Spire Healthcare reports its results for the year ended 31 December 2017

London, UK, 2 March 2018, Spire Healthcare Group plc (LSE: SPI), one of the UK's leading independent hospital groups, today announces its preliminary results for the year ended 31 December 2017.

Summary Group results for the year ended 31 December 2017

(£ million)	Year ended 31 December 2017	2016	Variance %	Underlying variance % [1]
Revenue	**931.7**	**926.4**	**0.6%**	**1.0%**
Operating profit before exceptional and other items	92.1	108.2	(14.9%)	(9.2%)
Exceptional and other items	(49.2)	(15.2)	223.7%	
Operating profit	42.9	93.0	(53.9%)	
Profit after tax	16.8	53.6	(68.7%)	
EBITDA [2]	**150.0**	**162.0**	**(7.4%)**	**(4.7%)**
Basic earnings per share, pence	**4.2**	**13.4**	**(68.7%)**	
Adjusted profit after tax [3]	57.9	76.6	(24.4%)	
Adjusted, basic earnings per share, pence [4]	**14.4**	**19.2**	**(25.0%)**	
Total dividend paid/proposed per share, pence [5]	3.8	3.8	–	
Net cash from operating activities	124.0	177.4	(30.1%)	
Capital investments	119.2	149.5	(20.3%)	
Net debt at the year end [6]	**462.8**	**432.3**	**7.1%**	

1. Excludes the impact of Spire Manchester, Spire Nottingham, Spire St Anthony's hospitals and Lifescan (referred to as 'underlying')
2. Operating profit, adjusted to add back depreciation, loss on disposal of PPE and exceptional and other tems, referred to hereafter as 'EBITDA'
3. Adjusted profit is calculated as earnings after tax adjusted for exceptionals and other items and related tax.
4. Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue.
5. A final dividend of 2.5 pence per ordinary share will be proposed at the Company's annual general meeting on24 May 2018. If approved, it will be paid on 26 June 2018 to shareholders on the register of members as at 1 June 2018.
6. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.

Group financial highlights

- Revenue increased by 0.6% to £931.7m (2016: £926.4m)
- Underlying revenue, excluding Spire Manchester, Spire Nottingham, Spire St Anthony's hospitals and Lifescan, increased by 1.0% in the year
- Underlying Self-pay revenue increased by 12.0% in the year and is now 19.4% of revenues (2016: 17.7% of revenues)
- NHS H2 revenues affected by policy change.
- EBITDA [2] down 7.4% to £150.0m (2016: £162.0m)
- Adjusted profit after tax [3] down 24.4% to £57.9m (2016: £76.6m)
- Strong cash flow performance with EBITDA conversion to cash flow of 106.8%, the third consecutive year greater than 100%
- Net debt increased to £462.8m, with leverage at 3.09 times EBITDA (2016: £432.3m and 2.67 times EBITDA) following significant capital investment of £119.2m (2016: £149.5m) and the settlement of Ian Paterson claims
- Final dividend proposed of 2.5p per share payable on 26 June 2018 (2016: 2.5p). Total dividend paid or proposed for 2017 of 3.8p per share (2016: 3.8p)

Operating highlights

- Two new hospitals were opened in the year in Manchester (January 2017) and Nottingham (April 2017)
- Continued investment in customer proposition and ways of working (including digital marketing) drove more out-of-pocket customers to Spire Healthcare. Self-pay revenues grew 12.0% on an underlying basis in the year
- During 2017, every Spire hospital that underwent a rated inspection by the CQC achieved a rating of at least 'Good', with three rated as 'Outstanding'

Spire Healthcare reports its results for the year ended 31 December 2017 *continued*

Justin Ash, Chief Executive Officer of Spire Healthcare, said:

““Having spent my first few months as CEO reviewing Spire’s business model and operations, I am encouraged by the excellent opportunity that I see for the company going forward.

“In 2017, despite challenging trading conditions in the NHS segment and a relatively flat insurance market, Spire managed to grow underlying sales. This was due to promising growth in Self-pay revenue, patient admissions, and increases in average revenue per case across all our payor groups. In addition, eReferrals accounted for 86% of our NHS revenues, which offset some of the impact from local contract reductions.

“Sales growth was also achieved at a strong underlying EBITDA margin of 17.3%, with the small decline year-on-year largely attributable to increased investment in clinical assurance functions, training and development.

“Despite these positives, the business did lose some focus due to issues at our new build facilities in particular, which distracted from core operations and strategic development. A period of support continues at Spire St Anthony’s, which is expected to return to profit in 2018, and at the newly-opened Spire Manchester. We expect a significantly improved performance at both locations in 2018. Meanwhile, Spire Nottingham is an outstanding facility in a good local market, but it will take longer to gain momentum.

“Spire values the NHS and healthcare provision it offers the nation, and we are proud to be a lead independent provider in the care of NHS patients. However, we also recognise the fiscal and other constraints under which it is operating. We have a major role to play here.

“Looking to the future, it is clear to all UK healthcare stakeholders that demand for healthcare provision by the independent sector will continue to rise rapidly as the NHS remains severely financially constrained and waiting lists and rationing, especially for elective work, continue to grow. These pressures will mean that our NHS business will remain subdued in 2018 but the opportunity in private provision will grow correspondingly.

“To take advantage of this opportunity for Spire – as the sector leader by sales and EBITDA – we will build on our existing core strengths, which are already established and clear. We have a well-invested estate, strong cash flows, a robust balance sheet, good clinical governance and excellent customer feedback on our care. This new focus will enable us to execute our vision:

To become the go-to UK independent healthcare brand, famous for clinical quality and customer care.

“Achieving this vision will mean some incremental investments to improve our delivery in several key areas, including clinical quality and customer care, the private proposition, and operational excellence, which will result in 2018 operational expenditure slightly above market expectations.

“I am confident that our renewed focus on Spire’s strong core business and operational delivery will validate the strategic proposition that has underpinned Spire since its IPO in July 2014.

For further information please contact:

Spire Healthcare
Antony Mannion, Investor Relations Director
+44 (0)20 7427 9160

Maitland
Neil Bennett
+44 (0)20 7379 5151

Registered Office and Head Office:

Spire Healthcare Group plc
3 Dorset Rise
London
EC4Y 8EN

Registered number 09084066

About Spire Healthcare

Spire Healthcare is a leading independent hospital group in the United Kingdom, with 39 private hospitals, 11 clinics and one Specialist Cancer Care Centre across England, Wales and Scotland.

Spire Healthcare delivered tailored, personalised care to approximately 269,300 in-patients and daycase patients in 2017, 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 located 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 NHS budget constraints and increasing demand from a growing population with longer life expectancy.

Cautionary statement

This preliminary announcement contains certain forward-looking statements relating to the business of Spire Healthcare Group plc (the “Company”) and its subsidiaries (collectively, the “Group”), including with respect to the progress, timing and completion of the Group’s development, the Group’s ability to treat, attract, and retain patients and customers, its ability to engage consultants and GPs and to operate its business and increase referrals, the integration of prior acquisitions, the Group’s estimates for future performance and its estimates regarding anticipated operating results, future revenue, capital requirements, shareholder structure and financing. In addition, even if the Group's actual results or development are consistent with the forward-looking statements contained in this preliminary announcement, those results or developments may not be indicative of the Group's results or developments in the future. In some cases, you can identify forward-looking statements by words such as "could," "should," "may," "expects," "aims," "targets," "anticipates," "believes," "intends," "estimates," or similar words. These forward-looking statements are based largely on the Group's current expectations as of the date of this preliminary announcement and are subject to a number of known and unknown risks and uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievement expressed or implied by these forward-looking statements. In particular, the Group's expectations could be affected by, among other things, uncertainties involved in the integration of acquisitions or new developments, changes in legislation or the regulatory regime governing healthcare in the UK, poor performance by consultants who practice at our facilities, unexpected regulatory actions or suspensions, competition in general, the impact of global economic changes, and the Group's ability to obtain or maintain accreditation or approval for its facilities or service lines. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements made in this preliminary announcement will in fact be realised and no representation or warranty is given as to the completeness or accuracy of the forward-looking statements contained in this preliminary announcement.

The Group is providing the information in this preliminary announcement as of this date, and we disclaim any intention or obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Analyst and investor meeting

There will be an analyst and investor meeting today at 9.30am at J.P Morgan Cazenove, 60 Victoria Embankment, London EC4Y 0JP.

A live audiocast of the presentation will be available at 9.30am from the Spire website at:
http://webcast.openbriefing.com/spire_fyr_2018/admin/

Capital markets day

The capital markets day will be held at 9.30 am on 24 April 2018 at J.P Morgan Cazenove, 60 Victoria Embankment, London EC4Y 0JP.

Operating Review

Performance

Revenue increased by 0.6% to £931.7 million (2016: £926.4 million) in the year. On an underlying basis, revenue increased by 1.0% to £881.1 million (2016: £872.1 million).

On an underlying basis:

- Self-pay revenues grew by 12.0% in the year; and
- PMI revenues declined by 1.5% in the year and NHS revenues by 0.5% in the year

On an underlying basis:

- In-patient and daycase admissions declined in the year accounting for a 1.1% reduction in reported revenues;
- Rate (average revenue per case) increased in the year, equivalent to an increase in the reported revenues of 2.2%; and
- Outpatient revenues were marginally lower, on lower patient admissions, accounting for a 0.1% reduction in reported revenues.

Trading margins were impacted by a year-on-year reduction in NHS tariffs (3.9% annualised) and investment in central overheads to support staff training and development, clinical and non-clinical assurance functions and sales and marketing to support Self-pay growth.

Cash flow performance was very strong with 2017 being the third consecutive year that the Group has reported positive working capital investment. This performance led to a modest increase in year end net debt (to £462.8 million from £432.3 million) notwithstanding capital expenditure in the year of £119.2 million (2016: £149.5 million) and the settlement of the Ian Paterson claims (£26.1 million).

During the year, we continued to invest significantly, particularly in the completion of the new Spire Manchester and Spire Nottingham hospitals, and medical centre development at Spire Bushey Hospital. Despite this, strong working capital management led to stable year end net debt at 3.09 times EBITDA (2016: 2.67 times).

