Spire Healthcare Group

Combined Historical Financial Information

Year ended 31 December 2013

General information

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

Introduction

This combined historical financial information has been prepared on a basis that is consistent with the combined historical financial information that was reported in the Spire Healthcare Group Prospectus, a copy of which is available on the Spire Healthcare Group website **www.spirehealthcare.com**. This financial information is provided to form and make available the audited comparative information as contained within the consolidated financial statements of Spire Healthcare Group plc for the year ended 31 December 2014.

Basis of preparation

This information has been prepared on a combined basis and comprise Spire Healthcare Group UK Limited and Spire UK Holdco 2A Limited together with each of their subsidiaries, as included in note 17, and until 17 January 2013, the combined historical financial information also included Spire UK Holdco 1A Limited, Spire UK Holdco 3A Limited and their subsidiaries (together referred to herein as the 'Group', the 'Spire Healthcare Group' or the 'Spire Group'). Since the balance sheet date the Group has been acquired by Spire Healthcare Group plc as part of a group reorganisation, which occurred immediately prior to Admission to the London Stock Exchange on 23 July 2014. Since the group reorganisation, all of the companies consolidated within these financial statements are under the ownership and control of Spire Healthcare Group plc and they reflect the assets, liabilities and results of operations of the components of the Group that constituted the property and hospital operating businesses during the year ended 31 December 2013.

As the group reorganisation which took place in July 2014 has not led to any change in control of the companies included in the Group, these financial statements have been prepared using the pooling of interest method of aggregating the assets, liabilities, results, share capital and reserves, after eliminating intercompany balances and transactions, and prepared as if the reorganisation had taken place as at the beginning of the year presented herein.

Further information regarding the basis of preparation and accounting policies is contained in notes 2 and 3.

Statement of directors' responsibilities in relation to the combined historical financial information

The directors are responsible for preparing the combined historical financial information in accordance with applicable United Kingdom law and regulations. The directors are required to prepare the combined historical financial information under International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Under company law the directors must not approve this combined historical financial information unless they are satisfied that it gives a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing the combined historical financial information the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group;
- select suitable accounting policies in accordance with IAS 8: *Accounting Policies, Changes in Accounting Estimates and Errors* and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgements that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state whether the combined historical financial information has been prepared in accordance with IFRSs as adopted by the European Union.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the combined historical financial information complies with company law. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

Rob Roger
Chief Executive Officer

Simon Gordon
Chief Financial Officer

23 March 2015

Independent auditor's report to the directors of Spire Healthcare Group plc

We have audited the combined historical financial information of Spire Healthcare Group for the year ended 31 December 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated statement of cash flows and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is the International Financial Reporting Standards as adopted by the European Union.

This report is made solely to the company's directors, as a body, in accordance with our engagement letter dated 12 February 2015. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's directors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, the directors are responsible for the preparation of the combined historical financial information and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the combined historical financial information in accordance with International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the combined historical financial information

An audit involves obtaining evidence about the amounts and disclosures in the combined historical financial information sufficient to give reasonable assurance that the combined historical financial information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the combined historical financial information. In addition, we read all the financial and non-financial information in the report to identify material inconsistencies with the audited combined historical financial information and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the combined historical financial information

In our opinion the combined historical financial information of Spire Healthcare Group:

- gives a true and fair view of the state of the Group's affairs as at 31 December 2013 and of its profit for the year then ended; and
- has been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Ernst & Young LLP
London
23 March 2015

Notes:

1. The maintenance and integrity of the Spire Healthcare Group plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2013

(£ million)

	Notes	*2013*	*Unaudited 2012*
Revenue		764.5	738.9
Cost of sales		(382.1)	(366.4)
Gross profit		382.4	372.5
Other operating costs		(282.8)	(242.7)
Operating profit	5	**99.6**	**129.8**
Exceptional items included within other operating costs	8	(11.5)	(20.5)
Operating profit before exceptional items		111.1	150.3
Profit on disposal of property, plant and equipment	9	44.2	0.5
Interest income	10	0.4	0.4
Finance costs	11	(153.9)	(190.3)
Exceptional finance costs	11	(42.2)	(129.1)
Total finance costs		(196.1)	(319.4)
Loss before taxation		**(51.9)**	**(188.7)**
Taxation	13	154.1	58.3
Profit/(loss) for the year		**102.2**	**(130.4)**
Profit/(loss) for the year attributable to:			
- ***owners of the parent***		**102.2**	**(130.0)**
- ***non-controlling interests***		**–**	**(0.4)**
Notional earnings/(loss) per share – basic and diluted (in pence per share)	14	**40.9**	**(52.0)**

Consolidated statement of comprehensive income

For the year ended 31 December 2013

(£ million)

	2013	*Unaudited 2012*
Profit/(loss) for the year	102.2	(130.4)
Other comprehensive income for the year		
Net gain on cash flow hedges	39.4	26.3
Deferred tax on cash flow hedges taken to hedge reserve	(11.1)	(11.3)
Hedge loss recycled to income statement (note 11)	68.8	129.1
Deferred tax on recycled cash flow hedge losses	(13.8)	(29.7)
Other comprehensive income net of tax	83.3	114.4
Total comprehensive income/(deficit) for the year	**185.5**	**(16.0)**
Total comprehensive income for the year attributable to:		
- owners of the parent	185.5	(15.6)
- non-controlling interests	–	(0.4)
Total comprehensive income/(deficit) for the year	**185.5**	**(16.0)**

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

Consolidated statement of changes in equity

For the year ended 31 December 2013

(£ million)	*Hedging reserve*	*Retained earnings*	*Total*	*Non–controlling interests*	*Total equity*
As at 1 January 2012 (Unaudited)	(197.8)	(228.7)	(426.5)	(0.1)	(426.6)
Loss for the year	–	(130.0)	(130.0)	(0.4)	(130.4)
Other comprehensive income	114.5	–	114.5	–	114.5
Total comprehensive income/(deficit)	114.5	(130.0)	(15.5)	(0.4)	(15.9)
Employee benefit trust (note 26)	–	0.2	0.2	–	0.2
Other movements	–	–	–	0.5	0.5
As at 1 January 2013	(83.3)	(358.5)	(441.8)	–	(441.8)
Profit for the year	–	102.2	102.2	–	102.2
Other comprehensive income	83.3	–	83.3	–	83.3
Total comprehensive income	83.3	102.2	185.5	–	185.5
Employee benefit trust (note 26)	–	0.1	0.1	–	0.1
Balance at 31 December 2013 (Audited)	–	(256.2)	(256.2)	–	(256.2)

Consolidated balance sheet
As at 31 December 2013

(£ million)

