Spire Healthcare Group plc

Interim report and accounts

Six months ended 30 June 2014

Spire Healthcare Group plc reports strong interim results for the six months ended 30 June 2014

London, UK, 28 August 2014, Spire Healthcare Group plc (the ‘Group’) (LSE:SPI) today announces interim results for the six months ended 30 June 2014†.

Group Results for the six months ended 30 June 2014

(£ million)	*Six months ended 30 June (unaudited)*		
	2014	*2013*	*Variance %*
Revenue	**417.2**	**377.5**	**10.5%**
Adjusted EBITDA*	**79.9**	**73.1**	**9.3%**
Operating profit before exceptional items	**57.3**	**53.1**	**7.9%**
Exceptional items	(11.1)	(5.4)	
Operating profit	46.2	47.7	(3.1)%
Profit on sale of property, plant and equipment	19.6	44.8	
Net finance costs	(67.5)	(48.7)	
(Loss) / profit before tax	**(1.7)**	**43.8**	**(103.9)%**

Financial highlights

- Revenue increased 10.5% to £417.2m (H1 2013: £377.5m) with growth delivered in all payor categories
- In-patient and daycase discharge volumes up 9.2% on prior year to approximately 128,000
- Adjusted EBITDA* up 9.3% to £79.9m (H1 2013: £73.1m)
- Operating profit before exceptional items, up 7.9% to £57.3m (H1 2013: £53.1m)
- Operating cash flow of £71.0m, with 88.9% cash conversion of EBITDA (H1 2013: 37.9%)
- Pro-forma adjusted earnings per share at 8.43p per share **
- Investment in acquisitions and capital investments totalled £71.9m, including St Anthony’s Hospital acquisition
- Capital restructuring on IPO reduced pro-forma net debt to £467.4m

Operational highlights

- Acquisition of St Anthony’s Hospital completed, pending Competition and Markets Authority (‘CMA’) clearance
- Bristol radiotherapy centre opened in April 2014 and reached EBITDA breakeven within two months of opening
- Cardiac catheterisation lab in Cardiff completed
- Increased in-patient and daycase volumes improved capacity utilisation by 4% to 64%
- Work ongoing on two additional theatre developments for delivery in H2 2014

Rob Roger, Chief Executive Officer of Spire Healthcare Group plc, commented:

"I am delighted that we have delivered a strong first half to the year, demonstrating momentum across the business which has continued post-IPO.

The strategies we have put in place across all our payor groups whether they be privately insured, self-pay or NHS are delivering well, resulting in excellent revenue growth of over 10%. Our continued improvements in productivity and cost efficiency have enabled us to generate an impressive Adjusted EBITDA growth of over 9%. This, together with strong cash conversion of almost 89%, highlights that we are performing very well.

I am also delighted that we have continued to take actions in the first half to reduce the cost of patient care. The new cataracts pathway we launched enabled us to reduce cost and was successful in attracting more cataract patients to Spire.

In parallel, our development strategy is also on track. We remain excited about the opportunities coming from our recent acquisition of St Anthony's in London (subject to CMA approval) and the further rollout of our Specialist Cancer Care Centres providing end radiotherapy treatment to patients. The new site we opened in Bristol in April has been a great success and is key to cancer care remaining a key focus for Spire."

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Notes

†The period reported precedes the IPO in July 2014 and therefore the financial statements exclude the effects of the related capital restructuring. In order to show the impact of the IPO, Earnings per Share and a Group balance sheet have also been provided on a pro-forma basis.

**Operating profit, adjusted to add back depreciation and exceptional items and to adjust the comparator to conform the property rental base, referred to hereafter as 'Adjusted EBITDA'.*

*** Calculated as pro-forma profit after tax divided by the number of Ordinary Shares in issue on Admission. Pro-forma profit is calculated as earnings after tax adjusted for the capital restructuring, exceptional items and the profit on disposal of the Spire Washington Hospital.*

Cautionary statement regarding forward-looking statements

The combined interim financial statements may contain certain projections and other forward-looking statements with respect to the financial condition, results of operations and businesses of Spire Healthcare Group plc ('Spire'). These statements are based on current expectations and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors which could cause the actual results or developments to differ materially from those expressed or implied by these forward-looking statements. Although Spire currently believes that the assumptions underlying these forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and therefore there can be no assurance that any results contemplated in the forward-looking statements will actually be achieved. Nothing contained in this interim report should be construed as a profit forecast or profit estimate. Investors or other recipients are cautioned not to place undue reliance on any forward-looking statements contained herein. Spire undertakes no obligation to update or revise (publicly or otherwise) any forward-looking statement, whether as a result of new information, future events or other circumstances. This report does not constitute an invitation or inducement to any person to subscribe for or otherwise acquire securities in Spire.

OPERATING REVIEW

The Group is a leading provider of elective healthcare in the United Kingdom. As at 30 June 2014 the Group operates 39 private hospitals and 13 clinics across England, Wales and Scotland.

Spire delivers tailored, personalised care to approximately 236,000 in-patients and daycase patients, and is the leading private provider by volume of knee and hip operations in the United Kingdom. Spire is uniquely positioned to capture a growing share of the rapidly expanding private healthcare market. The Group's well positioned and scalable hospitals have earned reputations as centres of excellence, delivering successful and award winning clinical outcomes, positioning the Group well with patients, consultants, the NHS, GPs and Private Medical Insurance ("PMI") providers. Spire treats patients through a variety of routes including PMI, self-pay and the NHS, providing the Group with diversified access to the expected growth opportunities in the UK healthcare market, which faces significant supply challenges as a result of budget constraints and increasing demand from a growing population with longer life expectancy.

Performance in Period

The Group has continued to report good revenue growth for the first six months of 2014, consistent with the performance reported in the IPO Prospectus for the three months ended 31 March 2014.

Revenue for the six months ended 30 June 2014 has increased by 10.5% from £377.5m in 2013 to £417.2m in 2014 and all payor groups have shown growth in revenues over the prior year.

This revenue growth has converted to an increase in operating profit, before exceptional items, of 7.9% relative to the first six months of 2013. Operating profits before exceptional items for the first six months of 2014 were £57.3m compared to £53.1m in 2013.

For the first six months of 2014 the rate of growth in operating profits is impacted by a £3.7m increase in rental costs, as a consequence of the sale, subject to leases, of twelve property owning companies in 2013 ('2013 Freehold Sale') and the commencement of rent following the sale, subject to lease, of the Spire Washington Hospital which was concluded on 11 March 2014.

Operating profits (stated after charges for exceptional items and rental costs), decreased by 3.1% from £47.7m for the six months ended 30 June 2013 to £46.2m for the six months ended 30 June 2014.

Business Development

Growth across all payor groups

All Spire's key markets are continuing to grow:

- The PMI market continues to recover.
- Spire continues to grow its presence in the NHS market, particularly through Choose & Book and locally commissioned contracts.
- The Self-Pay market continues to grow as economic recovery gains pace.

Introduction of new services

In May 2014, Spire acquired St Anthony's Hospital, a 92 bed private hospital based in Sutton, Surrey. Following the purchase, the hospital is being held separate from the Group pending clearance by the Competition & Markets Authority, currently scheduled for the end of September 2014. Spire expects to increase the number of theatres at St. Anthony's from 4 to 6 over time and to achieve a 25%-30% ROCE by 2018.