Market trends

Spire Healthcare operates solely in the UK, a healthcare market dominated by the NHS and government spending, but subject to strong macro growth drivers. The population is growing and ageing. Acute and chronic long-term conditions such as cancer, obesity and diabetes are also rising, as are the numbers of older patients with multiple co-morbidities and who require higher levels of treatment acuity.

Increasing demand and continuing advances in healthcare mean that the NHS needs additional funding year on year of around 4% above inflation. Slower economic growth – caused in part by the Brexit decision - is constraining government spending which in turn is likely to impact the NHS's ability to continue to provide universal healthcare free at the point of use and within statutory waiting periods. The NHS's Five Year Forward View (published in October 2014) assumed efficiency savings of £22bn by 2020/21 – higher than has ever been achieved by the NHS or indeed any other major health economy. It is unlikely to be achieved, as demonstrated by the Carter Report of January 2016, and this has also been accepted by the UK government.

At the same time, health spending as a percentage of GDP is already much lower than in many other European countries and NHS spending per person in England appears likely to go down in real terms based on current projections. The result is that resources are worked hard and capacity is always tight, with bed occupancy rates often over 90 per cent due to increasing demand and "bed-blocking" caused by delayed transfers of care.

The private sector not only provides capacity for the NHS funded patients, but outstanding private healthcare for PMI and Self-pay customers. Because of its scale, reach and quality of care, Spire Healthcare is ideally positioned to be a leading player in the independent hospital sector.

Business development

We have developed our strategic framework to support a renewed focus on growing our business. We have put in place five clear strategic priorities to help us achieve the growth we believe we can deliver. We intend to become the go to UK independent healthcare brand, famous for clinical quality and customer care. This aims to drive improving returns on capital.

Clinical quality and care

- Increasing clinical resources to assess and support quality improvement
- Enhancing clinical reviews of all sites, so patients can be assured of Spire standards
- Contributing to and using all available national quality information
- Achieving external accreditations from specialist organisations in addition to the CQC
- Awarding incentives only on the achievement of quality standards

Leading customer excellence

- Improving the efficiency of the reservation, admission and discharge processes
- Starting to bring these activities on-line for ease of patient use
- Doing more to prepare patients for their stay and their return home
- Further enhancing standards in accommodation and catering
- Focusing on 'top box' scores in the Friends & Family test as a measure of success

Strong consultant engagement

- Introducing a programme of engagement to understand their needs and meet them

- Using technology to make patient and theatre booking easier and more flexible
- Providing proven, modern equipment to support our consultants' practice
- Ensuring network-wide CMA compliance
- Rigorously assessing and governing practicing privileges so all consultants are proud to work at Spire

Engaged and skilled teams

- Setting clear capabilities for each role, and supporting teams to achieve them
- Improving employee communications and engagement to build a more confident, purposeful culture focused on results
- Introducing a new reward and performance framework, with quality as a condition, to encourage excellence and delivery
- Strengthening recruitment with a new centrally co-ordinated team

Growth driven private pay

- Improving the performance of new sites
- Aligning our sales and marketing functions to leverage scale and best practice
- Developing advanced services to meet emerging needs
- Investing in marketing and brand with an emphasis on digital
- Investing capital to grow our existing sites and raise return on capital across the business

Operating review *continued*

Corporate Governance Review

It was with great sadness that we announced the death of Andrew White in July 2017 following a period of illness. Andrew joined Spire Healthcare towards the end of 2015 and was appointed an Executive Director the following June. He made a significant contribution during his time with us, and his enthusiastic and positive approach are deeply missed. Garry Watts also stepped back from the position of Executive Chairman in June last year due to an illness and resumed his previous role of Non-Executive Chairman. At this time Simon Gordon agreed to act as Chief Executive Officer on an interim basis until a full time appointment was made.

We were delighted to appoint Justin Ash as the Company's new Chief Executive Officer from 30 October 2017. The Board believes Justin's skillset is particularly suited to developing Spire Healthcare as the premier UK private hospital group and to creating and delivering a strategy focused on our private patients.

The Company appointed Peter Bamford as Deputy Chairman and Senior Independent Director in May 2017 and he brings considerable plc board and leadership experience and the appointment maintains a strong independent presence on our Board. Peter replaced John Gildersleeve, who stepped down from the role and did not seek re-election at the 2017 annual general meeting. Peter also chairs the Company's Nomination Committee.

Regulation and Governance

During the year under review the CQC completed their first round of comprehensive inspections across all of our hospitals and results have been published for all sites. We are pleased to report that our overall performance is in line with the rest of the private sector and continues to far exceed the NHS average. Within domains, 100% of our hospitals were rated Good or Outstanding for Caring and our performance in the Safe, Effective, Responsive and Well led domains was better than the rest of the sector average for each. Three of our hospitals are rated Outstanding overall, with a number of others having outstanding ratings for individual domains or services. Both of our hospitals in Scotland were inspected in 2017 and achieved a rating of 5 (very good) for all quality themes which is an excellent result. There are of course some areas for improvement which we continue to address as a matter of urgency and we look forward to the CQC returning to some of our hospitals in 2018/19 to demonstrate the improvements made.

Outlook

Overall, Spire's Full year 2018 EBITDA outcome is expected to be in line with FY 2017

- Payor group expectations for 2018:
  - Self-Pay: Continued strong growth
  - PMI: Broadly flat
  - NHS: eReferral flat (including tariff effect), Local Contract work further declines from H2 2017 through H1 2018 - both subject to any policy changes caused by further demand management.
- New hospitals: Improved performance expected, especially in H2 2018
- There will be strategic P&L investment of £6m to drive long term revenue growth, evenly spread through 2018
- Overall, we expect a slight decline in Group EBITDA margin on the underlying business
- Note the expected weighting between H1 and H2:
  - H1 2018 likely to decline year-on-year due to 3 month tariff effect and NHS volumes
  - H2 2018 to compensate helped by tariff and new hospitals' performance

Financial review

Selected financial information

(£ million)	2017 Total before exceptional and other items	2017 Exceptional and other items (5)	2017 Total	2016 Total before exceptional and other items	2016 Exceptional and other items (5)	2016 Total	Variance (on total after exceptional and other items) %	Underlying variance % (1)
	Year ended 31 December							
Revenue	931.7	–	931.7	**926.4**	**–**	**926.4**	**0.6%**	**1.0%**
Cost of sales	(492.2)	–	(492.2)	(485.9)	–	(485.9)	1.3%	1.7%
Gross profit	439.5	–	439.5	**440.5**	**–**	**440.5**	**(0.2%)**	**0.4%**
Other operating costs	(347.4)	(49.2)	(396.6)	(332.3)	(15.2)	(347.5)	14.1%	13.7%
Operating profit	92.1	(49.2)	42.9	**108.2**	**(15.2)**	**93.0**	**(53.9%)**	**(47.5%)**
Net finance costs	(20.2)	–	(20.2)	(19.8)	–	(19.8)	2.0%	
Profit before taxation	71.9	(49.2)	22.7	**88.4**	**(15.2)**	**73.2**	**(69.0%)**	
Taxation	(14.0)	8.1	(5.9)	(11.8)	(7.8)	(19.6)	69.9%	
Profit for the year	57.9	(41.1)	16.8	**76.6**	**(23.0)**	**53.6**	**(68.7%)**	
EBITDA (2)			150.0			**162.0**	**(7.4%)**	**(4.7%)**
Basic earnings per share, pence	14.4	(10.2)	4.2	**19.2**	**(5.8)**	**13.4**	**(68.7%)**	
Total dividend paid/proposed per share, pence (3)			3.8			3.8	–	
Net cash from operating activities	158.4	(34.4)	124.0	183.9	(6.5)	177.4	(30.1%)	
Capital investments			119.2			149.5	(20.3%)	
Net debt at the year end (4)			462.8			**432.3**	**7.1%**	

1. Excludes the impact of Spire Manchester, Spire Nottingham, Spire St Anthony's hospitals and Lifescan (referred to as 'underlying')
2. Operating profit, adjusted to add back depreciation, profit and loss arising from the disposal of fixed assets, exceptional and other items, referred to hereafter as 'EBITDA'.
3. A final dividend of 2.5 pence per ordinary share will be proposed at the Company's annual general meeting on 24 May 2018. If approved, it will be paid on 26 June 2018 to shareholders on the register of members as 1 June 2018.
4. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.
5. Exceptional and other items includes the before and after taxation impact of exceptional operating expenditure in each year and the Group's review of its deferred tax approach on freehold properties giving rise to a material taxation charge in 2017 of £nil (2016: £8.4 million).

(£ million)	Year ended 31 December 2017	2016	Variance %	Underlying variance excluding disposals % (1)
Total revenue	**931.7**	**926.4**	**0.6%**	**1.0%**
Of which:				
PMI	426.0	429.3	(0.8%)	(1.5%)
NHS	287.8	293.4	(1.9%)	(0.5%)
Self-pay	186.9	170.4	9.7%	12.0%
Other (2)	31.0	33.3	(6.9%)	(6.8%)
	931.7	**926.4**	**0.6%**	**1.0%**
Of which:				
In-patient/daycase	637.2	629.9	1.2%	1.6%
Out-patient	263.5	263.2	0.1%	0.8%
Other	31.0	33.3	(6.9%)	(6.8%)
	931.7	**926.4**	**0.6%**	**1.0%**
Number ('000s)				
Total in-patient/daycase admissions	**269.3**	**274.1**	**(1.8%)**	**(1.8%)**
Of which:				
PMI volumes	118.4	123.5	(4.1%)	(4.6%)
NHS volumes	101.5	104.2	(2.6%)	(1.8%)
Self-pay volumes	49.4	46.4	6.5%	6.5%

1. Excludes the impact of Spire Manchester, Spire Nottingham, Spire St Anthony's hospitals and Lifescan (referred to as 'underlying')
2. 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').

Growing revenue

(£ million)	2016	In-patient/daycase volume	In-patient/daycase rate	Out-patient	Other	**2017**	**Growth**
Underlying total revenue	872.1	(9.8)	19.1	(0.7)	0.4	**881.1**	**1.0%**
Non underlying revenue	54.3	(1.1)	(0.9)	0.8	(2.5)	**50.6**	
Total revenue	926.4					**931.7**	**0.6%**

Revenue for the year ended 31 December 2017 increased by £5.3 million, or 0.6%, to £931.7 million (2016: £926.4 million).