	Notes	2013	Unaudited 2012
ASSETS			
Non–current assets			
Intangible assets	15	514.9	515.8
Property, plant and equipment	16	813.9	1,463.0
Deferred tax asset	23	17.1	16.1
		1,345.9	1,994.9
Current assets			
Inventories	18	26.2	25.5
Trade and other receivables	19	131.2	95.4
Cash and cash equivalents	20	111.5	133.8
		268.9	254.7
Total assets		1,614.8	2,249.6
EQUITY AND LIABILITIES			
Equity			
Hedging reserve		–	(83.3)
Retained earnings		(256.2)	(358.5)
Equity attributable to owners of the parent		(256.2)	(441.8)
Non–controlling interests		–	–
Total equity		(256.2)	(441.8)
Non–current liabilities			
Borrowings	21	882.1	2,092.6
Derivative financial instruments	24	52.4	196.1
Deferred tax liability	23	77.4	198.2
		1,011.9	2,486.9
Current liabilities			
Provisions	22	3.2	3.6
Borrowings	21	746.8	40.7
Derivative financial instruments	24	22.1	54.5
Trade and other payables	25	87.0	105.7
		859.1	204.5
Total liabilities		1,871.0	2,691.4
Total equity and liabilities		1,614.8	2,249.6

By order of the board

Rob Roger
Chief Executive Officer

Simon Gordon
Chief Financial Officer

23 March 2015

Consolidated statement of cash flows

For the year ended 31 December 2013

(£ million)

	Notes	2013	Unaudited 2012
Cash flows from operating activities			
Loss before taxation		(51.9)	(188.7)
Adjustments for:			
depreciation	5	43.0	51.4
goodwill impairment	15	0.9	0.4
share-based payments		–	0.1
profit on disposal of property, plant and equipment	9	(44.2)	(0.5)
interest income	10	(0.4)	(0.4)
finance costs	11	153.9	190.3
exceptional finance costs	11	42.2	129.1
		143.5	181.7
Movements in working capital:			
increase in trade and other receivables		(32.0)	(1.4)
increase in inventories		(0.7)	(1.1)
decrease in trade and other payables		(10.7)	(4.7)
(decrease)/increase in provisions		(0.4)	2.3
Net cash from operating activities		99.7	176.8
Cash flows from investing activities			
Purchase of property, plant and equipment		(53.7)	(55.2)
Proceeds from disposal of property, plant and equipment		700.4	20.0
Interest received		0.4	0.4
Net cash generated from/(used in) investing activities		647.1	(34.8)
Cash flows from financing activities			
Acquisition of minority interest		(0.6)	–
Interest paid		(59.2)	(92.4)
Repayments of borrowings		(789.3)	(15.4)
Proceeds from issue of equity to non-controlling interests		–	0.5
Proceeds from drawdown of long–term borrowing		80.0	3.7
Net cash used in financing activities		(769.1)	(103.6)
Net (decrease)/increase in cash and cash equivalents		(22.3)	38.4
Cash and cash equivalents at beginning of year		133.8	95.4
Cash and cash equivalents at end of year		111.5	133.8

Notes to the combined historical financial information

1. General information

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

This combined historical financial information for the year ended 31 December 2013 was authorised for issue on 23 March 2015.

2. Basis of preparation

The combined historical financial information is prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and on an historical cost basis, except for derivative financial instruments that are measured at fair value.

The combined historical financial information comprises Spire Healthcare Group UK Limited and Spire UK Holdco 2A Limited together with each of their subsidiaries, as included in note 17, and until 17 January 2013, the combined historical financial information also included Spire UK Holdco 1A Limited, Spire UK Holdco 3A Limited and their subsidiaries (together referred to herein as the 'Group', the 'Spire Healthcare Group' or the 'Spire Group'). Since the balance sheet date the Group has been acquired by Spire Healthcare Group plc as part of a group reorganisation, which occurred immediately prior to Admission to the London Stock Exchange on 23 July 2014. Since the group reorganisation, all of the companies consolidated within these financial statements are under the ownership and control of Spire Healthcare Group plc and they reflect the assets, liabilities and results of operations of the components of the Group that constituted the property and hospital operating businesses during the year ended 31 December 2013.

As the group reorganisation which took place in July 2014 has not led to any change in control of the companies included in the Group, these financial statements have been prepared using the pooling of interest method of aggregating the assets, liabilities, results, share capital and reserves, after eliminating intercompany balances and transactions, and prepared as if the reorganisation had taken place as at the beginning of the year presented herein.

Transactions with Cinven Funds (the controlling party until the Admission on 23 July 2014) and other entities under common control that were not acquired, and therefore are not part of the Group, are disclosed as transactions with related parties (see note 31 for further information on related party transactions).

Going concern

As set out in note 21, at the balance sheet date the Group was financed through long term shareholder loans, long term bank loans and finance lease liabilities.

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 £425 million from a new term loan, were applied in the repayment of all of the existing bank loan and interest rate swap liabilities. Loans from former parent undertakings were settled through the issue of new shares the Company.

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 on the going concern basis. Accordingly, they have adopted the going concern basis in preparing these financial statements.

Notes to the combined historical financial information

3. Accounting policies

Significant accounting policies applied

The principal accounting policies adopted are described below and were consistently applied for the period presented.

Revenue recognition

The Group derives its revenue primarily from providing private health care services to both the public sector and private patients in the UK.

Revenue from charges to patients is recognised when the treatment is provided.

Interest income

Interest is recognised on an effective interest rate basis.

Cost of sales

Cost of sales principally comprises salaries of clinical staff, consultant and clinical fees, medical services and inventories, including drugs, consumables and prostheses.

Other operating costs

Other operating costs mainly comprise non–clinical staff costs, rent associated with properties leased under operating leases, depreciation, maintenance and running costs of properties and equipment. It also includes administrative expenses, including the provision of central support services, IT and other administrative costs.

Operating profit

Operating profit is the profit arising from the normal, recurring operations of the business and after charging exceptional items as defined below.

Operating profit is adjusted to exclude exceptional items to calculate the Key Performance Indicator 'Operating profit before exceptional items', which is utilised in measuring performance before the impact of non–recurring, exceptional items in the income statement.

Exceptional items

Exceptional items are those items which, by virtue of their size or incidence, either individually or in aggregate, need to be disclosed separately to allow a full understanding of the underlying performance of the Group.

Notes to the combined historical financial information

3. Accounting policies (continued)

Consolidation

The results of all subsidiary undertakings are included in the consolidated financial statements. The results of subsidiary undertakings acquired during the period are brought into the accounts from the date of purchase. The results of subsidiaries disposed of during the period are included in the accounts until the date of disposal.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities of acquired businesses at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses.

Goodwill is allocated to cash–generating units and is not amortised but is tested annually for impairment, or more frequently if there is an indication that the value of the goodwill may be impaired.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation.