Spire's strategy is to deliver the entire cancer pathway with the rollout of new radiotherapy sites. In April 2014, Spire opened a purpose built standalone radiotherapy centre in Bristol. This has reached EBITDA breakeven within two months of opening and is expected to achieve a return of 20% within 5 years.

In addition, Spire completed and opened a cardiac catheterisation lab in Cardiff.

Productivity and additional theatres

Spire both improved efficiency of current capacity by increasing capacity utilisation by 4% to 64% and introduced new capacity. Including St Anthony's Hospital, a total of five additional theatres were added to the network, increasing capacity by 4%.

Two additional theatre developments in the existing estate are scheduled for completion in H2 2014.

Cost efficiency

Highlights:

- Clinical staff costs, as a percentage of revenues, reduced as the Group benefits from improved utilisation of available capacity as patient admissions increase.
- Although direct costs of prosthesis, drugs and consumables, as a percentage of revenues, increased, this was due to a significant increase in orthopaedic and ophthalmology surgical activity and a general increase in in-patient case complexity across specialties.
- Medical fees for NHS work increased as a consequence of the large increase in NHS activity in the period. However, through the Group's continued focus on cost management, these fees reduced as a percentage of NHS revenues.

Rollout of new sites

Spire believes there is significant potential to rollout new sites and in the period announced the planned development of a new hospital in Manchester in partnership with Siemens. Construction is expected to begin in February 2015, subject to planning permission.

Going forwards, Spire is progressing plans for 2 further regional sites which are expected to open by 2017 and is also investigating site opportunities in London.

Outlook

Overall, the Group has maintained the improvement in trading performance, which it reported for the three months ended 31 March 2014, into the second quarter. Revenue (from all payor groups) and Adjusted EBITDA continue to grow rapidly, and there is strong cash flow generation from operations.

For the full 2014 financial year the Group expects revenue growth of mid-single digits for the existing estate and revenue growth for the enlarged business, including St Anthony’s Hospital and the new radiotherapy centre in Bristol, of high single digits.

Recent expected reductions of 3% in NHS tariff applicable to the 2013/14 fiscal year have been more than offset by the volume growth in NHS business, and the Group expects this also to be the case in respect of the further reduction of 2% in NHS tariff (which took effect from 1 April 2014) applicable to the 2014/15 fiscal year.

At the Adjusted EBITDA margin level the Group expects margins for the second half of 2014 to be consistent with those in the first half, before the addition of two charges expected for the year ending 31 December 2014, being (i) £1.3m increased costs arising out of its new status as a listed plc and (ii) £1.0m of costs in connection with senior management and key employee long-term incentive plans.

FINANCIAL REVIEW

Key Performance Indicators

	Six months ended 30 June (unaudited)		
	2014	*2013*	*Variance*
(£million)			
Total revenue	**417.2**	**377.5**	**10.5%**
Of which:			
PMI	214.5	209.2	2.5%
NHS	116.9	90.5	29.2%
Self-pay	70.7	64.9	8.9%
Other (note 1)	15.1	12.9	17.1%
	417.2	**377.5**	10.5%
Of which:			
In-patient/daycase	277.1	250.4	10.7%
Out-patient	125.0	114.2	9.5%
Other	15.1	12.9	17.1%
	417.2	**377.5**	10.5%

Number (‘000s)			
Total in-patient/daycase discharges	**127.7**	**116.9**	**9.2%**
Of which:			
PMI volumes	62.1	62.1	0.0%
NHS volumes	45.9	36.9	24.4%
Self-pay volumes	19.7	17.9	10.1%
Theatres			
Number of theatres (note 2)	120	115	4.3%
Theatre utilisation (note 3)	64%	60%	4.0%

Reconciliation to EBITDA and Adjusted EBITDA			
(£ million)			
Operating profit	**46.2**	**47.7**	**(3.1)%**
Exceptional items	11.1	5.4	
Operating profit before exceptional items	**57.3**	**53.1**	**7.9%**
Depreciation	22.6	22.9	
EBITDA	**79.9**	**76.0**	**5.1%**
Adjustment to rent (note 4)	–	(2.9)	
Adjusted EBITDA	**79.9**	**73.1**	**9.3%**

Note 1 – Other revenue includes consultant revenue, third party revenue streams (e.g. pathology services), secretarial services and commissioning for quality and innovation payments (earned for meeting quality targets on NHS work) (“CQUIN”).
Note 2 – Represents the number of theatres in use at period end.
Note 3 – Theatre utilisation is calculated by dividing utilised theatre hours by maximum theatre hours (maximum theatre hours is defined as 10 hours per weekday and 7 hours per Saturday for 50 weeks per year).
Note 4 – Adjustment to conform the rent charges in the comparator with the current year. Adjustment includes the pro-rata impact on 2013 of a full period charge for rental in relation to the 2013 Freehold Sale plus a charge equivalent to 2014 with regard to the sale, subject to lease, of Spire Washington Hospital in March 2014.

Basis of Preparation and Events After the Reporting Date

The combined financial information for the six months ended 30 June 2014, included in these interim results, has been prepared on a basis consistent with the combined historical financial information contained in the Spire Healthcare Prospectus dated 7 July 2014 (the ‘Prospectus’). The combined financial information comprises the group of companies (‘Group’) which were acquired by Spire Healthcare Group plc (‘the Company’) as part of a group reorganisation immediately prior to the offer of ordinary shares to institutional investors on 18 July 2014, an offer of 150,100,341 ordinary shares priced at £2.10 per share (the ‘Offer’). On 15 August 2014 the Offer was increased to 164,433,052, by the issue of a further 14,332,711 ordinary shares by the stabilisation agent.

As the reporting date precedes the admission of the Company to the London Stock Exchange, these interim results take no account of the impact of the capital restructuring of the Group as implemented on Admission.

The Company was admitted to the London Stock Exchange on 23 July 2014 (‘Admission’). On that date 150,100,341 new ordinary shares were issued by the Company which generated cash proceeds of £255.2m net of anticipated costs. The proceeds, combined with a restructuring of existing shareholder interests in the Group and the refinancing of the bank facilities served to reduce overall Group indebtedness.

These events fundamentally impact the capital structure of the Group and serve to materially reduce the net funding costs of the Group on a prospective basis. These interim results include a pro-forma illustration of the impact of the Offer on the consolidated balance sheet of the Group as at 30 June 2014 and on pro-forma adjusted earnings per share for the six months ended 30 June 2014 on pages 13 - 14.

In the prior period, in January 2013, the Group completed the £704m sale of companies holding the freehold and leasehold interests, subject to long term institutional leases, in 12 of its hospitals (the ‘2013 Freehold Sale’), the net proceeds of which were used to prepay debt.

Commentary in these interim results is focussed on the operating performance and operating cash flow of the Group for the six months ended 30 June 2014.

Revenue

Revenue for the six months ended 30 June 2014 increased by £39.7m, or 10.5%, to £417.2m from £377.5m for the six months ended 30 June 2013. In-patient and daycase revenues increased by £26.7m, or 10.7%, from £250.4m to £277.1m from a 9.2% increase in-patient volumes in the period.

Out-patient revenues grew by £10.8m, or 9.5%, from £114.2m to £125.0m, including an increase of £5.3m in minor procedures undertaken in out-patient treatment rooms.

