposing motion. Hirslanden welcomes the fact that the rejection of the Fund means that no money will be unduly transferred from private to basic insurance. These funds will now be available for investment in the Group's own infrastructure. It is also positive that the canton will not obtain an instrument to protect its own structures, and above all – but not only – to penalise the private institutions.

Highly specialised medicine
In the already mentioned national body, which coordinates the division of HSM at state level, no private health care representatives are included. The result of this is that representatives of public hospitals and their owners define what HSM is and where it is to be offered, thus excluding private health care providers. Therefore they can freely define a monopoly area in medicine.

The manner in which HSM has been assigned indicates that private and public institutions in Switzerland are not yet fully equally treated. This will become clear with the financing of the medical providers. There is a substantial danger that despite the revised KVG, forbidden subsidisation of operating costs of public health care providers will occur. Alongside the permitted billing of common services and contributions towards education and further training, according to the revised KVG the hospitals should be forbidden from compensating hospital deficits, as deficits are to be covered by the tariffs. Should the cantons nevertheless do so, it will again be clear that private hospitals are once again being penalised due to the canton's multiple roles.

Contract freedom
After the vote of 17 June 2012 on Funds and Managed Care, the basic question remains as to in which direction the health sector should further develop. A revision of the unitary insurer initiative has already been entered as a popular initiative. The demand for the lifting of the contractual obligation is also under discussion. Hirslanden has always pressed for a maximum of market orientation in the health system, and thus rejects both the unitary insurer and the reintroduction of the moratorium on new doctors' practices. However, the lifting of the contractual obligation could have an influence on the development of costs.

Urs Martin, Head of Public Affairs

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«QUALITY UNITES.»

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LILIANE LÜTHI
Patient
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