No depreciation is charged on freehold land or properties under construction. Other assets are depreciated so as to write off the carrying amounts of the assets over their expected useful lives as follows:

Freehold buildings and improvements	–	5–50 years
Leasehold buildings and improvements	–	lower of unexpired lease term or expected life, with a maximum of 35 years
Plant and machinery	–	5–10 years
Fixtures, fittings and equipment	–	3–10 years

The expected useful lives of property, plant and equipment are reviewed annually and revised as appropriate. The review of the asset lives and residual values of properties takes into consideration the plans of the business and levels of expenditure incurred on an ongoing basis to maintain the properties in a fit and proper state for their ongoing use as hospitals and the forecast timing of disposal.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost means purchase price, less trade discounts, calculated on an average basis. Net realisable value means estimated selling price, less trade discounts, and less all costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Interest–bearing borrowings

Interest–bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest–bearing borrowings are stated at amortised cost on an effective interest basis.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition and construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Notes to the combined historical financial information

3. Accounting policies (continued)

Pensions

The Group operates the Spire Healthcare Pension a defined contribution scheme. The assets of the scheme are held separately from those of the Group in independently administered funds.

Obligations for contributions to defined contribution pension schemes are recognised as an expense in the income statement as incurred.

Other employee benefits

Short–term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short–term cash bonuses if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Leases

Leasing arrangements which transfer to the Group substantially all the risks and rewards of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in tangible assets and depreciated over their estimated economic lives or over the term of the lease, whichever is the shorter.

The capital element of the leasing commitments is included in liabilities as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to the income statement in proportion to the capital element outstanding.

Operating lease payments are recognised as an expense on a straight–line basis over the lease term.

Notes to the combined historical financial information

3. Accounting policies (continued)

Taxation including deferred taxation

Total income tax on the result for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity and other comprehensive income, in which case it is recognised directly in equity and other comprehensive income.

Current tax is the expected tax payable on the taxable result for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:

- goodwill not deductible for tax purposes;
- the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- investments in subsidiary companies 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.

The amount of deferred tax recognised is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be used.

Derivative financial instruments

The Group may enter into derivative financial instrument arrangements to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and subsequently remeasured to their fair value at each balance sheet date.

The Group applies cash flow hedge accounting to such derivatives if the criteria for doing so are met.

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

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised, in the same line of the income statement as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in other comprehensive income 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 deferred in equity is recognised immediately in profit or loss.

Notes to the combined historical financial information

3. Accounting policies (continued)

New and amended standards and interpretations adopted by the Group

The following new IFRS and IFRIC interpretation were effective for the year ended 31 December 2013.

- IFRS 1 First time adoption of International Financial Reporting Standards (May 2012 annual improvements)
- IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7
- IFRS 13 Fair Value Measurement
- IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The presentation requirements of IAS 1 in respect of the classification of Other Comprehensive Income that may be recycled to profit and loss is provided in the Statement of Comprehensive Income. The other standards do not have any significant effect on the financial position of the Group, or result in changes in accounting policy or significant additional disclosure.

Standards and interpretations issued but not yet applied

The following standards and interpretations have been issued at the date of these financial statements but are not yet effective.

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments – Classification and Measurement
- IAS 32 Financial Instruments, Presentation (May 2012 annual improvements)
- IAS 39 Novation of Derivatives and Continuation of Heritage Accounting – Amendments to IAS 39
- IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

The above standards are effective for annual periods beginning on or after 1 January 2014 but are not expected to have any significant impact on the Group.

Notes to the combined historical financial information

4. Significant judgements and estimates

In the application of the Group’s accounting policies, the Directors are required to make judgements, and estimates about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The following accounting policies have been identified as involving particularly complex judgements or subjective estimates:

Judgements

- Deferred tax

  Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation rates and taxation rates.

  The Group owns a portfolio of freehold and leasehold property interests. The Group has recognised a deferred tax liability in its financial statements in respect of capital gains tax and other taxes based on the assumption that a proportion of the freehold properties will be disposed of in future years, with the remaining properties being realised through use. This calculation requires judgement about the timing and number of the related property disposals, which is potentially impacted by changes to plans made by the business over time and in particular changes in business plans in respect of the holding or disposing of properties.

- Leases

  In the determination of the classification of a number of leases over hospital properties as operating leases, assumptions have been made about the discount rate applied to the annual rent payable over the remainder of the lease term and of the useful economic life of the hospitals. Further information about commitments under these leases is given in note 27.

Estimates

- Estimation of useful lives and residual values

  Property, plant and equipment are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining lives of the assets and projected disposal values. The estimated useful lives of property, plant and equipment are set out in note 3.

- Goodwill

  Goodwill is considered for impairment at least annually or more frequently if there is an indication that goodwill may be impaired. This is achieved by comparing the value in use of the goodwill with its carrying value in the accounts. The value in use calculations require the Group to estimate future cash flows expected to arise in the future, taking into account market conditions. The present value of these cash flows is determined using an appropriate discount rate.

  The assumptions considered to be most critical in reviewing goodwill for impairment are contained in note 15.

Notes to the combined historical financial information

5. Operating profit

Operating profit has been arrived at after charging:

(£ million)

	2013	Unaudited 2012
Rent of land and buildings under operating leases	54.9	3.6
Depreciation of property, plant & equipment	43.0	51.4
Staff costs (see note 7)	210.9	202.2

6. 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 United Kingdom.

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

(£ million)

	2013	Unaudited 2012
Insured	413.7	416.1
NHS	191.4	175.3
Self-pay	132.9	121.2
Other	26.5	26.3
Total	764.5	738.9

7. Staff costs

Employees

The average number of full–time equivalent persons employed by the Group during the year, analysed by category, was as follows:

No.

	2013	Unaudited 2012
Clinical	3,650	3,596
Non–clinical	3,294	3,136
	6,944	6,732

Notes to the combined historical financial information

7. Staff costs (continued)

The aggregate payroll costs of these persons were as follows:

(£ million)

	2013	*Unaudited 2012*
Wages and salaries	180.9	176.1
Social security costs	15.8	15.9
Other pension costs	14.2	10.2
	210.9	202.2

Other pension costs are in respect of the defined contribution scheme; unpaid contributions at 31 December 2013 were £1.3 million (2012: £1.0 million)

8. Exceptional items

(£ million)

	2013	*Unaudited 2012*
Business reorganisation and hospital set up costs	3.0	2.6
PIP patient recalls	–	6.0
Corporate restructuring and financing costs	3.5	9.3
Regulatory costs	5.0	2.6
Total exceptional costs	11.5	20.5

Reorganisation and set up costs were mainly associated with the dual running IT costs following the implementation of SAP and an onerous tenancy contract for the London office. PIP related to costs associated with PIP implants, including the removal and replacement of the PIP brand of breast implants. Corporate restructuring, refinancing costs and regulatory costs related to advisors' fees associated with the sale of twelve properties subject to leases, refinancing activity and the Competition and Markets Authority (the successor to the Competition Commission) enquiry.