PMI

PMI revenues for the six months ended 30 June 2014 increased by £5.3m, or 2.5%, from £209.2m for the six months ended 30 June 2013 to £214.5m for the six months ended 30 June 2014.

PMI volumes, measured by in-patient and daycase discharges, were flat relative to 2013 at approximately 62,100 discharges. PMI rates for in-patients and daycase increased by 1.7% in the first six months of 2014 relative to the same period in 2013. The rate increase in the period was impacted by mix and in particular a higher incidence of lower complexity daycase procedures in the period relative to the prior year. In the longer term, as the economic recovery gathers strength in the UK, growth in PMI coverage is expected to increase in line with a forecast 2.5% per annum GDP growth from 2013-18. Claims are expected to lag this growth by 18-24 months.

Daycase procedures accounted for 73.4% of total discharges in the six months ended 30 June 2014 versus 71.8% of total discharges in the comparative period. The mix of daycase procedures in the first six months of 2014 was also less complex than in the previous year. This included additional work arising from steps taken by management to re-engineer daycase surgical pathways in ophthalmology to recover work that had previously been directed elsewhere by insurers. As a consequence the mix adjusted rate increase on daycase procedures, relative to the same period in 2013, was positive but sub-inflationary.

For in-patient PMI procedures, the Group continued to see strong rate growth ahead of inflation which is linked to continued operational and capital investment to increase the capability of the hospital network to deal with a higher complex caseload.

PMI out-patient revenues increased by £3.1m, or 4.1% in the period ended 30 June 2014. This included an increase in minor procedures undertaken in out-patient treatment rooms. Much of this work would previously have been undertaken in theatre, but continued investment by the Group in facilities and less invasive medical technologies continues to provide for the transition of work to an out-patient setting.

NHS

NHS revenues for the six months ended 30 June 2014 increased by £26.4m, or 29.2% from £90.5m for the six months ended 30 June 2013 to £116.9m for the six months ended 30 June 2014.

NHS volumes, measured by in-patient and daycase discharges, increased by 24.4% in the first six months of 2014 compared to the same period in 2013 and to approximately 46,000 discharges. NHS rates for in-patient and daycase procedures increased by 2.7% over the same period. This is notwithstanding reductions in NHS tariffs which decreased the average price of the basket of services provided by the Group to the NHS by between 2% and 3% in the period relative to 2013.

NHS out-patient revenues increased by £5.6m, or 37.3% in the period ended 30 June 2014. This included an increase in fees for out-patient consultations, which grew in line with the rate of growth in in-patient and daycase volumes and an increase in minor procedures undertaken in out-patient treatment rooms.

In the first half of 2013, the temporary suspension of locally commissioned complex work during and post the transition of NHS commissioning arrangements to the newly established Clinical Commissioning Groups had an adverse impact to the Group on both volumes and rates. These impacts were temporary in 2013 and the second half of 2013 showed significant recovery in performance. The growth in revenues for the first half of 2014 continues the strong performance reported in the Prospectus for the first quarter of 2014.

Self-pay

Self-pay revenues for the six months ended 30 June 2014 increased by £5.8m, or 8.9%, from £64.9m for the six months ended 30 June 2013 to £70.7m for the six months ended 30 June 2014.

Self-pay volumes, measured by in-patient and daycase discharges, increased by 10.1% in the first 6 months of 2014 compared to the same period in 2013 and to approximately 20,000 discharges. Self-pay rates for in-patient and daycase procedures reduced by 1.0% over the same period.

Self-pay out-patient revenues increased by £2.1m, or 8.9% in the period ended 30 June 2014. This included an increase in minor procedures undertaken in out-patient treatment rooms, consistent with the other payor groups.

From the beginning of 2012 until early 2013, the Group benefitted from a significant number of hip revision procedures associated with a patient recall undertaken by DePuy. These revision procedures were highly complex and priced at a substantial premium to average self-pay procedures. The absence of similar work in 2014 had an adverse impact on rates achieved overall and masked a positive rate improvement in underlying recurring case mix.

Other revenue

Other revenue, which includes fees paid to the Group by consultants (e.g. for the use of Group facilities and services) and third party revenues (e.g. pathology services to third parties) increased by £2.2m, or 17.1%, in the period from £12.9m for the six months ended 30 June 2013 to £15.1m for the six months ended 30 June 2014.

Cost of Sales and Gross Profit

Cost of sales increased in the period by £23.9m, or 12.8%, from £186.3m for the six months ended 30 June 2013 to £210.2m for the six months ended 30 June 2014.

Gross margin for the first six months of 2014 was 49.6%, compared to 50.6% for the same period in 2013.

Gross margin has been adversely impacted by a reduction of 3% in NHS tariff applicable to the 2013/2014 fiscal year and a further 2% NHS tariff reduction applicable from 1 April 2014 for the 2014/15 fiscal year and by a higher proportion of revenues from the NHS in 2014 than in 2013. Some of this impact has been mitigated by improved operating efficiency in the period.

Clinical staff costs, as a percentage of revenues, reduced from 17.7% for the first six months of 2013 to 17.3% for the same period in 2014. The Group continues to benefit from improved utilisation of existing available capacity as patient admissions increase.

Direct costs of prosthesis, drugs and consumables, as a percentage of revenues, increased from 16.5% for the first six months of 2013 to 18.4% for the same period in 2014. This was due to a significant increase in orthopaedic and ophthalmology surgical activity in the period and a general increase in in-patient case complexity across specialties, relative to 2013.

Medical fees payable to consultant surgeons and anaesthetists for services performed in connection with NHS patients grew as a consequence of the large increase in NHS activity in the period. Medical fees for NHS work increased from 5.0% of total revenues in 2013 to 5.7% of total revenues in 2014. However, as a consequence of the continued focus on cost management, these fees reduced as a percentage of NHS revenues from 20.7% in 2013 to 20.3% in 2014.

Other Operating Costs

Other operating costs for the six months ended 30 June 2014 increased by £17.3m, or 12.1%, from £143.5m for the six months ended 30 June 2013 to £160.8m for the six months ended 30 June 2014.

Included within these costs are exceptional costs of £5.4m for 2013 and £11.1m for 2014 relating to the business reorganisation, corporate restructuring and regulatory and governance costs. Before exceptional items, operating costs increased by £11.6m, or 8.4% from £138.1m for the six months ended 30 June 2013 to £149.7m for the six months ended 30 June 2014 on revenue growth of 10.5% in the period.

Depreciation

The charge for depreciation for the six months ended 30 June 2014 has reduced by £0.3m, or 1.3% relative to 2013 to £22.6m. Overall capital expenditure in the preceding 12 months only partially offset the impact on the fixed asset base of the 2013 Freehold Sale and the disposal of the Spire Washington Hospital premises in March 2014.

Rent

Rent of land and buildings for the first six months of 2014 increased by £3.7m, or 14.2%, to £29.8m. The increase is largely the consequence of the annualised impact of the 2013 Freehold Sale (£2.2m in the period), the first annual indexation of rental costs associated with the 2013 Freehold Sale (£0.6m in the period) and the commencement of rent following the sale, subject to lease, of the Spire Washington Hospital which was concluded 11 March 2014 with a starting rent of £2.3m per year (£0.7m in the period). The impact on comparatives will not normalise until the end of the first quarter of 2015.