Underlying revenue grew by £9.0 million, or 1.0%, to £881.1 million (2016: £872.1 million). Of the underlying revenue growth of 1.0%:

- a decrease of 1.8% in the volume of in-patient and daycase admissions accounted for a 1.1% decline in revenue in the year, with Self-pay admissions growth compensating for volume declines in both NHS and PMI business;
- the Group reported a 1.6% increase in rate for in-patient and daycase admissions (average revenue per case) equivalent to an increase to total revenue of 2.2%. This was the result of modest increases in case mix complexity and PMI contractual price increases, which delivered growth in average revenue per case across all payor groups, most particularly in PMI and Self-pay activity in the year (notwithstanding reductions to applicable NHS tariffs of 3.9% from April 2017); and
- a decline in outpatient revenues, which was directly linked to in-patient and daycase surgical volumes. The impact of reduced NHS volumes was felt less than private activity (as it carries less outpatient revenues) and as a consequence the decline in outpatient revenues accounted for only a 0.1% decline in underlying revenues overall.

The reduction in non-underlying revenues includes the impacts of the closure of Lifescan in 2016 and the closure of operations in Manchester during January 2017 whilst activity was transferred between the old and new sites.

PMI

(£ million)	2016	In-patient/daycase volume	In-patient/daycase rate	Out-patient	2017	Growth
Underlying PMI revenue	401.1	(11.9)	6.4	(0.7)	**394.9**	**(1.5%)**
Non underlying revenue	28.2	0.5	1.4	1.0	**31.1**	
Total PMI revenue	429.3				**426.0**	**(0.8%)**

PMI revenue for the year ended 31 December 2017 decreased by £3.3 million, or 0.8%, to £426.0 million (2016: £429.3 million). Underlying revenue declined by £6.2 million, or 1.5%, to £394.9 million (2016: £401.1 million). Of the underlying decline in PMI revenue of 1.5%:

- a decrease of 4.6% in the volume of in-patient and daycase admissions accounted for a 3.0% reduction in PMI revenue in the year;
- the Group reported a 3.0% increase in rate for in-patient and daycase admissions (average revenue per case), equivalent to an increase to PMI revenues overall of 1.6%. This rate increase was a combination of contractual increases to prices and a modest increase in the complexity of work undertaken in the year; and
- outpatient revenues contributed 0.2% to the overall decline in PMI revenues, performing significantly better than the volume led decline in in-patient and daycase admissions in the year.

NHS

(£ million)	2016	In-patient/daycase volume	In-patient/daycase rate	Out-patient	2017	Growth
Underlying NHS revenue	282.6	(4.1)	2.8	(0.1)	**281.2**	**(0.5%)**
Non underlying revenue	10.8	(1.9)	(2.3)		**6.6**	
Total NHS revenue	293.4				**287.8**	**(1.9%)**

NHS revenue for the year ended 31 December 2017 2017 decreased by £5.6 million, or 1.9%, to £287.8 million (2016: £293.4 million). Underlying NHS revenue declined by £1.4m, or 0.5%, to £281.2 million (2016: £282.6 million). Of the underlying decline in NHS revenue of 0.5%:

- an decrease of 1.8% in the volume of in-patient and daycase admissions accounted for a 1.5% decrease in NHS revenue in the year, skewed heavily to NHS local contract work (see below);
- against the backdrop of a weighted decrease to NHS tariff for the Group of 2.8% for the financial year, the average revenue per case for NHS admissions increased by 1.3% over 2016. Growth in in-patient and daycase rate (average revenue per case) contributed 1.0% to underlying NHS revenue growth in the year. This was the result of a further concentration of case mix to higher yielding procedures (notably in orthopaedics) offsetting the impact of NHS tariff decline from April 2017; and
- outpatient revenue was stable during the year as a consequence of the bias in performance towards NHS eReferrals relative to NHS local contract work (which often carries little or no outpatient element).

The underlying revenue decline in NHS revenue of 0.5% is split as follows:

- NHS eReferral (previously NHS Choose and Book) revenue grew by 5.5% in the year ended 31 December 2017;
- NHS local revenue declined by 26.2% in the same period. Management had expected NHS local contract revenue to decline in 2017 due to removal of fines linked to referral to treatment time key performance indicators. This reduced the appetite of NHS Trusts to outsource work; and
- NHS eReferrals revenue account for 86.0% of underlying NHS revenue in the year ended 31 December 2017, up from 81.2% in the prior year.

Self-pay

(£ million)	2016	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	2017	Growth
Underlying Self-pay revenue	156.6	7.6	8.5	2.7	**175.4**	**12.0%**
Non underlying revenue	13.8	0.3	0.1	(2.7)	**11.5**	
Total Self-pay revenue	170.4				**186.9**	**9.7%**

Self-pay revenue for the year ended 31 December 2017 increased by £16.5 million, or 9.7%, to £186.9 million (2016: £170.4 million). Underlying revenue grew by £18.8 million, or 12.0%, to £175.4 million (2016: £156.6 million). Of the underlying growth in Self-pay revenue of 12.0%:

- an increase of 6.5% in the volume of in-patient and daycase admissions accounted for a 4.4% increase in Self-pay revenue in the year;
- the average revenue per case for Self-pay in-patient and daycase admissions grew by 7.9% over the prior year, contributing 5.7% to the increase in Self-pay revenue in the year. Price increases in 2017 were largely inflationary, with the balance of the increase in average rate per case arising from improved case mix complexity; and
- outpatient activities in 2017 grew 0.2% as price increases were tempered in order to drive inpatient and daycase demand. Overall the increase in Self-pay outpatient revenue drove 0.1% of the increase in underlying Self-pay revenue for the year.

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 revenue (e.g. pathology services to third-parties), decreased by £2.3 million, or 6.9%, in the year, to £31.0 million (2016: £33.3 million). Of the £2.3 million decrease in revenue, £1.8 million relates to pathology revenue which has reduced as a result of a refocussing of the Spire pathology service to support the hospital network as opposed to third party external contracts.

Cost of sales and gross profit

Cost of sales increased in the year by £6.3 million, or 1.3%, to £492.2 million (2016: £485.9 million) on revenues that grew by 0.6% in the year. Underlying cost of sales increased in the year by £7.5 million, or 1.7%, on underlying revenues that increased by 1.0% in the year. Underlying gross margin for the year of 2017 was 48.2%, compared with 48.5% in 2016.

On an underlying basis, and as a percentage of relevant revenue:

	Group		Underlying	
	Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016
Clinical staff	**19.6%**	18.9%	**18.8%**	18.1%
Direct costs	**21.1%**	22.2%	**21.9%**	21.7%
Medical fees	**11.1%**	11.3%	**11.1%**	11.7%
Cost of sales	**52.8%**	52.4%	**51.8%**	51.5%
Gross profit margin	**47.2%**	47.6%	**48.2%**	48.5%

Overall the Group has substantially mitigated the impact on gross margin arising from the effective 2.8% reduction in NHS Tariff effective April 2017 (3.8% reduction in tariff on an annualised basis). The flow through impact of this price reduction in the year is approximately 0.8%, significantly higher than the 0.3% underlying gross margin decline reported.

Management actions alongside case mix changes have generated medical fee savings in the year. Procurement initiatives have resulted in savings in direct costs of drugs, prostheses and consumables which have significantly mitigated the margin pressure arising from NHS tariff.

Supply-side constraints to nursing resource continue to exist; clinical staff costs as a percentage of revenues have increased in 2017 compared to the prior year. Management is focused on continuous improvement of recruitment and training and development processes in the business as well as rostering and productivity improvements designed to limit use of agency staff.

Other operating costs

Other operating costs for the year ended 31 December 2017 increased by £49.1 million, or 14.1%, to £396.6 million (2016: £347.5 million). Excluding exceptional and other items, other operating costs for the year increased by £15.1 million, or 4.5%, to £347.4 million.

Underlying other operating costs increased in the year by £45.4 million, or 13.7%, to £375.9 million (2016: £330.5 million). Excluding exceptional and other items, underlying other operating costs for the year increased by £11.4 million, or 3.6%, to £326.7 million. The composition of these costs are shown below:

	Group		Underlying	
	Year ended 31 December		Year ended 31 December	
	2017	2016	**2017**	2016
Gross profit margin	**47.2%**	47.6%	**48.2%**	48.5%
Hospital and central overheads	**(24.2%)**	(23.3%)	**(23.6%)**	(23.0%)
Depreciation and amortisation	**(6.2%)**	(5.6%)	**(6.1%)**	(5.6%)
Rent	**(6.9%)**	(6.8%)	**(7.3%)**	(7.2%)
Loss on disposal of assets	**–**	(0.2%)	**(0.1%)**	(0.4%)
Operating margin	**9.9%**	11.7%	**11.1%**	12.3%
EBITDA margin	**16.1%**	17.5%	**17.3%**	18.3%

EBITDA and underlying EBITDA

EBITDA for the year ended 31 December 2017 decreased by £12.0 million, or 7.4%, to £150.0 million (2016: £162.0 million). Underlying EBITDA decreased by £7.5 million, or 4.7%, from £159.7 million to £152.2 million.

The Group EBITDA margin of 16.1% compares to 17.5% in 2016 and was impacted by the start-up nature of new hospitals opening. The Group underlying EBITDA margin of 17.3% compares to 18.3% in 2016 and the movement is the result of hospital and central overhead and rent increases explained above.

Hospital and central overhead costs have increased as a consequence of the opening of new hospitals in Manchester and Nottingham and the annualised impact of the expansion of Spire St Anthony's Hospital. In addition, investments have been made in central overheads to support additional training and development of our people, clinical and non-clinical assurance functions and sales and marketing to support Self-pay growth.

On an underlying basis, the increase in hospital and central overhead costs is substantially linked to those central investment initiatives referred to above.

Underlying depreciation charged in the year increased by £5.3 million, or 10.9%, to £54.0 million (2016: £48.7 million) as the Group continues to invest in capacity and capability across the existing network of hospitals.

Total depreciation charged in the year of £57.4 million includes that arising on the new hospital in Nottingham and higher charges on Spire Manchester and Spire St Anthony's hospitals as a consequence of the investment in new and extended facilities in these sites respectively.