9. Profit on disposal of property, plant and equipment

For the year ended 31 December 2013, the profit on disposal included that arising on the sale of twelve property owning companies on 17 January 2013. Total consideration received was £704 million and the net cash proceeds of the transaction were used to repay bank borrowings and interest rate swaps.

Notes to the combined historical financial information

10. Interest income

(£ million)

	2013	*Unaudited* 2012
Interest income on bank deposits	0.4	0.4

11. Finance costs

(£ million)

	2013	*Unaudited* 2012
Interest on loans from former ultimate parent undertakings and management	90.7	81.2
Interest on bank facilities	56.6	102.8
Finance charges payable under finance leases	7.5	7.2
Change in fair value of interest rate derivatives	(0.1)	(0.1)
	154.7	191.1
Finance costs capitalised in the year	(0.8)	(0.8)
	153.9	190.3
Exceptional finance costs	42.2	129.1
Total finance costs	196.1	319.4

Finance costs capitalised during the year were calculated based on a weighted cost of borrowing of 8% (2012: 8%).

Exceptional finance (income)/costs

In the year ended 31 December 2013, following the extension of the Group's bank loan facilities, and reflecting the Group's revised strategy for future re–financing, it was determined that the remaining interest rate swap contracts no longer met the criteria for hedge accounting and therefore the non–cash fair value of swap losses of £68.8 million, previously accumulated in the hedging reserve, were recycled to the income statement.

Other items arising in the year ended 31 December 2013 include a credit related to the 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 £26.6 million.

The charge in 2012 related to £129.1 million of mark to market losses on interest rate swaps losses that were recycled from the hedging reserve to the income statement in the year. It was determined that these instruments which no longer met the criteria for the application of hedge accounting once £745 million of bank borrowings and interest rate swap liabilities were either repaid or waived on 17 January 2013.

Notes to the combined historical financial information

12. Auditor's remuneration

(£ million)

	2013	Unaudited 2012
Amounts receivable by auditor and their associates in respect of:		
Audit of the Group financial statements and subsidiaries	0.4	0.4
Other services*	0.1	0.2
	0.5	0.6

* Other services relates to financial and accounting advice.

13. Tax on loss

(i) Analysis of tax credit in the year:

(£ million)

	2013	Unaudited 2012
Current tax		
UK Corporation tax arising in subsidiaries on profit/loss for the year	–	0.9
Adjustments in respect of prior years	(7.4)	(0.1)
Total current tax	(7.4)	0.8
Deferred tax		
Released on disposal of property	(102.3)	–
Origination and reversal of other temporary differences	(13.4)	(31.5)
Change in tax rates	(15.5)	(0.5)
Adjustments in respect of prior years	(1.7)	2.6
Total deferred tax	(132.9)	(29.4)
Recycling of deferred tax relating to ineffective hedges	(13.8)	(29.7)
Tax on loss in the year including amounts recycled to income statement	(154.1)	(58.3)

Corporation tax is calculated at 23.25% (2012: 24.5%) of the estimated taxable profit or loss for the year.

Notes to the combined historical financial information

13. Tax on loss (continued)

(ii) Factors affecting the tax credit

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The differences are explained below:

(£ million)

	2013	*Unaudited 2012*
Weighted rate of corporation tax	23.25%	24.5%
Loss before taxation	(51.9)	(188.7)
Tax credit on loss at weighted rate of corporation tax	(12.1)	(46.2)
Effects of:		
Deferred tax released on disposal of property	(130.8)	–
Expenses not deductible for tax purposes	20.1	14.5
Capital allowances for the year in excess of depreciation	–	0.5
Deferred tax credit on property assets	(12.2)	(30.3)
Non-taxable profit on disposal of property, plant and equipment	(10.8)	–
Difference in tax rates	2.3	(0.5)
Adjustments to prior years	(9.1)	2.6
Other items	(1.5)	1.1
Total tax credit for the year	(154.1)	(58.3)

As at 31 December 2013, subsidiary undertakings of the Group have the following to offset against future trading profits:

- Unused capital allowances of £237.6 million (2012: £197.5 million)
- Unutilised losses totalling £117.2 million (2012: £63.5 million)

Subsidiary undertakings also have unpaid interest that will generate taxable deductions of £33.2 million when paid.

The amounts described above relating to unused capital allowances, carried forward losses and unpaid interest include amounts recognised as deferred tax assets.

14. Earnings per share

The calculation is based on the 250,000,000 shares that were issued to Cinven, the former ultimate parent undertaking of the Group, and current and former management on Admission on 23 July 2014 in exchange for the liabilities owed to the former ultimate shareholders and management.

	2013	*Unaudited* 2012
Profit/(loss) for the year attributable to owners of the parent (£ million)	102.2	(130.0)
Weighted average number of ordinary shares in issue on 23 July 2014	250,000,000	250,000,000
Basic/diluted earnings/(loss) per share (in pence per share)	**40.9**	**(52.0)**

Notes to the combined historical financial information

15. Intangible assets

(£ million)	*Goodwill*
Cost	
At 1 January 2012 (Unaudited)	516.2
Additions in the year	–
At 1 January 2013	516.2
Additions in the year	–
At 31 December 2013	516.2
Impairment	
At 1 January 2012 (Unaudited)	–
Charge for the year	0.4
At 1 January 2013	0.4
Charge for the year	0.9
At 31 December 2013	1.3
Net Book Value	
At 31 December 2013	514.9
At 31 December 2012 (Unaudited)	515.8

The goodwill arising on acquisitions is reviewed annually for impairment or when there is an event that may indicate impairment. In the year the goodwill related to Spire Fertility (Disposal) Limited (formerly London Fertility Centre Limited) was impaired by £0.9 million. The directors do not believe that any further impairment is required in the financial period.

Impairment testing

Goodwill arose principally from separate acquisitions of two hospital businesses:

- £422.5 million from the acquisition of hospitals from BUPA in 2007; and
- £82.6 million on the acquisition of the Classic Hospitals Group in 2008.

The balance of £11.1 million arose on subsequent acquisitions.

The recoverable amount of goodwill is calculated by reference to its estimated value in use.

In order to estimate the value in use, management has utilised their latest trading projections covering the period to December 2018.

Management identified a number of key assumptions relevant to the value in use calculations, being revenue growth, which is impacted by an interaction of a number of elements of the operating model, including pricing trends, volume growth and the mix and complexity of discharges, assumptions regarding cost inflation and discount rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends. Revenue growth is projected to be in line with historic trends and average 6.5% (2012: 5.5%). Cost assumptions are consistent with the Group's historic track record, after taking account of headline inflation at 3.3% (2012: 2.5%).