Exceptional items included in other operating costs

Exceptional items included in other operating costs total £11.1m for the six months ended 30 June 2014 and £5.4m for the same period of 2013. The increase in 2014 includes the accrual for costs incurred in the preparation of the Group for sale by Cinven. Further exceptional costs relating to preparations for the admission of the Company to the London Stock Exchange in July 2014 will be recognised in the second half of 2014.

Operating Profit

Operating profit after exceptional costs decreased by 3.1% in the period to £46.2m. Before exceptional costs, operating profits increased by 7.9% from £53.1m for the six months ended 30 June 2013 to £57.3m for the six months ended 30 June 2014.

EBITDA and Adjusted EBITDA

EBITDA for the six months ended 30 June 2013 increased by £3.9m, or 5.1% from £76.0m to £79.9m. Adjusted EBITDA increased by 9.3% from £73.1m to £79.9m (2013 EBITDA adjusted by £2.9m to include rental costs on the same basis as for 2014 following the 2013 Freehold Sale and the sale, subject to lease, of the Spire Washington Hospital).

Underlying Operating Performance

During the period under review the Group opened or acquired the following facilities:

- In April 2014 opened a purpose built standalone radiotherapy centre in Bristol. This operation has reached EBITDA run-rate profitability within two months of opening; and

- In May 2014 acquired St Anthony's Hospital, a 92 bed private hospital based in Sutton, Surrey. Following the purchase the hospital is being held separate from the Group pending clearance by the CMA.

Underlying revenue growth for the six months ended 30 June 2014, excluding the impact of new acquisitions and openings, was 9.6% on underlying in-patient and daycase volumes up 8.8% on the prior period.

The dilutive impact on the gross margins of the Group of the trading performance of new openings and acquisitions was 0.1% in the period with underlying gross margins of 49.7%.

Revenue growth in the period converted to an underlying increase in operating profits, before exceptional items, of 7.7%.

Profit on Disposal of Property, Plant and Equipment

The profit on disposal of £19.6m for the six months ended 30 June 2014 relates to the sale of the freehold land and buildings of Spire Washington Hospital. The profit in the comparative period of £44.8m relates to the profit on the 2013 Freehold Sale.

Finance Costs

The costs included in these interim results reflect the capital structure of the Group prior to its admission to the London Stock Exchange.

Finance costs before exceptional items have reduced in the period from £75.4m for the six months ended 30 June 2013 to £67.6m for the six months ended 30 June 2014. The net reduction of £7.8m, or 10.3%, is the aggregate impact on finance cost of the reduction in indebtedness following the 2013 Freehold Sale, the mark-to-market movement on remaining interest rate swap instruments and the continued roll-up of interest on shareholder loan notes.

Exceptional finance income of £26.6m for the six months ended 30 June 2013 relates to the credit arising from the settlement discounts associated with the early repayment of debt as a consequence of the 2013 Freehold Sale.

A pro-forma illustration of the capital structure of the Group following the Listing is set out on page 14 and an illustrative earnings per share with the post-Listing capital structure is set out on page 13.

Taxation

The taxation charge for the six months ended 30 June 2014 consists of a £0.5m charge for UK corporation tax and a £5.6m charge for deferred tax.

The UK corporation tax charge for the first six months of 2014 does not take account of allowable costs arising from the Listing, including the settlement of out of the money interest rate swaps, which are expected to eliminate the charge for UK corporation tax for the financial year ending 31 December 2014 as a whole. The UK corporation tax charge for six months ended 30 June 2013 was £nil.

The charge for deferred taxation for the six months ended 30 June 2014 was £5.6m. The credit for the six months ended 30 June 2013 relates predominantly to the release of deferred tax liabilities associated with fixed assets disposed of as part of the 2013 Freehold Sale.

(Loss)/Profit After Taxation

The loss after taxation for the six months ended 30 June 2014 was £7.8m compared with a profit after taxation for the six months ended 30 June 2013 of £148.5m. The profit on assets sold as part of the 2013 Freehold Sale and the consequent release of associated deferred tax liabilities substantially contributed to the result for 2013.

Operating Cash Flow

The cash inflow from operating activities for the six months ended 30 June 2014 was £71.0m, which constitutes a cash conversion rate from EBITDA for the period of 88.9%. The net cash inflow from movements in working capital in the period was £2.2m, a significant improvement on the cash flow position reported for the six months ended 30 June 2013.

Net cash inflow from operating activities for the six months ended 30 June 2013 was £28.8m, which constitutes a cash conversion rate from EBITDA for the period of 37.9%. The net cash outflow from movements in working capital in the period was £41.8m. The net working capital outflow in 2013 was impacted by certain non-recurring events, including a change to the payment arrangements with the NHS, a prepayment of rent following the 2013 Freehold Sale and revised payment terms adhered to by PMI customers.

Cash Flow from Investing Activities

Net cash used in investing activities for the six months ended 30 June 2014 was £39.6m which included the acquisition of St Anthony's Hospital in May 2014, offset by the proceeds from the disposal of the freehold interest in Spire Washington Hospital in March 2014. Capital expenditure for the purchase of property, plant and equipment in the period totalled £33.9m including the development of a cardiac catheterisation lab in Cardiff, the completion of the radiotherapy centre in Bristol and the substantial completion of new theatre developments in Harpenden and South Bank (to be opened in the second half of 2014) and a major reconfiguration and development of facilities in Tunbridge Wells, including investment in out-patient areas and static MRI and CT machines at this hospital.

Net cash generated from investing activities for the six months ended 30 June 2013 was £684.2m for the six months ended 30 June 2013, including proceeds from the 2013 Freehold Sale.

Principal Risks and Uncertainties

We have considered the principal risks and uncertainties faced by the Group for the remaining six months of the year and do not consider them to have changed from those set out on pages 10 to 11 of Part 1 of the Prospectus which is available on the Group's website at www.spirehealthcare.com. These include but are not limited to: the risk that GPs and consultants cease to refer patients to Spire hospitals and clinics, demand for services is adversely affected by changes in macroeconomic and political conditions (in particular political risk and policies that may reduce the volume of activity with the NHS), the Group has issues in attracting and retaining skilled medical personnel, failure to maintain contractual relationships with insurers on terms similar to those currently in place, failure to comply with regulation in a highly regulated market, the CMA will impose further measures that may have an adverse impact on the Group, quality deficiencies which damage reputation and the Group's brand and litigation for actions by third parties with damages beyond the level of insurance cover or growth is constrained because of the lack of opportunities for organic growth or suitable acquisitions.

Pro-Forma Financial Information

The reporting date for these accounts, 30 June 2014, preceded the IPO. The pro-forma financial information set out below has been prepared to illustrate the effect of the IPO on earnings per share and net assets. These statements are prepared for illustrative purposes only and do not represent the Group's actual earnings or financial position. The information is prepared on a basis consistent with the accounting policies of the Group and as described in the notes set out below.

Pro-Forma Adjusted Earnings per Share
As explained in note 13 of the financial statements, no earnings per share information has been reported therein for the six months ended 30 June 2014. Pro-forma adjusted earnings per share is set out below:

The income statement, as reported on page 15, includes finance costs that relate to debt which was settled on Admission, reducing the borrowings outstanding on that date and finance costs that will arise in future periods. Therefore, earnings per share is presented below on a pro-forma basis, under which finance costs are restated as if the Group had been refinanced on 1 January 2014. In addition, adjustments are made for a number of other significant non-recurring items.