Rent of land and buildings for the year increased by £1.2 million, or 1.9%, to £63.9 million (2016: £62.7 million). The increase is mainly due to inflationary uplifts in relation to annual rent indexation in line with RPI.

Share-based payments

During the year, grants were made to Executive Directors and members of the senior leadership team under the Company's Long Term Incentive Plan. For the year ended 31 December 2017, the charge to the income statement was £1.0 million (2016: £0.4 million), or £1.1 million inclusive of National Insurance (2016: £0.6 million). Further details are contained in note 21 on page 134 of the Consolidated financial statements.

Exceptional items and other items

	Year ended 31 December	
(£ million)	**2017**	2016
Ian Paterson claims and related costs	**28.7**	–
Strategic review – write off and aborted project costs	**14.4**	–
Hospital set-up and closure costs	**3.4**	1.1
Executive medical leave and death in service	**0.9**	–
Business reorganisation and corporate restructuring	**0.6**	5.3
Write-off of intangible assets	**–**	1.3
Hospital (reversal of)/impairment on property, plant and equipment	**–**	(1.9)
Loss on disposal of property, plant and equipment (also referred to as the Asset Swap Transaction)	**–**	8.9
Other [1]	**0.7**	0.5
Total exceptional costs	**48.7**	15.2
Income tax credit on exceptional items	**(8.0)**	(0.6)
Total post-tax exceptional items	**40.7**	14.6

1 Other exceptional items in 2017 predominantly relate to the Mediclinic takeover bid, relocation of HR and payroll functions and release of an onerous lease provision. In 2016 the costs primarily relate to National Insurance on Directors' Share Bonus Award granted at the time of the IPO.

Following the completion of the criminal proceedings against Ian Paterson (a consultant who previously had practicing privileges at Spire Healthcare) earlier in 2017, Spire Healthcare settled all current and known claims against Spire relating to his practice at Spire Healthcare. Accordingly, Spire Healthcare has provided £28.7 million in relation to this settlement, plus related costs, of which £26.1 million has been paid. Spire is currently pursuing legal action against its insurers to seek recoveries against this settlement and related costs, which may give rise to future exceptional income being recognised in the income statement. No account has been taken of these further recoveries in the results for the year ended 31 December 2017.

In the final quarter of 2017, management undertook a strategic review of its current portfolio of sites and the future development options for the Group. As part of the process, the decision was taken to cease the provision of radiotherapy services at the Spire Specialist Cancer Care Centre in Baddow (Essex) as a consequence of poor commercial performance. The charge for the year includes £10.3 million for the write-off of fixed assets, net of recoverable value, and a provision for site closure costs. Additionally, certain well progressed capital projects, notably the development of a hospital in Central London, have been aborted and the costs associated with these projects have been charged as exceptional items in the year due to the fundamental change in development strategy.

Hospital set-up and closure costs include the pre-opening expenses for the two new hospitals opened during 2017 (Manchester and Nottingham), plus the decommissioning costs of the former Manchester hospital site.

An Executive Director had a period of illness during 2017. Costs associated with his remuneration during his medical leave were duplicative to the business. After sadly passing away in July 2017, Spire Healthcare made a death in service payment which has also been included in exceptional items.

In the year ended 31 December 2016, business reorganisation mainly comprised staff restructuring costs and the closure costs relating to an onerous contract. In the year, the Group's goodwill in relation to the Lifescan business was written-off following a strategic review and the closure of this operation. Hospital set-up costs refer to pre-opening costs for the new Spire Manchester and Spire Nottingham hospitals. The reversal of the impairment is the result of the reassessment of the lives of medical and other equipment following the relocation of the assets from the previous Spire Manchester Hospital to the new hospital facility and other Group hospitals following its closure. Hospital closure costs relate to the decommissioning of the assets related to the previous Spire Manchester Hospital. Corporate restructuring related to an internal group reorganisation and transaction costs relating to the Asset Swap Transaction as described below. Except for the corporate restructuring costs, which were capital in nature, and write-off of intangible assets, all other exceptional costs are expected to be tax deductible.

On 31 August 2016, as a result of the development of a new hospital facility in Manchester and the closure of the previous Spire Manchester Hospital (previously held under an operating lease), the freehold interest in Spire Wirral Hospital with a net book value of £11.7 million was disposed of, and leased back in a sale and leaseback transaction. The consideration for the sale was realised in the form of a non-cash asset, being the freehold of the previous Spire Manchester Hospital, which was simultaneously acquired by the Group (the 'Asset Swap Transaction'). The overall loss on these transactions was £7.7 million before sale costs of £1.2 million.

For 2017, £4.0 million (2016: £3.7 million) in respect of wages, salaries and social security costs is included in write off and aborted project costs, executive medical leave and death in service, business reorganisations, hospital set-up costs, hospital closure, other and corporate restructuring costs.

(£ million)	**2017**	2016
Compliance costs	**0.5**	–
Total other items	**0.5**	–
Income tax credit on other items	**(0.1)**	–
Deferred tax reassessment of temporary difference on property	–	8.4
Total post-tax exceptional costs	**0.4**	8.4

Compliance set up costs include amounts incurred in 2017 to meet the requirements of GDPR regulations effective May 2018. Management expect further material costs to arise in 2018 in advance of the effective date to meet these new regulations and for Spire to fulfil its extended obligations under these new regulations.

Net finance costs
Net finance costs increased by 2.0% to £20.2 million (2016: £19.8 million) as a result of an incremental increase in finance lease costs.

Taxation
The taxation charge for the year is impacted by exceptional and other items in both 2017 and 2016. The table below provides a reconciliation of the total taxation charge for the year to the adjusted tax charge for the year, before exceptional and other items.

	Year ended 31 December	
(£ million)	**2017**	2016
Tax on profit before tax	**5.9**	19.6
Tax on exceptional items	**8.1**	0.6
Reassessment of property temporary differences	**–**	(8.4)
Adjusted tax charge on the profit for the year	**14.0**	11.8
Profit before tax and exceptional and other items	**71.9**	88.4
Adjusted effective tax rate before exceptional and other items	**19.5%**	13.3%

For the year ended 31 December 2017 the effective rate of 19.5% before exceptional and other items is reduced by the UK Government's announcement of a further decrease in the future UK corporation tax rate from 18% to 17% from April 2020. This change has resulted in a deferred tax credit in 2017 of £0.5 million arising from the reduction in the balance sheet carrying value of deferred tax liabilities to reflect the anticipated rate of tax at which those liabilities are expected to reverse in the future .

For the year ended 31 December 2016 the effective tax rate of 13.3% is reduced (relative to the 20.0% prevailing UK corporation tax rate) by prior year adjustments to deferred taxation (£2.4 million credit) and the impact on deferred tax net liabilities of previous changes to the future rate of UK corporation tax (£5.2 million credit).

Profit after taxation
The profit after taxation for the year ended 31 December 2017 was £16.8 million (2016: £53.6 million).

ADJUSTED FINANCIAL INFORMATION

Non-GAAP financial measures
We have provided in this release financial information that has not been prepared in accordance with IFRS. We use these non-GAAP financial measures internally in analysing our financial results and believe they are useful to investors, as a supplement to IFRS measures, in evaluating our ongoing operational performance. We believe that the use of these non-GAAP financial measures provides an additional tool for investors to use in evaluating ongoing operating results and trends in comparing our financial results with other companies in our industry, many of which present similar non-GAAP financial measures to investors.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with IFRS. Investors are encouraged to review the reconciliation to these non-GAAP financial to their most directly comparable IFRS financial measures provided in the financial statement tables included in this press release.

Adjustments have been made to exclude the trading results of any new hospital development, closure or disposal in both current and prior periods. We have therefore excluded the results of Spire Manchester, Spire Nottingham and Spire St Anthony hospitals and Lifescan in arriving at 'underlying' in this 2017 Annual Report. The Group ceased trading the Lifescan product in H2 2016, Manchester hospital was transitioned to a new and larger site during January 2017 (which resulted in a period of operational closure), the new hospital in Nottingham was operational in late April and St Anthony's was redeveloped in the period, including the construction of a new 6 surgical theatre complex which opened in late 2016.

	Year ended 31 December	
(£ million)	**2017**	2016
Revenue	**931.7**	926.4
Adjustments:		
New hospital openings (Spire Nottingham and Spire Manchester hospitals)	**(24.5)**	(21.6)
Hospital redevelopment (Spire St Anthony's Hospital)	**(26.1)**	(30.1)
Lifescan closure	**–**	(2.6)
Underlying revenue	**881.1**	872.1
Operating profit before exceptional items	**92.1**	108.2
Adjustments:		
New hospital openings (Spire Nottingham and Spire Manchester hospitals)	**3.5**	(3.0)
Hospital redevelopment (Spire St Anthony's Hospital)	**2.1**	2.9
Lifescan closure	**–**	(0.5)
Underlying operating profit before exceptional and other items	**97.7**	107.6
Depreciation and amortization on underlying assets	**54.5**	52.1
Underlying EBITDA	**152.2**	159.7
EBITDA	**150.0**	162.0
Adjustments:		
New hospital openings (Spire Nottingham and Spire Manchester hospital)	**1.0**	(3.9)
Hospital redevelopment (Spire St Anthony's Hospital)	**1.2**	2.1
Lifescan closure	**–**	(0.5)
Underlying EBITDA	**152.2**	159.7

Adjusted profit after tax and adjusted earnings per share

Adjustments have been made to remove the impact of a number of significant non-recurring items.

	Year ended 31 December	
(£ million)	**2017**	2016
Profit before taxation	**22.7**	**73.2**
Adjustment for:		
Exceptional and other items	49.2	15.2
Adjusted profit before tax	71.9	88.4
Taxation (1)	(14.0)	(11.8)
Adjusted profit after tax	57.9	76.6
Weighted average number of ordinary shares in issue (No.)	400,614,357	399,995,435
Adjusted basic earnings per share (pence)	14.4	19.2

1. Reported tax charge for the year adjusted for the tax effect of exceptional and other items.

GAAP basic earnings per share can be found in note 11 of the financial statements.