A long–term growth rate of 2.25% (2012: 2.25%) has been applied to cash flows beyond 2018, which is based on historic growth rates achieved by the sector, which have typically exceeded RPI. Pre–tax discount rates were based on the capital asset pricing model, utilising a sector specific Beta in arriving at the equity premium and cost of debt based on current bank lending rates. A specific pre–tax discount rate was calculated to reflect the profile of cash flows inherent to that specific cash–generating unit and this was 10.2% (2012: 10.25%-10.5%).

The recoverable amount from each acquisition is based on cash flow forecasts that reflect the assumptions stated above. As at the balance sheet date, it is not considered to be reasonably possible that circumstances will change so that the key assumptions made in assessing the recoverable amount relating to each of the acquisitions will be revised to the point where the goodwill is considered impaired.

Notes to the combined historical financial information

16. Property, plant and equipment

(£ million)	*Freehold property*	*Long leasehold property*	*Equipment*	*Assets in the course of construction*	*Total*
Cost					
At 1 January 2012 (Unaudited)	1,195.2	280.1	179.8	–	1,655.1
Additions	0.3	15.2	40.5	–	56.0
Reclassifications	3.2	(3.2)	–	–	–
Disposals	(20.2)	–	–	–	–
At 1 January 2013	1,178.5	292.1	220.3	–	1,690.9
Additions	0.1	11.1	37.1	6.2	54.5
Disposals	(610.8)	(116.7)	(23.0)	–	(750.5)
At 31 December 2013	567.8	186.5	234.4	6.2	994.9
Depreciation					
At 1 January 2012 (Unaudited)	101.6	22.5	53.2	–	177.3
Charge for the year	18.8	9.0	23.6	–	51.4
Reclassifications	0.2	(0.2)	–	–	–
Disposals	(0.8)	–	–	–	(0.8)
At 1 January 2013	119.8	31.3	76.8	–	227.9
Charge for the year	12.7	4.7	25.6	–	43.0
Disposals	(64.0)	(7.4)	(18.5)	–	(89.9)
At 31 December 2013	68.5	28.6	83.9	–	181.0
Net Book Value:					
At 31 December 2013	499.3	157.9	150.5	6.2	813.9
At 31 December 2012 (Unaudited)	1,058.7	260.8	143.5	–	1,463.0

On 17 January 2013 twelve hospital properties with a net book value of £661 million were disposed of as a result of the sale of twelve property owning companies.

As at 31 December 2013, included in the net book value of property, plant and equipment above is £32.5 million (2012: £34.6 million) relating to assets held under finance leases on which there was a depreciation charge of £1.2 million (2012: £1.1 million) in the year.

Notes to the combined historical financial information

17. Subsidiary undertakings

The Group comprises a large number of companies, most of which are incorporated in, and whose operations are conducted in, the United Kingdom. It is not practical to include all of them in a list in this report, therefore, the Group discloses below only those companies that have a more significant impact on the profit or assets of the Group.

Registered in the UK	*Principal activity*	*Class of share*
Spire Healthcare Group UK Limited	Holding company	Ordinary
Spire UK Holdco 2A Limited	Holding company	Ordinary
Spire UK Holdco 4 Limited	Holding company	Ordinary
Spire Healthcare Holdings 1 (formerly Spire UK Holdco 6)	Holding company	Ordinary
Spire Healthcare Holdings 2 Limited (formerly Spire UK Finance Limited)	Holding company	Ordinary
Spire Healthcare Holdings 3 Limited (formerly Spire Healthcare Group Limited)	Holding company	Ordinary
Spire Healthcare (Holdings) Limited	Holding company	Ordinary
SHC Holdings Limited	Holding company	Ordinary
Spire Healthcare Limited	Health provision	Ordinary
Spire Healthcare Properties Limited	Hospital leasing	Ordinary
Fox Healthcare Holdco 1 Limited	Holding company	Ordinary
Fox Healthcare Holdco 2 Limited	Holding company	Ordinary
Fox Healthcare Acquisitions Limited	Holding company	Ordinary
Classic Hospitals Group Limited	Holding company	Ordinary
Classic Hospitals Property Limited	Property company	Ordinary
Classic Hospitals Limited	Health provision	Ordinary
GX Holdco Limited	Holding company	Ordinary
Lifescan Limited	Health provision	Ordinary
Spire Fertility (Disposal) Limited (formerly London Fertility Centre Limited)	Health provision	Ordinary
Montefiore House Limited†	Health provision	Ordinary
Medicainsure Limited	Holding company	Ordinary
The Richard Villar Practice Limited	Health provision	Ordinary
Spire Thames Valley Hospital Limited	Health provision	Ordinary
Spire Thames Valley Hospital Propco Limited	Property company	Ordinary
Spire Links 2 Limited	Holding company	Ordinary
Spire Property 1 Limited	Property company	Ordinary
Spire Property 2 Limited	Property company	Ordinary
Spire Property 4 Limited	Property company	Ordinary
Spire Property 5 Limited	Property company	Ordinary
Spire Property 6 Limited	Property company	Ordinary
Spire Property 9 Limited	Property company	Ordinary
Spire Property 13 Limited	Property company	Ordinary
Spire Property 16 Limited	Property company	Ordinary
Spire Property 17 Limited	Property company	Ordinary
Spire Property 18 Limited	Property company	Ordinary
Spire Property 19 Limited	Property company	Ordinary
Spire Property 23 Limited	Property company	Ordinary

† Ownership interest is 50.1%

Notes to the combined historical financial information

18. Inventories

(£ million)

	2013	Unaudited 2012
Prostheses, drugs, medical and other consumables	26.2	25.5

Cost of sales for the year ended 31 December 2013 includes inventories recognised as an expense amounting to £134.1 million (2012: £126.0 million).

19. Trade and other receivables

(£ million)

	2013	Unaudited 2012
Amounts falling due within one year:		
Trade receivables	87.9	55.9
Other receivables	20.9	28.9
Prepayments	22.4	10.6
	131.2	95.4

Trade receivables comprise amounts due from Private Medical Insurers, the NHS, patients, and consultants and other third parties who use the Group's facilities. Invoices to customers fall due within 60 days of the date of issue. Some of the agreements with NHS customers operate on the basis of monthly payments on account with quarterly reconciliations which can lead to invoices being paid after their due date.

The ageing of trade receivables is shown below and shows amounts that are past due at the reporting date. A provision for doubtful receivables has been recognised at the reporting date through consideration of the ageing profile of the Group's receivables and the perceived credit quality of its customers. The carrying amount of trade receivables is considered to be an approximation to its fair value.