Pro-forma adjusted earnings per share is calculated by dividing the pro-forma adjusted profit after tax for the period by the number of ordinary shares in issue on Admission on 23 July 2014.

Pro-Forma Adjusted Earnings per Share

(£ million)

	Six months ended 2014 Unaudited
Loss before taxation	**(1.7)**
Adjustments:	
Exceptional items	11.1
Profit on disposal of property, plant and equipment (note 1)	(19.6)
Finance costs shareholder loans (note 2)	48.9
Finance costs bank loans (note 3)	8.2
Pro-forma profit before tax	**46.9**
Taxation (note 4)	(13.1)
Pro-forma profit after tax	**33.8**
Number of ordinary shares in issue on Admission	401,081,391
Pro-forma earnings per share (pence)	**8.43**

Note 1 – Profit on disposal of the Spire Washington Hospital, adjusted as it is a significant non-recurring event.
Note 2 – Removes finance costs in the period relating to shareholder loans capitalised on Admission.
Note 3 - Reduces bank finance costs; revised costs calculated as if the bank refinancing had occurred on 1 January 2014 and the new loan facility had been entered into on that date.
Note 4 – Taxation is adjusted to eliminate the tax originally charged/credited to the income statement, calculated at 21.50%, the estimated annual rate for the year.
Other than the adjustments detailed above, no other adjustments have been made for events occurring after 30 June 2014. No dilutive potential ordinary shares have been issued in the six month period ended 30 June 2014.

Pro-Forma Combined Balance Sheet

The pro-forma combined balance sheet is prepared as if the refinancing of debt and issue of new ordinary shares occurred on 30 June 2014.

(£ million)	*As at 30 June 2014 (Unaudited)*	*IPO net proceeds (note 1)*	*Reorganisation (note 2)*	*Refinancing (note 3)*	*Unaudited pro-forma Total*
ASSETS					
Non-current assets	1,380.0	–	–	–	1,380.0
Inventories	26.1	–	–	–	26.1
Trade and other receivables	140.7	–	–	(10.2)	130.5
Cash and cash equivalents	148.2	255.2	–	(371.4)	32.0
Total assets	**1,695.0**	**255.2**	**–**	**(381.6)**	**1,568.6**
EQUITY AND LIABILITIES					
Non-current liabilities					
Borrowings – bank loans	–	–	–	419.8	419.8
Borrowings – shareholder loans	826.6	–	(826.6)	–	–
Borrowings – finance lease	72.5	–	–	–	72.5
Derivative financial instruments	41.5	–	–	(41.5)	–
Deferred tax liability	83.5	–	–	–	83.5
Total non-current liabilities	**1,024.1**	**–**	**(826.6)**	**378.3**	**575.8**
Current liabilities					
Provisions	5.9	–	–	–	5.9
Borrowings – bank loans	737.0	–	–	(737.0)	–
Borrowings – shareholder loans	67.8	–	(67.8)	–	–
Borrowings – finance lease	7.1	–	–	–	7.1
Derivative financial instruments	22.9	–	–	(22.9)	–
Trade and other payables	94.1	–	–	–	94.1
Total current liabilities	**934.8**	**–**	**(67.8)**	**(759.9)**	**107.1**
Total liabilities	**1,958.9**	**–**	**(894.4)**	**(381.6)**	**682.9**
Net assets/(liabilities)	**(263.9)**	**255.2**	**894.4**	**–**	**885.7**

Note 1 – Gross proceeds of £315m were generated from the sale of ordinary shares on Admission. Net proceeds are after the deduction of total underwriting commission and other expenses, as estimated at the time of this report.
Note 2 – Reflects the exchange of shareholder loans, a total of £894.4m including interest accrued at the balance sheet date, for ordinary shares in the Company.
Note 3 – Existing bank debt and interest rate swap liabilities were fully repaid on Admission and £425m of borrowings were drawn under new bank loan facilities, generating cash of £419.8m after expenses.

Condensed Combined Income Statement for the Six Months Ended 30 June 2014

(£ million)

	Notes	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013 Unaudited
Revenue	4	417.2	377.5
Cost of sales		(210.2)	(186.3)
Gross profit		**207.0**	**191.2**
Other operating costs		(160.8)	(143.5)
Operating profit	3	**46.2**	**47.7**
Exceptional items included within other operating costs	5	(11.1)	(5.4)
Operating profit before exceptional items		57.3	53.1
Profit on disposal of property, plant and equipment		19.6	44.8
Interest income		0.1	0.1
Finance costs	6	(67.6)	(75.4)
Exceptional finance income	6	–	26.6
Total finance costs		(67.6)	(48.8)
(Loss)/profit before taxation		**(1.7)**	**43.8**
Taxation	7	(6.1)	104.7
(Loss)/profit for the period		**(7.8)**	**148.5**
Attributable to:			
Owners of the parent		(7.8)	148.5

Condensed Combined Statement of Comprehensive Income for the Six Months Ended 30 June 2014

(£ million)	*Six months ended 30 June*	
	2014	*2013*
	Unaudited	
(Loss)/profit for the period	(7.8)	148.5
Other comprehensive (deficit)/income for the period		
Net gain on cash flow hedges	–	22.8
Deferred tax on cash flow hedges taken to hedge reserve	–	(5.2)
Other comprehensive income net of tax	–	17.6
Total comprehensive (deficit)/income for the period	**(7.8)**	**166.1**
Attributable to:		
Owners of the parent	(7.8)	166.1

All other comprehensive income will recycle to profit or loss in this or future periods.

Condensed Combined Statement of Changes in Equity

(£ million)	*Hedging reserve*	*Other reserves*	*Total*	*Total equity*
As at 1 January 2013	(83.3)	(358.5)	(441.8)	(441.8)
Profit for the period (unaudited)	–	148.5	148.5	148.5
Other comprehensive income (unaudited)	17.6	–	17.6	17.6
Total comprehensive deficit	(65.7)	(210.0)	(275.7)	(275.7)
Employee benefit trust (unaudited)	–	0.1	0.1	0.1
As at 30 June 2013	**(65.7)**	**(209.9)**	**(275.6)**	**(275.6)**
As at 1 January 2014	–	(256.2)	(256.2)	(256.2)
Loss for the period (unaudited)	–	(7.8)	(7.8)	(7.8)
Other comprehensive income (unaudited)	–	–	–	–
Total comprehensive deficit	–	(264.0)	(264.0)	(264.0)
Employee benefit trust (unaudited)	–	0.1	0.1	0.1
As at 30 June 2014 (unaudited)	**–**	**(263.9)**	**(263.9)**	**(263.9)**

Condensed Combined Balance Sheet

(£ million)

	Notes	30 June 2014	31 December 2013
		Unaudited	
ASSETS			
Non–current assets			
Intangible assets	8	519.3	514.9
Property, plant and equipment	10	843.1	813.9
Deferred tax asset		17.6	17.1
		1,380.0	1,345.9
Current assets			
Inventories		26.1	26.2
Trade and other receivables		140.7	131.2
Cash and cash equivalents		148.2	111.5
		315.0	268.9
Total assets		1,695.0	1,614.8
EQUITY AND LIABILITIES			
Equity			
Other reserves		(263.9)	(256.2)
Equity attributable to owners of the parent		(263.9)	(256.2)
Non–controlling interests		–	–
Total equity		(263.9)	(256.2)
Non–current liabilities			
Borrowings	11	899.1	882.1
Derivative financial instruments		41.5	52.4
Deferred tax liability		83.5	77.4
		1,024.1	1,011.9
Current liabilities			
Provisions		5.9	3.2
Borrowings	11	811.9	746.8
Derivative financial instruments		22.9	22.1
Trade and other payables		94.1	87.0
		934.8	859.1
Total liabilities		1,958.9	1,871.0
Total equity and liabilities		1,695.0	1,614.8