Cash flows analysis for the year

(£ million)	Year ended 31 December 2017	2016
Opening cash balance	**67.9**	**78.9**
Operating cash flows before exceptional items and income tax paid	**158.4**	**186.3**
Exceptional items	(31.3)	(5.9)
Net income tax paid	(3.1)	(3.0)
Operating cash flows after exceptional items and income tax paid	124.0	177.4
Net cash used in investing activities	(118.3)	(149.9)
Net cash used in financing activities	(34.4)	(38.5)
Closing cash balance	**39.2**	**67.9**
Closing net debt	**462.8**	**432.3**

Operating cash flows before exceptional items and income tax paid
The cash inflow from operating activities before exceptional items and income tax paid for the year was £158.4 million, which constitutes a cash conversion rate from EBITDA for the year of 105.6% (2016: £186.3 million or 115.0%). The net cash inflow from movements in working capital in the year was £15.1 million (2016: £24.4 million), a significant achievement given the working capital requirements associated with new hospital openings in 2017.

Investing and financing cash flows
Net cash used in investing activities for the year was £118.3 million. Capital expenditure for the purchase of property, plant and equipment in the year totalled £119.2 million, which included the completion of the new Spire Manchester (opened in January 2017) and Spire Nottingham hospitals (opened in April 2017), and Spire Bushey Hospital medical centre (opened in November 2017).

Additional to the development scheme-led capital investment, the Group continued to invest significant amounts within the existing estate in engineering, plant upgrade and replacement, diagnostic equipment upgrade and replacement, theatre and bedroom refurbishment and other medical equipment replacement.

Net cash used in investing activities for the prior year ended 31 December 2016 was £149.9 million. Capital expenditure for the purchase of property, plant and equipment totalled £149.5 million, which included the development of the new Spire Manchester and Spire Nottingham hospitals and theatre development at Spire St Anthony's Hospital.

Net cash used in financing activities for the year ended 31 December 2017 was £34.5 million, including interest paid of £19.2 million and dividend paid to shareholders of £15.2 million.

Net cash used in financing activities for the year ended 31 December 2016 was £38.5 million, including interest paid of £21.5 million and dividend paid to shareholders of £14.8 million.

Borrowings
At 31 December 2017, the Group had bank debt of £425.1 million (2016: £424.1 million), drawn under facilities which mature in 2019 and finance lease debt of £76.9 million (2016: £76.1 million). Additionally, the Group has a revolving loan facility of £100.0 million (2016: £100.0 million) available until July 2019, which was undrawn at 31 December 2017.

(£ million)	Year ended 31 December 2017	2016
Cash	**(39.2)**	(67.9)
External debt (incl finance leases)	**502.0**	500.2
Adjusted effective tax rate before exceptional and other items	**462.8**	432.3

As at 31 December 2017, net debt was 3.09 times EBITDA (2016: 2.67 times).

Dividend
Subject to shareholder approval, the Company will pay a final dividend in respect of the financial year ended 31 December 2017 of 2.5 pence (2016: 2.5 pence) per ordinary share.

Principal risks
The principal risk factors faced by the Group are identified in the 'Principal Risks' section.

Principal risks

There are a number of risks facing the business in the forthcoming financial year. The table below details the principal risks and how the Group mitigates these risks:

Risk	Mitigation of risk
Clinical care	The Group reviews and maintains insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed annually with the Group's brokers.
Government policy	The Board continually monitors government policy, NHS requirements and associated tariff structures to consider the need for cost and/or investment reduction, whether in the short, medium or long term.
Compliance with laws, regulations and other applicable requirements	The Group continues to strengthen its Group-wide risk management framework (and associated policies and procedures) to ensure that risks are mitigated as far as possible, the Executive Committee has appropriate visibility to ensure robust decision making, and the Group has the ability to monitor and react to the changing regulatory framework of a listed company in the healthcare sector.
Insurance	The Group holds third-party liability insurance to partially cover patient, third-party and employee personal injury claims, and is partially self-insured up to predetermined levels, above which its third-party liability insurance applies. The Group reviews and maintains insurance adequacy of cover annually with the Group's brokers.
Concentration of the private medical insurance ('PMI') market	The Group works hard to maintain good relationships and a joint product/patient health offering with the PMI companies, which, in the opinion of the Directors, assists the healthcare sector as a whole in delivering high-quality patient care. The Board believes continuing to invest in its well-placed portfolio of hospitals should provide a natural fit to the local requirements of all the PMI providers.
Availability of key medical staff	The Board focuses on staff retention, with trends and changes in our staff survey informing our strategy for engagement with a focus on incentives, staff development and training.
Macroeconomic conditions	The Board manages risk by regularly reviewing market conditions and economic indicators to assess whether actions are required.
Competitor challenge	The Group maintains a watching brief on new and existing competitor activity and retains the ability to react quickly to changes in patient and market demand.
Cybersecurity	Spire Healthcare's technical IT teams continually monitor these developments as a business as usual activity. Working with a number of specialist and industry leading technical partners, Spire Healthcare has created multiple layers of business protection through the use of advanced intrusion detection and protection systems, web access firewalls and advanced content filtering to combat denial of service attacks.
Investment plans and execution	The Group conducts a detailed financial and operational appraisal process to evaluate the expected returns on capital during the evaluation phase of the project. Regular reporting of all significant projects to the executive sponsor and the Board is provided.
Liquidity and covenant risk	The Group actively monitors and manages its liquid asset position, its financial liabilities falling due and the cover against its loan covenants.

Directors' responsibilities statement

Each of the Directors confirms that, to the best of their knowledge:

- the preliminary financial information, which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company on a consolidated and individual basis; and
- the preliminary announcement includes a fair summary of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks that it faces.

By order of the Board

Justin Ash
Chief Executive Officer

Simon Gordon
Chief Financial Officer

1 March 2018

Consolidated income statement

For the year ended 31 December 2017

(£ million)	Notes	2017 Total before exceptional and other items	2017 Exceptional and other items (note 9)	2017 Total	2016 Total before exceptional and other items	2016 Exceptional and other items (note 9)	2016 Total
Revenue	7	**931.7**	**–**	**931.7**	926.4	–	926.4
Cost of sales		**(492.2)**	**–**	**(492.2)**	(485.9)	–	(485.9)
Gross profit		**439.5**	**–**	**439.5**	440.5	–	440.5
Other operating costs		**(347.4)**	**(49.2)**	**(396.6)**	(332.3)	(15.2)	(347.5)
Operating profit	6,9	**92.1**	**(49.2)**	**42.9**	108.2	(15.2)	93.0
Interest income	8	**0.1**	**–**	**0.1**	0.2	–	0.2
Finance costs	8	**(20.3)**	**–**	**(20.3)**	(20.0)	–	(20.0)
Profit before taxation		**71.9**	**(49.2)**	**22.7**	88.4	(15.2)	73.2
Taxation	9,10	**(14.0)**	**8.1**	**(5.9)**	(11.8)	(7.8)	(19.6)
Profit for the year		**57.9**	**(41.1)**	**16.8**	76.6	(23.0)	53.6
Profit for the year attributable to owners of the Parent		**57.9**	**(41.1)**	**16.8**	76.6	(23.0)	53.6
Earnings per share (in pence per share)							
– **basic**	12	**14.4**	**(10.2)**	**4.2**	19.2	(5.8)	13.4
– **diluted**	12	**14.4**	**(10.2)**	**4.2**	19.1	(5.8)	13.3

Consolidated statement of comprehensive income

For the year ended 31 December 2017

(£ million)	2017	2016
Profit for the year	16.8	53.6
Other comprehensive income for the year	–	–
Total comprehensive income for the year attributable to owners of the Parent	16.8	53.6

Consolidated statement of changes in equity

For the year ended 31 December 2017

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Retained earnings	Total equity
As at 1 January 2016		4.0	826.9	376.1	(5.6)	(203.8)	997.6
Profit for the year		–	–	–	–	53.6	53.6
Other comprehensive income for the year		–	–	–	–	–	–
Share-based payments	20	–	–	–	–	0.4	0.4
Deferred tax on share-based payments		–	–	–	–	(0.3)	(0.3)
Corporation tax on share-based payments		–	–	–	–	0.6	0.6
Purchase of shares held in the EBT		–	–	–	(1.8)	–	(1.8)
Utilisation of EBT shares for Directors' Share Bonus Award		–	–	–	5.2	(5.2)	–
Dividend paid	11	–	–	–	–	(14.8)	(14.8)
As at 1 January 2017		**4.0**	**826.9**	**376.1**	**(2.2)**	**(169.5)**	**1,035.3**
Profit for the year		**–**	**–**	**–**	**–**	**16.8**	**16.8**
Other comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments	20	**–**	**–**	**–**	**–**	**1.0**	**1.0**
Utilisation of EBT shares for Directors' Share Bonus Award		**–**	**–**	**–**	**1.3**	**(1.3)**	**–**
Dividend paid	11	**–**	**–**	**–**	**–**	**(15.2)**	**(15.2)**
Balance at 31 December 2017		**4.0**	**826.9**	**376.1**	**(0.9)**	**(168.2)**	**1,037.9**

Consolidated balance sheet

As at 31 December 2017

(£ million)	Notes	2017	2016
ASSETS			
Non-current assets			
Intangible assets	13	**517.8**	517.8
Property, plant and equipment	14	**1,036.9**	991.5
		1,554.7	1,509.3
Current assets			
Inventories		**30.1**	28.1
Trade and other receivables	15	**104.5**	119.1
Cash and cash equivalents		**39.2**	67.9
		173.8	215.1
Non-current assets held for sale	5	**5.6**	–
		179.4	215.1
Total assets		**1,734.1**	1,724.4
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**4.0**	4.0
Share premium		**826.9**	826.9
Capital reserves	19	**376.1**	376.1
EBT share reserves	19	**(0.9)**	(2.2)
Retained earnings		**(168.2)**	(169.5)
Equity attributable to owners of the Parent		**1,037.9**	1,035.3
Total equity		**1,037.9**	**1,035.3**
Non-current liabilities			
Borrowings	16	**498.0**	495.7
Deferred tax liability		**72.6**	71.2
		570.6	566.9
Current liabilities			
Provisions	17	**17.9**	16.7
Borrowings	16	**4.0**	4.5
Trade and other payables	18	**101.5**	100.3
Income tax payable		**2.2**	0.7
		125.6	122.2
Total liabilities		**696.2**	**689.1**
Total equity and liabilities		**1,734.1**	**1,724.4**