The ageing of trade receivables at the reporting date was:

(£ million)

	2013	Unaudited 2012
Not past due and not impaired	55.1	31.3
Past due 0–30 days, not impaired	17.2	11.2
Past due 31–90 days, not impaired	11.8	7.2
More than 3 months, not impaired	3.8	6.2
Total	87.9	55.9

Trade receivables comprise the following wider customer/payor groups:

(£ million)

	2013	Unaudited 2012
Private medical insurers	39.3	23.6
NHS	37.5	19.3
Patient debt	0.8	1.9
Other	10.3	11.1
Total	87.9	55.9

Notes to the combined historical financial information

19. Trade and other receivables (continued)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

(£ million)

	2013	Unaudited 2012
At 1 January	3.5	5.6
Provided in the year	3.4	2.0
Utilised during the year	(1.9)	(4.1)
At 31 December	5.0	3.5

20. Cash and cash equivalents

(£ million)

	2013	Unaudited 2012
Cash at bank	33.9	5.8
Short–term investments	77.6	128.0
	111.5	133.8

Short-term investments are money market deposits.

21. Borrowings

(£ million)

	2013	Unaudited 2012
Unsecured borrowings		
Amount due to former ultimate parent undertaking and management	846.5	756.5
Secured borrowings		
Bank loans	702.7	1,297.2
Obligations under finance leases	79.7	79.6
	782.4	1,376.8

The bank loans are secured on fixed and floating charges over both the present and future assets of material subsidiaries of the Group.

Total borrowings (measured at amortised cost)

(£ million)

	2013	Unaudited 2012
Amount due for settlement within 12 months	746.8	40.7
Amount due for settlement after 12 months	882.1	2,092.6
	1,628.9	2,133.3

Notes to the combined historical financial information

21. Borrowings (continued)

Obligations under finance leases

The Group has finance leases in respect of three hospital properties and medical equipment. Future minimum lease payments under finance leases are as follows:

(£ million)

	2013		*Unaudited 2012*	
	Minimum payments	*Present value of payments*	*Minimum payments*	*Present value of payments*
Within one year	7.7	4.9	7.6	4.3
After one year but not more than five years	31.9	17.1	31.3	17.0
More than five years	181.4	57.7	184.3	58.3
Total minimum lease payments	221.0	79.7	223.2	79.6
Less amounts representing finance charges	(141.3)	–	(143.6)	–
Present value of minimum lease payments	79.7	79.7	79.6	79.6

The property leases, with a present value liability of £74.9 million (2012: £74.7 million) expire in 2040 and carry an implicit interest rate of 9.1%.

Notes to the combined historical financial information

21. Borrowings (continued)

Terms and debt repayment schedule

The maturity date is the date on which the relevant bank loans are due to be fully repaid, as applied at the balance sheet date.

The carrying amounts drawn (after issue costs and including interest accrued) under facilities in place at the balance sheet date were as follows:

(£ million)	*Maturity*	*Margin over LIBOR*	*2013*	*Unaudited 2012*
Term loan – operating companies (a)	June 2015	1.75%–3.0%	104.5	105.6
Term loan – operating companies (a)	June 2015	3.0%	80.1	–
Capex loan –operating companies (a)	June 2015	1.75%	50.0	50.0
Term loan – property companies (a)	June 2015	1.25%–2.35%	421.4	973.9
PIK loan – property companies (a)	June 2015	7.05%	46.7	98.7
Term loan	Redeemed	1.75%–3.5%	–	38.3
Mezzanine loan	Redeemed	9.75%	–	25.0
Capex loan	Redeemed	1.75%	–	5.7
			702.7	1,297.2
Revolving credit facility (undrawn committed facility)			28.5	27.5

(a) On 17 January 2013, following a partial refinancing of the Spire Group under the sale, subject to leases, of 12 hospital property owning companies, term loans with a total value of £606.4 million were either repaid or waived.

On 18 December 2013 one of the Spire operating groups was refinanced, following which all of the liabilities outstanding under its bank facilities were repaid.

On 25 March 2014 the Group entered into an agreement with its current bank lenders to extend the repayment date of all facilities to 30 June 2015, following which all the outstanding bank loan balances were reclassified from current liabilities to non-current liabilities in the balance sheet.

The carrying amounts drawn (after issue costs and including interest accrued) under facilities in place at the previous balance sheet date were as follows:

(£ million)	*Maturity*	*2013*	*Unaudited 2012*
Former ultimate parent undertaking	August 2037	707.6	631.8
Former ultimate parent undertaking	March 2038	138.9	124.7
		846.5	756.5

These loans were unsecured and interest bearing at 12% per annum.

Since the balance sheet date, 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 32.

Notes to the combined historical financial information

22. Provisions

(£ million)	*2013*	*Unaudited 2012*
At beginning of year	3.6	1.3
Charge for the year	–	5.9
Utilised during the year	(0.4)	(3.6)
At end of year	3.2	3.6

Provisions relate to onerous tenancy contracts, end of life dilapidations under leases and commitments to patients in respect of the removal or replacement of the PIP brand of breast implants.

Provisions as at 31 December 2013 are expected to be utilised within 3 years.

23. Deferred taxation

Deferred tax liabilities/(assets) are analysed as follows:

(£ million)	*2013*	*Unaudited 2012*
Temporary differences on:		
Property, plant and equipment	99.9	250.8
Derivative financial instruments	(14.9)	(54.6)
Losses and other items	(24.7)	(14.1)
	60.3	182.1
Presented as:		
Deferred tax asset	(17.1)	(16.1)
Deferred tax liability	77.4	198.2
	60.3	182.1

Other deferred tax items relate to temporary timing differences on non-specific provisions and expense accruals.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Rates applying in the year ended 31 December 2013 were 21% on amounts arising from 1 April 2014, reducing to 20% on amounts realised from 1 April 2015.

The movement for the year in the net deferred tax liability is as follows:

(£ million)	*Property, plant and equipment*	*Derivative financial Instruments*	*Losses and other*	*Total*
At 1 January 2013	250.8	(54.6)	(14.1)	182.1
Recognised in profit or loss	(150.9)	14.8	(10.6)	(146.7)
Recognised in other comprehensive income	–	24.9	–	24.9
At 31 December 2013	99.9	(14.9)	(24.7)	60.3

Notes to the combined historical financial information

23. Deferred taxation (continued)

Unaudited (£ million)	Property, plant and equipment	Derivative financial Instruments	Losses and other	Total
At 1 January 2012	282.5	(65.9)	(16.4)	200.2
Recognised in profit or loss	(31.7)	(29.7)	2.3	(59.1)
Recognised in other comprehensive income	–	41.0	–	41.0
At 31 December 2012	250.8	(54.6)	(14.1)	182.1

24. Derivative financial instruments

(£ million)

	2013	*Unaudited 2012*
Amounts arising within 12 months	22.1	54.5
Amounts arising after 12 months	52.4	196.1
	74.5	250.6

25. Trade and other payables

(£ million)

	2013	*Unaudited 2012*
Trade payables	38.0	36.3
Other payables	9.6	19.7
Corporation tax	–	–
Other taxation and social security	5.2	4.3
Accruals	34.2	45.4
	87.0	105.7

26. Employee Benefit Trust

A number of share–based payment arrangements were in place to incentivise key management and personnel.