Condensed Combined Statement of Cash Flows

(£ million)

	Notes	Six months ended 30 June 2014 Unaudited	Six months ended 30 June 2013
Cash flows from operating activities			
(Loss) / profit before taxation		(1.7)	43.8
Adjustments for:			
Depreciation	3	22.6	22.9
profit on disposal of property, plant and equipment		(19.6)	(44.8)
interest income		(0.1)	(0.1)
finance costs	6	67.6	75.4
exceptional finance income	6	–	(26.6)
		68.8	70.6
Movements in working capital:			
increase in trade and other receivables		(5.5)	(24.1)
decrease in inventories		1.3	1.2
increase/(decrease) in trade and other payables		3.7	(18.4)
increase/(decrease) in provisions		2.7	(0.5)
Net cash from operating activities		71.0	28.8
Cash flows from investing activities			
Acquisition of business and trading assets		(38.0)	–
Purchase of property, plant and equipment		(33.9)	(17.8)
Proceeds from disposal of property, plant and equipment		32.2	701.9
Interest received		0.1	0.1
Net cash (used in)/generated from investing activities		(39.6)	684.2
Cash flows from financing activities			
Interest paid		(25.0)	(36.2)
Repayments of borrowings		(9.7)	(712.0)
Proceeds from borrowings		40.0	–
Net cash generated from/(used in) financing activities		5.3	(748.2)
Net increase/(decrease) in cash		36.7	(35.2)
Cash and cash equivalents at beginning of period		111.5	133.8
Cash and cash equivalents at end of period		**148.2**	**98.6**

Notes to the Condensed Combined Interim Financial Statements

1. General information

The condensed combined interim financial statements of Spire Healthcare Group plc (the 'Company') and its subsidiaries (collectively, 'the Group') for the six month period ended 30 June 2014 were authorised for issue on 28 August 2014.

The Group owns and operates private hospitals and clinics in the UK and provides a range of private healthcare services.

2. Basis of preparation

Definition of the Group

These financial statements are prepared on a combined basis, under which the Group comprises Spire Healthcare Group UK Limited and Spire UK Holdco 2A Limited, together with each of their subsidiaries (together, prior to the group reorganisation, the 'Group' or 'Spire Healthcare Group'). Until 17 January 2013 the Group also included Spire UK Holdco 1A Limited, Spire UK Holdco 3A Limited and their subsidiaries. The Group was acquired by Spire Healthcare Group plc ('the Company') as part of a group reorganisation immediately prior to the Offer. These companies were under common management and control throughout the periods presented and therefore these condensed combined interim financial statements have been prepared as if the reorganisation had taken place as at 1 January 2013.

As the group reorganisation has not led to a change in control of the companies included in the Spire Healthcare Group, it has been accounted for using the pooling-of-interest method by aggregating the assets, liabilities, results, share capital and reserves, after eliminating intercompany balances and unrealised profits. These condensed combined interim financial statements therefore reflect the assets, liabilities and results of operations of the components of the Group that constituted the property ownership and trading businesses.

With effect from 18 July 2014 the Company became the legal parent of the Group, through an exchange of equity interests.

Basis of preparation of interim statements

These condensed combined interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting, as adopted by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with information contained in the Combined Historical Financial Information in Part 11 of the Prospectus (the 'Combined Historical Financial Information'). These interim financial statements have been reviewed, not audited.

These condensed combined interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act. Non-statutory combined financial statements for Spire Healthcare Group for the year ended 31 December 2013, as reported in the Combined Historical Financial Information of the Prospectus, were approved by the Board of Directors on 7 July 2014. The report of the auditors in accordance with SIR 2000 on the Combined Historical Financial Information was unqualified and did not contain an emphasis of matter paragraph.

Accounting policies

In preparing the condensed combined interim financial statements, the same accounting policies, methods of computation and presentation have been applied as set out in the Combined Historical Financial Information. The accounting policies are drawn up in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) as adopted by the EU.

In the period, the Group acquired St Anthony's Hospital and accounted for it as a business combination. At the date of these financial statements, the transaction had not yet been given the approval of the Competition and Markets Authority. After assessing the relevant factors, it was concluded that it is sufficiently probable that St Anthony's will continue to be owned by the Group to be consolidated in these financial statements. Further information is contained in note 9.

Notes to the Condensed Combined Interim Financial Statements

2. Basis of preparation (Continued)

Critical accounting judgements and estimates

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements and estimates used in the application of the Group's accounting policies are the same as those that were applied in the preparation of the Combined Historical Financial Information within the Prospectus. The details of the Group's critical accounting judgements and estimates are set out on pages 143-144 of Part 11 of the Prospectus.

Going concern

As set out in note 11, at the balance sheet date the Group was financed through loans from parent undertakings and bank loans. These included:

- Bank loans and liabilities under interest rate swap contracts totalling £801.4m, including banks loans of £737.0m which had a maturity date of June 2015,
- Loans from parent undertakings of £894.4m which were not repayable until the earlier of the sale of the business and 2037-2038; and
- Finance lease liability of £79.6m of which £72.5m is not due for repayment until 2015 to 2040.

Since the balance sheet date, on Admission on 23 July 2014, the Group refinanced its bank loan facilities with a new facility that matures in 2019. The proceeds from the issue of new ordinary shares, existing resources and £425m from the new term loans, were applied in the repayment of all of the existing bank loan and interest rate swap liabilities. Loans from parent undertakings were settled through the issue of new shares in Spire Healthcare Group plc.

The Directors have considered the Group's forecasts and projections, taking account of the reasonably possible changes in trading performance and the current state of its operating market, and are satisfied that, the Group will be able to operate within the covenants imposed by the new bank loan facility. Accordingly, they have adopted the going concern basis in preparing the combined interim financial statements.

3. Operating profit for the period

Operating profit for the period has been arrived at after charging:

(£ million)

	Six months ended 30 June	
	2014	*2013*
	Unaudited	
Rent of land and buildings	29.8	26.1
Depreciation of property, plant & equipment	22.6	22.9
Staff costs	115.1	106.7

Notes to the Condensed Combined Interim Financial Statements

4. Segmental reporting

In determining the Group's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the Executive Management team and the Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that that the Group has a single operating segment, being the provision of healthcare services.

All revenue is attributable to and all non-current assets are located in the country of domicile of the Group, the United Kingdom.