Consolidated statement of cash flows

For the year ended 31 December 2017

(£ million)	Notes	2017	2016
Cash flows from operating activities			
Profit before taxation		**22.7**	73.2
Adjustments for:			
Depreciation	6	**57.4**	51.9
Impairment of property, plant and equipment	6	**10.3**	0.5
Reversal of impairment on property, plant and equipment	6	–	(1.9)
Write-off of intangible assets	6, 13	–	1.3
Share-based payments	20	**1.0**	0.4
Loss on disposal of property, plant and equipment	6	**0.4**	10.8
Interest income		**(0.1)**	(0.2)
Finance costs	8	**20.3**	20.0
		112.0	**156.0**
Movements in working capital:			
Decrease in trade and other receivables		**14.6**	15.6
Increase in inventories		**(2.0)**	0.9
Increase/(decrease) in trade and other payables		**1.3**	6.8
Increase in provisions		**1.2**	1.1
Cash generated from operations		**127.1**	180.4
Income tax received		–	1.4
Income tax paid		**(3.1)**	(4.4)
Net cash from operating activities		**124.0**	**177.4**
Cash flows from investing activities			
Purchase of property, plant and equipment		**(119.2)**	(149.5)
Costs of disposal of property, plant and equipment		**0.8**	(0.6)
Interest received		**0.1**	0.2
Net cash used in investing activities		**(118.3)**	**(149.9)**
Cash flows from financing activities			
Payment of share issue costs relating to 2014 IPO			–
Interest paid		**(18.8)**	(21.5)
Repayment of borrowings		**(0.4)**	(0.4)
Purchase of shares held in the EBT		–	(1.8)
Dividend paid to equity holders of the Parent	11	**(15.2)**	(14.8)
Net cash used in financing activities		**(34.4)**	**(38.5)**
Net (decrease)/increase in cash and cash equivalents		**(28.7)**	(11.0)
Cash and cash equivalents at beginning of year		**67.9**	78.9
Cash and cash equivalents at end of year		**39.2**	**67.9**
Exceptional and other items			
Exceptional and other items paid included in the cash flow		**(31.3)**	(5.9)
Total exceptional and other items	9	**(49.2)**	(15.2)

Notes to the preliminary announcement

1. General information

Spire Healthcare Group plc (the 'Company') and its subsidiaries (collectively, the 'Group') owns and operates private hospitals and clinics in the UK and provides a range of private healthcare services.

The financial statements for the year ended 31 December 2017 were authorised for issue by the Board of Directors of the Company on 1 March 2018.

The Company is a public limited company, which is listed on the London Stock Exchange, incorporated, registered and domiciled in England and Wales(registered number: 9084066). The address of its registered office is 3 Dorset Rise, London, EC4Y 8EN.

2. Basis of preparation

The preliminary financial information for the year ended 31 December 2017 included in this report was approved by the Board on 1 March 2018. The financial information set out here does not constitute the Company's statutory accounts for the year ended 31 December 2017, but is derived from those accounts. Statutory accounts for 2017 will be delivered following the Company's annual general meeting. The auditor has reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

Going concern

The Group is financed by a bank loan facility that matures in July 2019. The Directors have considered the Group's forecasts, projections, ability to refinance, and the risks associated with their delivery, and are satisfied that the Group will be able to operate within the covenants imposed by the bank loan facility for at least 12 months from the date of approval of these financial statements. In relation to available cash resources, the Directors have had regard to both cash at bank and a £100.0 million committed undrawn revolving credit facility. Accordingly, they have adopted the going concern basis in preparing these financial statements.

3. Accounting policies

In preparing this preliminary announcement, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2017, a copy of this report will shortly be available on the Company's website at www.spirehealthcare.com.

The auditors have reported on those accounts. Their reports were not qualified and did not contain any emphasis of matter paragraph.

New and amended standards and interpretations

The following amendments to existing standards and interpretations were effective for the Group from 1 January 2017, but either they were not applicable to or did not have a material impact on the Group:

- Amendments to IAS 7: Disclosure Initiatives
- Annual Improvements to IFRSs 2014–2016 Cycle: *Clarification of the scope of the disclosure requirements in IFRS 12*
- IAS 12 (Income taxes) *Recognition of Deferred Tax Assets for Unrealised losses*

New standards, interpretations and amendments not yet effective

As at date of approval of the Group financial statements, the following new and amended standards, interpretations and amendments in issue are applicable to the Group but not yet effective and thus, have not been applied by the Group:

	Effective date*
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Clarification to IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions*	1 January 2018
IFRS 2 *Classification and Measurement of Share-based Payment Transactions* – Amendments to IFRS 2	1 January 2018
Annual Improvements 2014–2016 Cycle	1 January 2018
IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration*	1 January 2018†
Annual Improvements 2015–2017 Cycle	1 January 2019†
IFRS 16 *Leases*	1 January 2019

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

† At the date of authorisation of these financial statements, these standards and interpretation have not yet been endorsed or adopted by the EU.

The Directors do not expect the adoption of these standards, interpretations and amendments to have a material impact on the Consolidated or Parent Company financial statements in the period of initial application, except for IFRS 16 Leases. The Group's assessment of the impact of applying IFRS 9, IFRS 15 and IFRS 16 are discussed below

Notes to the preliminary announcement *continued*

3. Accounting policies *continued*

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 'Revenue from Contracts with Customers' will be effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The standard (endorsed on 22 September 2016) establishes a five-step principle-based approach for revenue recognition and is based on the concept of recognising an amount that reflects the consideration for performance obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models for goods, services and construction contracts under the current accounting standards.

Impact of adoption

The Group is in the business of providing healthcare services. During 2017, the Group completed an impact assessment of IFRS 15 and concluded that the adoption of IFRS 15 will have an insignificant impact on its consolidated results. As such, the Group will adopt IFRS 15 with effect from 1 January 2018 using the Modified Retrospective approach.

Analysis

Approximately 70% of the Group's revenue is derived from in-patient and daycase admissions. Revenue is recognised day by day, as services are provided to patients. These services are typically provided over a short time frame, that is, one to three days. Outpatient cases and other revenue represent approximately 30% of the Group's revenue. Outpatient cases generally do not involve surgical procedures and revenue is recognised on an individual component basis when performance obligations are satisfied. Similarly, other revenue, which includes consultant revenue and other third-party revenue streams, is recognised when performance obligations are satisfied and the control of goods or services is transferred. The current revenue recognition policy is in line with the requirements of IFRS 15 five step model.

Disaggregated revenue disclosure

Spire reports disaggregated revenue by material revenue stream (i.e. type of payor: PMI, NHS and Self-pay) and other revenue which includes consultant revenue, third party revenue streams (e.g. pathology services) and 'commissioning for quality and innovation payments' (CQUIN). Material revenue streams are consistent in nature, being the consideration received in return for the provision of healthcare services to patients. The timing and uncertainty of cash flows is similar for PMI and NHS business while Self-pay revenue is received in advance or collected by credit card shortly after treatment. In addition, Spire reports revenue split between In-patient/Daycase, Outpatient and Other. As noted above, in all cases, revenue is recognised as performance obligations are completed in the form of services being provided to patients. Uninvoiced revenue is accrued at period ends. Invoices for the combination of services provided to patients are generally produced within three days of discharge. Spire believes that these disclosures satisfy the requirements of IFRS 15 to enable the reader to understand the nature, amount, timing and uncertainty of revenue and cash flows.

IFRS 16 *Leases*

IFRS 16 'Leases' will be effective for annual periods beginning on or after 1 January 2019 with early adoption permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

The Group have completed an initial assessment of the potential significant impact on its Consolidated financial statements but has not yet completed a detailed assessment of all leases. At 31 December 2017, the Group's future minimum lease payments under non-cancellable operating leases amounted to £1,587.6 million, on an undiscounted basis. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating expense with a depreciation charge for right of use assets and interest expense on lease liabilities. No significant impact is expected for the contracts currently accounted for as finance leases.

IFRS 9 *Financial Instruments*

IFRS 9 'Financial Instruments' will be effective for annual periods beginning on or after 1 January 2018. IFRS 9 sets out requirements for recognising and measuring financial assets, liabilities and some contract to buy or sell non-financial items. The standard replaces IAS 39 'Financial Instruments: Recognition and Measurement'.

IFRS 9 new impairment models requires the recognition of impairment provisions based on the 'expected credit loss' (ECL) model which replaces the 'incurred loss' model in IAS 39. Under the new loss allowance method, it can be measured on either of the following bases:

- 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- Lifetime ECLs: these ECLs that result from all possible default events over the expected life of the financial instrument.

Concerning impairment, the Directors expect to apply the simplified approach to recognise lifetime ECLs for the Group's trade receivables. This will result in an insignificant increase to the impairment provision on adoption of IFRS9 and going forwards greater judgement due to the need to factor in forward looking information when estimating the appropriate amount of provision. In applying IFRS 9 the Group must consider the probability of default occurring over the contractual life of its trade receivables.

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.

In preparing this preliminary announcement, the significant judgements and estimates made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2017.

Notes to the preliminary announcement *continued*

5. Non-current assets held for sale

As at December 2017, the Group's management have committed to sell two properties which previously formed part of the Group operations, Spire St Saviours which closed in 2015 and Whalley Range, Manchester which is due to close in April 2018. Negotiations with potential parties have subsequently taken place. The properties are expected to be sold within twelve months, have been classified as held for sale and are presented separately in the Consolidated balance sheet.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised on the classification of these operations as held for sale.

(£ million)	2017
Spire St Saviours property (note 14)	2.0
Whalley Range property (note 14)	3.6
	5.6

6. Operating profit

Operating profit has been arrived at after charging/(crediting):

(£ million)	2017	2016
Rent of land and buildings under operating leases	63.9	62.7
Depreciation of property, plant and equipment	57.4	51.9
Medical malpractice provision	28.7	–
Impairment of property, plant and equipment	10.3	0.5
Reversal of impairment on property, plant and equipment	–	(1.9)
Write-off of intangible assets	–	1.3
Loss on disposal of property, plant and equipment	0.4	10.8
Staff costs	282.1	268.0

Impairment losses and reversals of impairment are included in other operating costs.

7. 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 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.