One of these arrangements related to awards to be made to certain employees in the event of a future sale of the business, which were linked to the value of the business at the point of sale. The intention was that payments would be made to those employees, provided that they continued in service with the Group up to the date of sale. An amount of £0.1 million was recognised in the financial statements as at 31 December 2013, which represented the best estimate of the expected liability at that date.

The IFRS 2, Share–based payment disclosures have not been presented, as the amounts involved were not material.

Notes to the combined historical financial information

27. Commitments

(a) Operating leases

The Group had future minimum lease payments under non–cancellable operating leases as set out below:

(£ million)

	2013		*Unaudited 2012*	
	Land and buildings	*Other*	*Land and buildings*	*Other*
Not later than one year	56.3	–	3.9	0.7
Later than one year and not later than five years	229.7	0.7	18.1	1.4
Later than five years	1,340.9	2.2	78.5	–
	1,626.9	2.9	100.5	2.1

On 17 January 2013, the Group sold twelve of its property owning companies to a consortium of investors, comprising Malaysia's Employees Provident Fund (EPF), affiliated funds of Och–Ziff Capital Management Group and Moor Park Capital, the Group. This sale involved varying the terms of lease agreements which until that date had been in place between these property owning companies and other operating companies in the Group. With effect from 17 January 2013, the total third party annual commitments under these operating leases increased by £51.3 million per annum.

As a result of the sale, the Group has long-term institutional lease arrangements (up to December 2042, subject to renewal or extension), with the landlord for each of the 12 properties. The leases include key terms such as annual rental covenants and minimum levels of capital expenditure invested by the Group. Rent is indexed annually in line with RPI, subject to a floor of 0.0% and a cap of 5.0%. The capital expenditure covenants measured on an average basis over each five-year period during the term of the leases, require the Group to incur, in total, £5.0 million of maintenance capital expenditure and £3.0 million of additional capital expenditure on the portfolio of 12 hospitals each year, such being subject to indexation in line with RPI.

(b) Consignment stock

At 31 December 2013 the Group held consignment stock on sale or return of £17.6 million (31 December 2012: £15.9 million).

(c) Capital expenditure commitments

Capital commitments comprise amounts payable under capital contracts which are duly authorised and in progress at the balance sheet date. They include the full cost of goods and services to be provided under the contracts through to completion. The Group has rights within its contracts to terminate at short notice and therefore cancellation payments are minimal.

Capital commitments at the end of the year were as follows:

(£ million)

	2013	*Unaudited 2012*
Contracted but not provided for	25.0	1.6

Notes to the combined historical financial information

28. Contingent liabilities

The Group had provided the following guarantees at 31 December 2013:

- Under existing bank facilities bankers to Spire Healthcare Limited, a subsidiary undertaking of the Group, has entered into an Authorised Guarantee Agreement (AGA) with regard to the premises of the former customer contact centre at Victoria Harbour City, Manchester. Under the AGA, Spire Healthcare Limited will act as a guarantor to the new tenants until the end of the lease term, January 2016. The maximum contingent liability at the balance sheet date was £1.3 million (2012: £1.8 million).
- The bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2012: £1.3 million) in relation to contractual pension obligations and statutory insurance cover in respect of the Group's potential liability to claims made by employees under The Employers' Liability (Compulsory Insurance) Act 1969.
- Under certain lease agreements entered into on 26 January 2010, the Group has given undertakings relating to obligations in the lease documentation and the assets of the Group are subject to a fixed and floating charge.

29. Capital management

Capital is represented by capital employed and borrowings, as follows:

(£ million)

	2013	*Unaudited 2012*
Total equity	(256.2)	(358.5)
Loans from the former ultimate parent undertaking	846.5	756.5
Bank loans	702.7	1,297.2
Obligations under finance leases	79.7	79.6
	1,372.7	1,774.8

The policy when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits to other stakeholders but also to sustain the future development of the business.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the needs of the Group.

30. Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements.

The Directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

Notes to the combined historical financial information

30. Financial risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

- Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The Group's exposure to credit risk from trade receivables is considered to be low because of the nature of its customers and policies in place to prevent credit risk occurring.

Most revenues arise from insured patients' business and the NHS. Insured revenues give rise to trade receivables which are mainly due from large insurance institutions, which have high credit worthiness. The remainder of revenues arise from individual self–pay patients and consultants.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. This allowance is composed of specific losses that relate to individual exposures and also a collective loss component established in respect of losses that have been incurred but not yet identified, determined based on historical data of payment statistics.

Note 19 shows the ageing and customer profiles of trade receivables outstanding at the year end.

- Investments

The Group limits its exposure to credit risk by only investing in short–term money market deposits with large financial institutions, which must be rated at least Investment Grade by key rating agencies.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity is managed across the Group and consideration is taken of the segregation of accounts for regulatory purposes. Short–term operational working capital requirements are met by cash in hand and overdraft facilities.

Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of at least 90 days, including the servicing of financial obligations. In addition to cash on demand, the Group has available the following lines of credit:

- £30 million of revolving credit facilities, of which £28.5 million was undrawn as at 31 December 2013.

The following are the contractual maturities as at the balance sheet date of financial liabilities, including interest payments and excluding the impact of netting arrangements:

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 former 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 combined historical financial information

30. Financial risk management (continued)

Liquidity risk (continued)

At 31 December 2012 Unaudited (£ million)	*Carrying amount*	*Contractual cash flows*	*1 year or less*	*1–2 years*	*More than 2 years*
Non–derivative financial liabilities					
Amount due to former ultimate parent undertakings	756.5	926.9	–	–	926.9
Secured bank facility	1,297.2	1,394.7	46.5	1,270.9	77.3
Obligations under finance leases	79.6	223.2	7.6	7.8	207.8
Trade and other payables	56.0	56.0	56.0	–	–
Derivative financial liabilities					
Interest rate swaps	250.6	252.7	55.0	53.9	143.8
	2,439.9	2,853.5	165.1	1,332.6	1,355.8

The amounts due to the former ultimate parent undertakings are repayable on the occurrence of predetermined conditions of the loans, which are assumed to occur no later than the maturity date of the relevant bank facility.

Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Bases of valuation

The valuation of interest rate swaps is based on their market value at the balance sheet date. The value of the swaps fluctuates on a daily basis and the actual amounts realised may differ materially from their value at the reporting date. The Group uses the Sterling zero coupon curve to discount financial instruments where the fair value cannot otherwise be found from quoted market values. In addition, from 2013, as required under IFRS 13, credit risk of counterparties is included.