While no individual customer contributes greater than 10% of total revenue, revenue by wider customer (payor) group is shown below:

Revenues

(£ million)	*Six months ended 30 June*	
	2014	*2013*
	Unaudited	
Insured	214.5	209.2
NHS	116.9	90.5
Self-pay	70.7	64.9
Other	15.1	12.9
Total	**417.2**	**377.5**

5. Exceptional items

(£ million)

	Six months ended 30 June	
	2014	*2013*
	Unaudited	
Business reorganisation	2.4	1.4
Corporate restructuring and financing costs	4.0	2.3
Regulatory and governance costs	4.7	1.7
Total	**11.1**	**5.4**

In the six months ended 30 June 2014, business reorganisation costs mainly comprised dual running IT costs and the costs of acquiring St Anthony’s Hospital. Corporate restructuring costs related to the preparation for the sale of the business. Regulatory and governance costs include costs relating to the Competition and Markets Authority enquiry.

In the six months ended 30 June 2013, business reorganisation costs included dual running IT costs and other reorganisation costs. Corporate restructuring and refinancing costs comprised advisors’ fees associated with the sale of twelve properties, subject to leases and other refinancing activity. Regulatory and governance costs comprised costs relating to the Competition and Markets Authority enquiry.

Notes to the Condensed Combined Interim Financial Statements

6. Finance costs

(£ million)

	Six-month period ended 30 June	
	2014	*2013*
	Unaudited	
Interest on loans from ultimate undertaking and management	48.9	43.6
Interest on bank facilities	25.0	28.3
Finance charges payable under finance leases	3.8	3.7
Change in fair value of interest rate derivatives	(10.1)	(0.1)
	67.6	75.5
Finance costs capitalised in the period	-	(0.1)
	67.6	75.4
Exceptional finance income	-	(26.6)
Total finance costs	**67.6**	**48.8**

Exceptional finance income

Exceptional finance income arising in the six months ended 30 June 2013 included a credit arising from partial waiver of bank debt and interest rate swap liabilities on settlement, net of the unamortised debt costs. This resulted in a total net credit of £26.6m.

Notes to the Condensed Combined Interim Financial Statements

7. Tax on (loss)/profit

Income tax expense is recognised based on management's estimate of the weighted average annual income tax expected for the full financial year. The estimated annual rate for the year to 31 December 2014 is 21.50%.

In the period ended 30 June 2014 deferred tax assets and liabilities were calculated at 21%, the rate effective from 1 April 2014 and at 20% on amounts arising from 1 April 2015 (period ended 30 June 2013 at the rate then enacted, 23%).

(£ million)

	Six months ended 30 June	
	2014	*2013*
	Unaudited	
Current tax		
UK corporation tax arising in the period	0.5	–
Total current tax	0.5	–
Deferred tax		
Released on disposal of property owning subsidiaries	–	(102.3)
Other charges/(credits)	5.6	(2.4)
Total deferred tax charge/(credit)	5.6	(104.7)
Tax on (loss)/ profit in the period	**6.1**	**(104.7)**

The UK corporation tax charge for the first six months of 2014 does not take account of allowable costs arising from the Listing, including the settlement of out of the money interest rate swaps, which are expected to eliminate the charge for UK corporation tax for the financial year ending 31 December 2014 as a whole.

In the six months ended 30 June 2013, there was a release of £102.3m of deferred tax previously provided on property assets, following their disposal.

8. Intangible assets

(£ million)	*Goodwill*
Net Book Value:	
At 1 January 2014	514.9
Additions in the period (see note 9)	4.4
At 30 June 2014	**519.3**

Goodwill of £519.3m relates principally to two separate acquisitions of hospital businesses:

- £422.5m from the acquisition of hospitals from BUPA in 2007, and
- £82.6m from the acquisition of the Classic Hospitals Group in 2008

The balance of £14.2m arises from subsequent acquisitions, net of impairment charges of £1.3m.

Notes to the Condensed Combined Interim Financial Statements

9. Business combination

On 22 May 2014 the Group acquired St Anthony's Hospital for a total consideration of £38.5m, including a settlement made after completion in respect of working capital. St Anthony's Hospital is a 92-bed private hospital based in Sutton, Surrey. Following the purchase, Spire is seeking CMA approval of the transaction. Until approval has been received from the CMA, the hospital is being held and operated separately from the other hospitals in the Group's portfolio. As the date of acquisition was shortly prior to the reporting date, the impact on the Group's results is immaterial.

The purchase price allocation is preliminary, pending the final determination of the fair values of certain assets acquired and liabilities assumed. The final determination of these fair values will be completed as soon as possible but no later than one year from the acquisition date.

Provisional fair value of identifiable assets and liabilities acquired

(£ million)

Property, plant and equipment	30.0
Inventory	1.3
Other working capital balances	2.8
Fair value of net assets acquired	34.1
Goodwill	4.4
Total assets acquired	38.5
Cash consideration	38.0
Deferred consideration	0.5
Total consideration	**38.5**

Notes to the Condensed Combined Interim Financial Statements

10. Property, plant and equipment

(£ million)	*Freehold property*	*Long leasehold property*	*Equipment*	*Assets in the course of construction*	*Total*
Net book value					
At 1 January 2014	499.3	157.9	150.5	6.2	813.9
Business acquisitions (note 9)	24.6	–	5.4	–	30.0
Other additions	8.6	7.0	18.2	0.1	33.9
Transfers	4.8	–	(2.1)	(2.7)	–
Disposals	–	(12.1)	–	–	(12.1)
Depreciation	(6.2)	(4.0)	(12.4)	–	(22.6)
At 30 June 2014	**531.1**	**148.8**	**159.6**	**3.6**	**843.1**

During the period the Group completed the construction of its radiotherapy site in Bristol and commissioned the construction of three additional theatres, additional scanning facilities and is funding the development of out-patient facilities.

On 11 March 2014, the Group completed the sale of a long leasehold interest in the land and buildings of the Spire Washington Hospital, Washington, Tyne and Wear for a consideration of £32.3m. The property and associated plant and equipment had a net book value at the balance sheet date of £12.1m.

Capital expenditure commitments

Capital commitments authorised and contracted for, but not provided in the accounts amounts to £7.9m as at the balance sheet date. The commitments include the development of the Harpenden theatre and investment in the Clare Park MRI.

11. Borrowings and Financial Instruments

Borrowings

(£ million)

	As at 30 June 2014	*As at 31 December 2013*
Unsecured borrowings at amortised cost		
Amount due to ultimate parent undertaking and management	894.4	846.5
Secured borrowings at amortised cost		
Bank loans	737.0	702.7
Obligations under finance leases	79.6	79.7
	816.6	782.4
Total borrowings	**1,711.0**	**1,628.9**

Total borrowings as due for settlement

(£ million)	*30 June 2014*	*31 December 2013*
Amount due for settlement within 12 months	811.9	746.8
Amount due for settlement after 12 months	899.1	882.1
Total borrowings	**1,711.0**	**1,628.9**

Notes to the Condensed Combined Interim Financial Statements

11. Borrowings and Financial Instruments (Continued)

Borrowings (Continued)

Bank loan liabilities outstanding at the balance sheet date were due for repayment on 30 June 2015 and were classified as current liabilities.

On Admission, the Group was refinanced, under which it entered into a new bank loan facility with a syndicate of banks, comprising a 5 year, £425m term loan and a 5 year £100m revolving facility. The proceeds of these facilities, together with existing funds of the Group, have been be used in the full repayment of the existing bank debt and interest rate swap liabilities. The new loans are non–amortising and carry interest at an initial margin of 2.25% over LIBOR. On the same date, the amounts due to the ultimate parent undertakings and management were capitalised in exchange for the issue of Ordinary Shares.