Revenue by wider customer (payor) group is shown below:

(£ million)	2017	2016
Insured	426.0	429.3
NHS	287.8	293.4
Self-pay	186.9	170.4
Other	31.0	33.3
Total	931.7	926.4

8. Finance costs

(£ million)	2017	2016
Finance income		
Interest income on bank facilities	0.1	0.2
Total finance income	0.1	0.2
Finance costs		
Interest on bank facilities	11.8	12.7
Interest on obligations under finance leases and hire purchase contracts	9.2	9.1
Financed costs capitalised in the year	(0.7)	(1.8)
Total finance costs	20.3	20.0

Finance costs capitalised during the year were calculated based on a weighted cost of borrowing of 3.4% (2016: 3.5%).

Notes to the preliminary announcement *continued*

9. Exceptional and other items

(£ million)	2017	2016
Medical malpractice	**28.7**	–
Strategic review	**14.4**	–
Hospitals set up and closure costs	**3.4**	1.1
Executive medical leave and death in service	**0.9**	–
Business reorganisation and corporate restructuring	**0.6**	5.3
Write-off of intangible assets	–	1.3
Hospital (reversal of)/impairment on property, plant and equipment	–	(1.9)
Loss on disposal of property, plant and equipment (also referred to as the Asset Swap Transaction)	–	8.9
Other [1]	**0.7**	0.5
Total exceptional costs	**48.7**	15.2
Income tax credit on exceptional items	**(8.0)**	(0.6)
Total post-tax exceptional costs	**40.7**	14.6

1 Other exceptional items in 2017 predominantly relate to the Mediclinic takeover bid, relocation of HR and payroll functions, release of onerous lease provision and sundry items. In 2016 the costs primarily relate to National Insurance on Directors' Share Bonus Award granted at the time of the IPO.

Following the completion of the criminal proceedings against Ian Paterson (a consultant who previously had practicing privileges at Spire Healthcare) earlier in 2017, Spire Healthcare settled all current and known claims against Spire relating to his practice at Spire Healthcare. Accordingly, Spire Healthcare has provided £28.7 million in relation to this settlement, plus related costs, of which £26.1 million has been paid. Spire is currently pursuing legal action against its insurers to seek recoveries against this settlement and related costs, which may give rise to future exceptional income being recognised in the income statement. No account has been taken of these further recoveries in the results for the year ended 31 December 2017.

In the final quarter of 2017, management undertook a strategic review of its current portfolio of sites and the future development options for the Group. As part of the process, and during H2 2017, the decision was taken to cease the provision of radiotherapy services at the Spire Specialist Cancer Care Centre in Baddow (Essex) as a consequence of poor commercial performance. The charge for the year includes £10.3 million for the write-off of fixed assets, net of recoverable value, and a provision for site closure costs. Additionally, certain well progressed capital projects, notably the development of a hospital in Central London, have been aborted and the costs associated with these projects have been charged as exceptional items in the year due to the fundamental change in development strategy.

Hospital set-up and closure costs include the pre-opening expenses for the two new hospitals opened during 2017 (Manchester and Nottingham), plus the decommissioning costs of the former Manchester hospital site.

A member of the Board had a period of illness during 2017. Costs associated with his remuneration during his medical leave were duplicative to the business. After sadly passing away in July 2017, Spire Healthcare gave his beneficiaries a death in service payment which has also been included in exceptional items.

In the year ended 31 December 2016, business reorganisation mainly comprised staff restructuring costs and the closure costs relating to an onerous contract. In the year, the Group's goodwill in relation to the Lifescan business was written-off following a strategic review and the closure of this operation. Hospital set-up costs refer to pre-opening costs for the new Spire Manchester and Spire Nottingham hospitals. The reversal of the impairment is the result of the reassessment of the lives of medical and other equipment following the relocation of the assets from the previous Spire Manchester Hospital to the new hospital facility and other Group hospitals following its closure. Hospital closure costs relate to the decommissioning of the assets related to the previous Spire Manchester Hospital. Corporate restructuring related to an internal group reorganisation and transaction costs relating to the Asset Swap Transaction as described below. Except for the corporate restructuring costs, which were capital in nature, and write-off of intangible assets, all other exceptional costs are expected to be tax deductible.

On 31 August 2016, as a result of the development of a new hospital facility in Manchester and the closure of the previous Spire Manchester Hospital (previously held under an operating lease), the freehold interest in Spire Wirral Hospital with a net book value of £11.7 million was disposed of, and leased back in a sale and leaseback transaction. The consideration for the sale was realised in the form of a non-cash asset, being the freehold of the previous Spire Manchester Hospital, which was simultaneously acquired by the Group (the 'Asset Swap Transaction'). The overall loss on these transactions was £7.7 million before sale costs of £1.2 million.

Included in write off and aborted project costs, executive medical leave and death in service, business reorganisations, hospital set-up costs, hospital closure, other and corporate restructuring costs are £4.0 million (2016: £3.7 million) in respect of wages, salaries and social security costs.

Notes to the preliminary announcement *continued*

(£ million)	2017	2016
Compliance costs	0.5	–
Total other items	0.5	–
Income tax credit on other items	(0.1)	–
Deferred tax reassessment of temporary difference on property	–	8.4
Total post-tax exceptional costs	0.4	8.4

Compliance set up costs include amounts incurred in 2017 to meet the requirements of GDPR regulations effective May 2018. Management expect material costs to arise in 2018 in advance of the effective date to meet these new regulations and for Spire to fulfil its extended obligations under these new regulations.

10. Taxation

(£ million)	2017	2016
Current tax		
UK Corporation tax expense	4.5	2.1
Adjustments in respect of prior years		0.4
Total current tax	4.5	2.5
Deferred tax		
Origination and reversal of temporary differences	1.7	16.3
Effects of change in tax rate	(0.5)	(5.2)
Reassessment of property temporary differences (note 5)		8.4
Adjustments in respect of prior years	0.2	(2.4)
Total deferred tax	1.4	17.1
Total tax expense	5.9	19.6

Corporation tax is calculated at 19.25% (2016: 20.00%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was 25.6% (2016: 26.8%).

11. Dividends

(£ million)	2017	2016
Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2016 of 2.4 pence per share (2016: 2.4 pence)	10.0	9.6
– interim dividend for the year ended 31 December 2017 of 1.3 pence per share (2016: 1.3 pence)	5.2	5.2
	15.2	14.8

A final dividend of 2.5 pence per share, amounting to a total final dividend of approximately £10.0 million, is to be proposed at the Company's annual general meeting on 24 May 2018. In accordance with IAS 10 *Events After the Balance Sheet Date*, dividend declared after the balance sheet date is not recognised as a liability in these financial statements.

Notes to the preliminary announcement *continued*

12. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Profit for the year attributable to owners of the Parent (£ million)	16.8	53.6
Weighted average number of ordinary shares	401,081,391	401,081,391
Adjustment for weighted average number of shares held in the EBT	(467,034)	(1,085,956)
Weighted average number of ordinary shares in issue (No.)	400,614,357	399,995,435
Basic earnings per share (in pence per share)	**4.2**	**13.4**

For dilutive earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all dilutive potential ordinary shares arising from share options.

	2017	2016
Profit for the period attributable to owners of the Parent (£ million)	16.8	53.6
Weighted average number of ordinary shares in issue	400,614,357	399,995,435
Adjustment for weighted average number of contingently issuable shares	861,612	1,576,430
Diluted weighted average number of ordinary shares in issue (No.)	401,475,969	401,571,865
Diluted earnings per share (in pence per share)	**4.2**	**13.3**

13. Intangible assets

(£ million)	Goodwill
Cost	
At 1 January 2016	520.1
Written-off	(1.3)
At 31 December 2016	518.8
At 31 December 2017	**518.8**
Impairment	
At 1 January 2016, 31 December 2016 and 31 December 2017	**1.0**
Net book value	
At 31 December 2017	**517.8**
At 31 December 2016	517.8

The goodwill arising on acquisitions is reviewed annually for impairment on 31 December or when there is an event that may indicate impairment. The recoverable amount of the Group's cash-generating unit exceeds its carrying value and no impairment charge has been recognised (2016: £nil) and no event has given rise to amounts written off (2016: £1.3m).

The Directors do not believe that any impairment is required in the current financial year.

Notes to the preliminary announcement *continued*

14. Property, plant and equipment

(£ million)	Freehold property	Long leasehold property	Equipment	Assets in the course of construction	Total
Cost					
At 1 January 2016	673.3	158.5	298.9	38.6	1,169.3
Additions	9.7	14.2	32.6	103.9	160.4
Disposals	(15.3)	(2.3)	(25.7)	–	(43.3)
Reclassification	18.7	6.4	2.6	(27.7)	–
At 1 January 2016	**686.4**	**176.8**	**308.4**	**114.8**	**1,286.4**
Additions	**14.0**	**7.8**	**45.9**	**52.2**	**119.9**
Disposals	**–**	**(2.5)**	**(15.6)**	**–**	**(18.1)**
Transfers	**–**	**133.9**	**28.4**	**(162.3)**	**–**
Assets held for sale	**(33.6)**	**–**	**–**	**–**	**(33.6)**
At 31 December 2017	**666.8**	**316.0**	**367.1**	**4.7**	**1,354.6**
Depreciation					
At 1 January 2016	94.7	40.7	138.4	–	273.8
Charge for the year	11.7	4.7	35.5	–	51.9
Impairment	–	0.4	0.1	–	0.5
Reversal of impairment	–	–	(1.9)	–	(1.9)
Disposals	(3.0)	(2.0)	(24.4)	–	(29.4)
At 1 January 2017	**103.4**	**43.8**	**147.7**	**–**	**294.9**
Charge for the year	**9.3**	**9.1**	**39.0**	**–**	**57.4**
Impairment	**6.9**	**–**	**3.4**	**–**	**10.3**
Disposals		**(2.3)**	**(14.6)**	**–**	**(16.9)**
Assets held for sale	**(28.0)**				**(28.0)**
At 31 December 2017	**91.6**	**50.6**	**175.5**	**–**	**317.7**
Net book value					
At 31 December 2017	**575.2**	**265.4**	**191.6**	**4.7**	**1,036.9**
At 31 December 2016	582.9	133.0	160.7	114.8	991.5

Assets held for sale are in relation to Spire St Saviour's hospital and Whalley Range, Manchester. Further details are shown in note 5. The impairment in 2017 is the result of the closure of the Spire Specialist Cancer Care Centre in Baddow (Essex) further details as shown in note 9.