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The carrying value of the other financial instruments, being finance leases and debt, is approximately equal to their fair value, except for floating rate debt which is after the deduction of £1 million (2012: £14 million) of issue costs, based on a review of current terms against market and expected short term settlements.

Notes to the combined historical financial information

30. Financial risk management (continued)

Liquidity risk (continued)

As at 31 December 2013, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value

(£ million)	***Value as at 31 December 2013***	*Level 1*	*Level 2*	*Level 3*
Financial liabilities at fair value through profit or loss				
Interest rate swaps	74.5	–	74.5	–
Financial liabilities at fair value using hedge accounting				
Interest rate swaps	–	–	–	–
	74.5	–	74.5	–

During the year ended 31 December 2013, there were no transfers between the levels in the fair value hierarchy.

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

Liabilities measured at fair value

Unaudited (£ million)	***Value as at 31 December 2012***	*Level 1*	*Level 2*	*Level 3*
Financial liabilities at fair value through profit or loss				
Interest rate swaps	136.3	–	136.3	–
Financial liabilities at fair value using hedge accounting				
Interest rate swaps	114.3	–	114.3	–
	250.6	–	250.6	–

During the year ended 31 December 2012, there were no transfers between the levels in the fair value hierarchy.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Interest rate risk

The Group is exposed to interest rate risk arising from fluctuations in market rates. This affects future cash flows from money market investments and the cost of floating rate borrowings.

From time to time the Group considers the cost benefit of entering into derivative financial instruments to hedge its exposure to interest rate volatility based on existing variable rates, current and predicted interest yield curves and the cost of associated medium term derivative financial instruments.

Interest rates on variable rate loans are determined by LIBOR fixings on a quarterly basis. Interest is settled on all loans in line with agreements and is settled at least annually.

Notes to the combined historical financial information

30. Financial risk management (continued)

(£ million)	*Variable*	*Fixed*	*Total*	*Undrawn facility*
31 December 2013	260.8	442.2	703.0	28.5
Effective interest rate	3.06%	7.97%	6.15%	
31 December 2012 (Unaudited)	229.2	1,076.9	1,306.1	27.5
Effective interest rate	3.17%	7.67%	6.88%	

The following derivative contracts were in place at 31 December 2013:

(£ million)	*Interest rate*	*Maturity date*	*Notional amount*	*Carrying value*
Interest rate swaps	5.9735%	August 2017	442.2	74.5
				74.5

The following derivative contracts were in place at 31 December 2012:

Unaudited (£ million)	*Interest rate*	*Maturity date*	*Notional amount*	*Carrying value*
Interest rate cap	2.00%	October 2013	105.0	–
Interest rate cap	2.50%	April 2013	40.0	–
Interest rate swaps	5.9735%	August 2017	1,015.5	250.6
				250.6

Sensitivity analysis

A change of 25 basis points in interest rates at the reporting date would have increased/(decreased) equity and reported results by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss		*Equity*	
(£ million)	*25 bp increase*	*25 bp decrease*	*25 bp increase*	*25 bp decrease*
At 31 December 2013				
Variable rate instruments	(0.4)	0.4	(0.4)	0.4
Interest rate swaps	0.2	(0.2)	4.3	(4.3)
Sensitivity (net)	(0.2)	0.2	3.9	(3.9)

	Profit or loss		*Equity*	
Unaudited (£ million)	*25 bp increase*	*25 bp decrease*	*25 bp increase*	*25 bp decrease*
At 31 December 2012				
Variable rate instruments	(0.8)	0.8	(0.8)	0.8
Interest rate swaps	0.6	(0.6)	13.6	(13.6)
Interest rate caps	0.1	(0.1)	0.1	(0.1)
Sensitivity (net)	(0.1)	0.1	12.9	(12.9)

Notes to the combined historical financial information

31. Related party transactions

Trading transactions

Group companies entered into the following transactions:

(£ million)

Counterparty	Nature of transaction	2013	Unaudited 2012
Rozier Finco Limited	Interest payable	75.8	67.9
Rozier Finco 2 Limited	Interest payable	14.9	13.3
Management team of Spire Group	Interest payable	0.5	0.4
Montefiore House Limited*	Management services	0.3	0.2
Montefiore House Limited*	Property rental	1.7	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.

Amounts owed by related parties

(£ million)

	2013	Unaudited 2012
Rozier No. 1A Limited Partnership	12.6	21.9
Montefiore House Limited	18.6	9.1

Loans due to related parties

(£ million)

	2013	Unaudited 2012
Spire Healthcare Limited Partnership	2.6	2.6
Rozier Finco Limited	707.6	631.8
Rozier Finco 2 Limited	138.9	124.7
Management team	4.4	3.9

For year ended 31 December 2013, amounts payable to Rozier Finco Limited, Rozier Finco 2 Limited and Management carried interest of 12% per annum (2012: 12%).

Notes to the combined historical financial information

31. Related party transactions (continued)

Other transactions with Cinven

Monitoring fees totalling £0.6 million (2012: £0.6 million) were paid to Cinven Limited in respect of the monitoring of the performance of the Group on behalf of the Cinven Funds. As at 31 December 2013 £0.1 million (2012: £0.1 million) was unpaid.

Transactions with key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include the Board and Executive Management team.

Compensation for key management personnel is set out in the table below:

(£ million)

	Notes	*2013*	*Unaudited 2012*
Short-term employee benefits		1.5	1.8
Post-employment pension		0.2	0.2
Total		1.7	2.0

Notes to the combined historical financial information

32. Events after the reporting period

Sale of long leasehold interest in the Spire Washington Hospital

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 £32.3 million. The property and associated plant and equipment had a net book value at the disposal date of £12.3 million.

St Anthony's Hospital acquisition

On 22 May 2014, a subsidiary undertaking of the Group completed the purchase of the St Anthony's Hospital, a 92–bed private hospital located in Sutton, Surrey. The anticipated total cost of investment, including planned theatre expansion, is £60 million.

Group reorganisation and Initial Public Offering ('IPO')

Under a group re-organisation, Spire Healthcare Group plc acquired Spire Healthcare Group. 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 and management were capitalised by the issue of 250,000,000 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 £306.9 million, net of costs. The proceeds, combined with the restructuring of existing shareholder interests in the Group, served to reduce overall Group indebtedness.

Since the balance sheet date, the Group signed a commitment, upon the completion of the Offer and Admission, for a new bank loan facility comprising a 5 year £425 million term loan and a 5 year £100 million revolving loan with a syndicate of banks. The loans are non–amortising and carry interest at an initial margin of 2.25% over LIBOR. The proceeds of the facility were used in part repayment of existing debt immediately following Admission.

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.