These events fundamentally impact the capital structure of the Group and serve to materially reduce the net funding costs of the Group on a prospective basis. Further details are provided in note 14.

Financial instruments

The Group's financial assets and liabilities, other than trade and other receivables and cash and short-term deposits, held by the Group at the balance sheet date were as set out below:

At 30 June 2014 (£ million)	*Carrying amount*	*Contractual cash flows*	*1 year or less*	*1–2 years*	*More than 2 years*
Non–derivative financial liabilities					
Amount due to ultimate parent undertakings	894.4	926.9	–	–	926.9
Secured bank facilities	737.0	770.8	770.8	–	–
Obligations under finance leases	79.6	221.0	7.1	7.3	206.6
Trade and other payables	43.2	43.2	43.2	–	–
Derivative financial liabilities					
Interest rate swaps	64.4	65.7	23.4	19.7	22.6
	1,818.6	2,027.6	844.5	27.0	1,156.1

At 31 December 2013 (£ million)	*Carrying amount*	*Contractual cash flows*	*1 year or less*	*1–2 years*	*More than 2 years*
Non–derivative financial liabilities					
Amount due to ultimate parent undertakings	846.5	926.9	–	–	926.9
Secured bank facility	702.7	721.3	721.3	–	–
Obligations under finance leases	79.7	221.0	7.7	7.9	205.4
Trade and other payables	47.6	47.6	47.6	–	–
Derivative financial liabilities					
Interest rate swaps	74.5	81.7	24.3	23.1	34.3
	1,751.0	1,998.5	800.9	31.0	1,166.6

Notes to the Condensed Combined Interim Financial Statements

11. Borrowings and Financial Instruments (Continued)

Fair value hierarchy

Financial instruments measured at fair value:

At 30 June 2014 the Group held interest rate swaps that were measured at a total fair value at a value of £64.4m (30 June 2013 £74.5m). They were classified as level 2 in the fair value hierarchy throughout the period ended 30 June 2014.

On Admission the interest rate swap liabilities were repaid in full.

Bases of valuation

There has been no change in the methods and assumptions used by the Group in estimating the fair value of its financial instruments, as previously disclosed in Part 11 of the Prospectus.

12. Related party transactions

Trading transactions

Group companies entered into the following transactions:

(£ million)

		Six months ended 30 June	
		2014	*2013*
Counterparty	*Nature of transaction*	*Unaudited*	
Rozier Finco Limited	Interest payable	40.8	36.4
Rozier Finco 2 Limited	Interest payable	8.1	7.2
Montefiore House Limited*	Management services	0.2	0.1
Montefiore House Limited*	Property rental	0.8	0.4

*Montefiore House Limited is a hospital operating company which is owned 50.1% by the Group. A subsidiary company of the Group provides management services to the company and leases the hospital property to the company in exchange for the payment of rent by the company.

Notes to the Condensed Combined Interim Financial Statements

12. Related party transactions (Continued)

Amounts owed by related parties

(£ million)	*As at 30 June*	*As at 31 December*
	2014	*2013*
Rozier No. 1A Limited Partnership	12.5	12.6
Montefiore House Limited	17.8	18.6

Loans due to related parties

(£ million)	*As at 30 June*	*As at 31 December*
	2014	*2013*
Spire Healthcare Limited Partnership	2.6	2.6
Rozier Finco Limited	748.4	707.6
Rozier Finco 2 Limited	146.0	138.9

Amounts payable to Rozier Finco Limited, Rozier Finco 2 Limited and Management carry interest of 12% per annum (2013: 12%).

Other transactions with Cinven

Monitoring fees totalling £0.3m in the six months ended 30 June 2014 (six months ended 30 June 2013: £0.3m) were paid to Cinven Limited in respect of the monitoring of the performance of the Group on behalf of the Cinven Funds. As at 30 June 2014 £0.1m (2013: £0.1m) was unpaid.

Transactions with key management personnel

The Group made payments to key management personnel, comprising the Directors of Spire Healthcare Limited, the main operating company and the Chairman and the Chief Operations Officer for services provided to the Group. The remuneration and pension costs relating to key management personnel were as follows:

(£ million)	*Six months ended 30 June*	
	2014	*2013*
	Unaudited	
Remuneration	0.8	0.7
Pension costs	0.1	0.1
Total	0.9	0.8

Notes to the Condensed Combined Interim Financial Statements

13. Equity

As set out in the basis of preparation, these financial statements are prepared on a combined basis being the aggregation of the companies acquired by Spire Healthcare Group plc as part of a reorganisation on 18 July 2014 immediately prior to the Offer. Consequently, the equity of the combined group as at 30 June 2014 represents the aggregation of the share capital and reserves of those companies. There is no separate share capital presented because Spire Healthcare Group plc had not acquired the companies as at 30 June 2014. As a consequence, no Earnings per Share information is presented in the notes to these interim financial statements.

14. Events after the reporting period

Under a group re-organisation which was effected immediately prior to the Offer, Spire Healthcare Group plc acquired Spire Healthcare Group UK Limited and Spire UK Holdco 2A Limited, together with each of their subsidiaries. With effect from that date, Spire Healthcare Group plc became the legal parent of the Group, through an exchange of equity interests. Liabilities owed to the ultimate shareholders were capitalised by the issue of 248,699,063 Ordinary Shares.

The Group was admitted to the premium segment of the London Stock Exchange on 23 July 2014 (‘Admission’) and has entered the FTSE 250. On that date 150,100,341 new Ordinary Shares were issued, generating cash proceeds of £255.2m, net of anticipated costs. The proceeds, combined with the restructuring of existing shareholder interests in the Group, served to reduce overall Group indebtedness.
On 15 August 2014 the stabilisation agent exercised its over-allotment option in respect of 14,332,711 of the Ordinary Shares in the Company issued to the former ultimate shareholder, as described above, thereby increasing the total shares issued under the Offer to 164,433,052 Ordinary Shares.

These events fundamentally impact the capital structure of the Group and serve to materially reduce net funding costs of the Group on a prospective basis.

Directors' responsibility statement in respect of the condensed combined interim financial statements

We confirm that to the best of our knowledge:

These condensed combined financial statements for the six months ended 30 June 2014 have been prepared in accordance with International Accounting Standard 34 ('IAS 34') as adopted by the EU.

The interim management report includes a fair review of the information as required by:

- DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of the important events that have occurred during the six months of the current financial year and their impact on the condensed set of the combined financial statements and a description of the principal risks and uncertainties for the remaining six months of the year; and
- DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially impacted the financial position or performance of the Group during the period and any material changes in the related party transactions described in the combined financial statements for the year ended 31 December 2013, as contained in Part 11 of the Prospectus.

The Board

The Board of Directors that served during the period since the IPO and up to the date of this report is set out in pages 83 and 84 of Part 7 of the Prospectus which is available on the Group's website at www.spirehealthcare.com.

By order of the Board

Rob Roger	Simon Gordon
Chief Executive Officer	Chief Financial Officer

28 August 2014

Independent review report to Spire Healthcare Group plc

Introduction
We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 which comprises the Condensed combined income statement, Condensed combined statement of comprehensive income, Condensed combined balance sheet, Condensed combined cash flow statement, Condensed combined statement of changes in equity, and related notes 1 to 14. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities
The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as endorsed by and adopted for use in the European Union.

Our Responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review
We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion
Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP

London

28 August 2014