As at 31 December 2017, included in the net book value of property, plant and equipment above is £20.3 million (2016: £21.7 million) relating to assets held under finance leases on which there was a depreciation charge of £1.2 million in the year (2016: £1.2 million).

The amount of borrowing costs capitalised during the year ended 31 December 2017 was £0.7 million (2016: £1.8 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 3.4% (2016: 3.5%) which is calculated on a weighted cost of borrowing.

Notes to the preliminary announcement *continued*

15. Trade and other receivables

(£ million)	2017	2016
Amounts falling due within one year:		
Trade receivables – net	50.3	58.0
Other receivables	10.7	11.1
Prepayments	29.1	27.2
Accrued income	14.4	22.8
	104.5	119.1

Trade receivables comprise amounts due from private medical insurers, the NHS, patients, 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)	2017	2016
Not past due and not impaired	38.5	38.3
Past due 0–30 days, and not impaired	4.6	8.0
Past due 31–90 days, and not impaired	3.7	6.7
Past due and more than 91 days, and not impaired	3.5	5.0
Total	50.3	58.0

Trade receivables comprise the following wider customer/payor groups:

(£ million)	2017	2016
Private medical insurers	29.5	34.0
NHS	11.6	10.8
Patient debt	4.3	4.9
Other	4.9	8.3
Total	50.3	58.0

16. Borrowings

(£ million)	2017	2016
Secured borrowings		
Bank loans	425.1	424.1
Obligations under finance leases	76.9	76.1
	502.0	500.2

The bank loans and finance leases 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)	2017	2016
Amount due for settlement within 12 months	4.0	4.5
Amount due for settlement after 12 months	498.0	495.7
	502.0	500.2

Notes to the preliminary announcement *continued*

16. 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:

	2017		2016	
(£ million)	**Minimum payments**	**Present value of payments**	Minimum payments	Present value of payments
Within one year	**8.7**	**6.2**	8.7	7.0
After one year but not more than five years	**36.6**	**19.2**	35.8	21.2
More than five years	**220.3**	**51.5**	229.8	47.9
Total minimum lease payments	**265.6**	**76.9**	274.3	76.1
Less amounts representing finance charges	**(188.7)**	**–**	(198.2)	–
Present value of minimum lease payments	**76.9**	**76.9**	76.1	76.1

Property leases, with a present value liability of £76.6 million (2016: £75.4 million), expire in 2040 and carry an implicit interest rate of 12.9% (2016: 12.9%). Rent is reviewed annually with reference to RPI, subject to a floor of 3.0% and a cap at 5.0%.

Terms and debt repayment schedule

The maturity date is the date on which the relevant bank loans are due to be fully repaid, as 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	2017	2016
Senior finance facility	July 2019	2.00%	**425.1**	424.1
Revolving credit facility (undrawn committed facility)	July 2019		**100.0**	100.0

On 23 July 2014, the Group was refinanced, and it entered into a bank loan facility with a syndicate of banks, comprising a five-year, £425.0 million term loan and a five-year £100.0 million revolving facility. The loan is non-amortising and carries interest at a margin of 2.00% over LIBOR (2016: 2.00% over LIBOR).

17. Provisions

The movement for the year in the provisions is as follows:

(£ million)	Medical malpractice	Business restructuring and other	Total
At 1 January 2017	**14.3**	**2.4**	**16.7**
Increase (decrease) in existing provisions	**35.2**	**0.7**	**35.9**
Provisions utilised	**(31.0)**	**(1.6)**	**(32.6)**
Provisions released	**(1.7)**	**(0.4)**	**(2.1)**
At 31 December 2017	**16.8**	**1.1**	**17.9**

Medical malpractice relates to commitments to patients in respect of the removal or replacement of the PIP brand of breast implants, and estimated liabilities arising from claims for damages in respect of services previously supplied to patients. Amounts are shown gross of insured liabilities. Any such insurance recoveries are recognised in other receivables. Following the completion of the criminal proceedings against Ian Paterson, a consultant who previously had practicing privileges at Spire Healthcare, management agreed settlement with all current and known civil claimants (and the other co-defendants) and have made a provision for the expected remaining costs (see note 9). The provision in relation to Ian Paterson costs have been determined before account is taken of any potential further recoveries from insurers.

Business restructuring and other includes staff restructuring costs and closure costs relating to the Specialist Cancer Care Centre in Baddow (Essex).

The provisions are shown gross of any expected reimbursement from insurers of the related risks. The reimbursement is recognised as a separate receivable when receipt of it is judged sufficiently probable. The amount included in other receivables in that respect was £7.5 million (2016: £6.7 million).

Provisions as at 31 December 2017 are materially considered to be current and expected to be utilised at any time within three years.

Notes to the preliminary announcement *continued*

18. Trade and other payables

(£ million)	2017	2016
Trade payables	49.0	49.7
Other payables	10.0	8.8
Social security and other taxes	6.0	3.5
Accrued expenses	36.5	38.3
Total	101.5	100.3

19. Share capital and reserves

	£0.01 ordinary shares	
	Shares	£'000
Issued and fully paid		
At 31 December 2017	401,081,391	4,010
At 31 December 2016	401,081,391	4,010

Capital reserves
This reserve represents the loans of £376.1 million due to the former ultimate parent undertaking and management that were forgiven by those counterparties as part of the reorganisation of the Group prior to the IPO in 2014.

EBT share reserves
Equiniti Trust (Jersey) Limited is acting in its capacity as trustee of the Company's Employee Benefit Trust ('EBT'). The purpose of the EBT is to further the interests of the Company by benefiting employees and former employees of the Group and certain of their dependants. The EBT is treated as an extension of the Group and the Company.

During 2017, the EBT purchased no shares (2016: 561,860 shares acquired at an average price per share of £3.18 per share).

Where the EBT purchases the Company's equity share capital the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. As at 31 December 2017, 281,631 shares (2016: 670,559) were held by the EBT in relation to the Directors' share bonus award and long-term incentive plan.

At 1 January 2017, the EBT held 670,559 shares. In March 2017, 228,100 number of shares were exercised in relation to the 2014 Long term incentive plan ('LTIP') and in April 2017, 26,489 number of shares were exercised in relation to the 2014 LTIP. In December 2017, 134,339 shares were exercised in relation to the 2016 and 2017 LTIP which were awarded as part of the death in service package for Andrew White. There were new purchases of share and at 31 December 2017 the EBT held 281,631 shares.

At 1 January 2016, the EBT held 1,692,242. In April 2016, 801,825 number of shares were exercised in Tranche 1 of the Directors' Share Bonus Award and in August 2016, 781,718 shares were exercised for Tranche 2 (refer to Note 20). A purchase of 561,860 shares was made in July 2016 for an average price of £3.18 per share; and at 31 December 2016, the EBT held 670,559 shares.

The EBT share reserve represents the consideration paid when the EBT purchases the Company's equity share capital, until the shares are reissued.

20. Share-based payments

The Group operates a number of share-based payment schemes for Executive Directors and other employees, all of which are equity settled.

The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £1.0 million in the year ended 31 December 2017 (2016: £0.4 million). Employer's National Insurance is being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total National Insurance charge for the year was £0.1 million (2016: £0.2 million).

The following table analyses the total cost between each of the relevant schemes, together with the number of options outstanding:

	2017		2016	
	Charge (£ million)	Number of options (thousands)	Charge (£ million)	Number of options (thousands)
Long Term Incentive Plan	1.0	1,946	0.4	950
Deferred Bonus Plan	–	29	–	–
	1.0	1,975	0.4	950

A summary of the main features of the schemes are shown below:

Long Term Incentive Plan
The LTIP is open to Executive Directors and designated senior managers, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria.

Deferred Bonus Plan
The Deferred Bonus Plan is a discretionary executive share bonus plan under which the Remuneration Committee determines that a proportion of a participant's annual bonus will be deferred. The market value of the shares granted to any employee will be equal to one-third of the total annual

Notes to the preliminary announcement *continued*

bonus that would otherwise have been payable to the individual. The awards will be granted on the day after the announcement of the Group's annual results. The awards will normally vest over a three-year period.

21. Commitments

Operating leases

The Group had future minimum lease payments under non-cancellable operating leases, based on rents prevailing at the year end, as set out below:

	2017		2016	
(£ million)	Land and buildings	Other	Land and buildings	Other
Not later than one year	65.4	1.1	63.1	1.1
Less than one year and not later than five years	259.1	2.2	249.7	2.2
Later than five years	1,263.1	–	1,282.9	–
	1,587.6	3.3	1,595.7	3.3

The Group has a number of long-term institutional lease arrangements. These include leases over 12 properties with a term up to December 2042, subject to renewal or extension over 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, upwards only and subject to 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 each year, such being subject to indexation in line with RPI.

Other operating leases are in respect of vehicles and medical transportation.

Consignment stock

At 31 December 2017, the Group held consignment stock on sale or return of £23.0 million (2016: £22.1 million). The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

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)	2017	2016
Contracted but not provided for	65.5	63.8

22. Contingent liabilities

The Group had the following guarantees at 31 December 2017:

- The bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2016: £1.5 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; and
- See note 17 for details of a contingent liability in respect of Medical malpractice.

23. Events after the reporting period

2017 final dividend

For 2017, the Board has recommended a final dividend of 2.5 pence per share, amounting to approximately £10.0 million, to be paid on 26 June 2018 to shareholders on the register at the close of business on 1 June 2018.

Shareholders' information

Registered Office and Head Office:

Spire Healthcare Group plc
3 Dorset Rise
London
EC4Y 8EN

Tel +44 (0)20 7427 9000
Fax +44 (0)20 7427 9001

(Registered in England & Wales No. 09084066)

Corporate website

Shareholder and other information about the Company can be accessed on the Company's website:
www.spirehealthcare.com

Financial calendar

2018 Annual General Meeting (London)	24 May 2018
Ex-div date for 2017 final dividend	31 May 2018
Record date for 2017 final dividend	1 June 2018
Payment date for 2017 final dividend	26 June 2018
Announcement of 2018 half year results	September 2018