Spire Healthcare reports its results for the year ended 31 December 2018

London, UK, 28 February 2019, Spire Healthcare Group plc (LSE: SPI), a leading independent hospital group in the UK, today announces its preliminary results for the year ended 31 December 2018.

Good strategic and operational progress in a challenging year with positive cash generation

Summary Group results for the year ended 31 December 2018

(£ million)	Year ended 31 December 2018	2017	Variance %
Revenue	**931.1**	**931.7**	**(0.1%)**
Operating profit before exceptional and other items	54.2	92.1	(41.2%)
Exceptional and other items	(25.6)	(49.2)	(48.0%)
Operating profit	28.6	42.9	(33.3%)
Profit before tax	8.2	22.7	(63.9%)
Profit after tax	11.3	16.8	(32.7%)
EBITDA (1)	**119.4**	**150.0**	**(20.4%)**
Basic earnings per share, pence	2.8	4.2	(33.3%)
Adjusted profit after tax (2)	27.5	57.9	(52.5%)
Adjusted, basic earnings per share, pence (3)	**6.9**	**14.4**	**(52.1%)**
Total dividend paid/proposed per share, pence (4)	3.8	3.8	–
Capital investments	65.2	119.9	(45.6%)
Net cash from operating activities	116.3	124.0	(6.2%)
Net debt at the year end (5)	**453.8**	**462.8**	**(1.9%)**

1. Operating profit, adjusted to add back depreciation, loss on disposal of PPE and exceptional and other items, referred to hereafter as 'EBITDA'
2. Adjusted profit is calculated as earnings after tax adjusted for exceptionals and other items and related tax.
3. Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue.
4. A final dividend of 2.5 pence per ordinary share will be proposed at the Company's annual general meeting on 16 May 2019. If approved, it will be paid on 25 June 2019 to shareholders on the register of members as at 31 May 2019.
5. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.

Group financial performance

- Revenue flat at £931.1m (2017: £931.7m)
- Growth in PMI revenue of 1.5% and Self-pay of 8.7% offset by a reduction in NHS revenue of 7.2%
- EBITDA (1) £119.4m (2017: £150.0m)
- New hospitals in Manchester, Nottingham and St Anthony's reported combined positive EBITDA for the first time
- Adjusted profit after tax (2) £27.5m (2017: £57.9m)
- Positive cash flow with EBITDA conversion of 105%, the fourth consecutive year greater than 100%
- Net debt decreased to £453.8m, with covenant leverage at 3.67x EBITDA at year end, revised to 3.27x going forwards following covenant amendment(*)
- Capital investment of £65.2m (2017: £119.9m) in our hospital portfolio
- Final dividend proposed of 2.5p per share payable on 25 June 2019 (2017: 2.5p). Proposed total dividend maintained at 3.8p per share

Operating highlights

- Strong hires complete the executive team
- Investments in clinical quality and patient safety have resulted in 76% of Spire's hospitals now rated Outstanding or Good, up from 67% at the previous year end. All Spire sites inspected in the last two years rated Outstanding or Good by CQC.
- Awarded new PMI open referral contract on strength of clinical quality
- Strong staff engagement score (79%) sustained, with vacancies falling
- Significant self-pay developments include new digital-led commercial platform, implementation of new consumer finance proposition and Spire GP service now rolled out to all hospitals

* We have agreed a revised covenant calculation with our banks. The new calculation is applied from 1 January 2019 and will ensure that all 19 of our leased hospitals are treated consistently for our covenant purposes, see page 17.

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

"2018 was a challenging year but we made good strategic and operational progress, especially through our investments in clinical quality. The unprecedented decline in NHS revenue was offset by growth in our private business, which is clear evidence that we are pursuing the right strategy.

Spire Healthcare has a significant opportunity. People are living longer and they want their lives to be healthier and more active. We have seen marked growth in diagnostics, our private GP network, and in areas such as cancer treatment where our 20 Macmillan-accredited oncology sites are providing care for more patients than ever in this critical service area.

Patients will continue to exercise choice as they seek quality, convenience and a response to lengthening NHS waiting lists. In line with our strategy, we are investing in the right place at the right time to meet this opportunity.

Our short term growth ambitions were impacted by NHS volatility in 2018 and we executed planned investments in patient safety and quality. We enjoy robust balance sheet strength, with a high-quality property estate valued at more than £1.1 billion, and generated positive cash flow for the first time in three years

We invested in clinical quality and are delighted that every Spire site inspected by the CQC in the past two years achieved an Outstanding or Good rating, bringing our total estate up to 76% Outstanding or Good versus 67% a year ago.

Spire now has a strong and experienced executive team in place and we are looking forward to 2019 and beyond.

We are taking a measured approach to 2019, which will be a year of consolidation. We expect modest revenue growth, and will see the full year effect of investments coming through, whilst we will continue to achieve further efficiencies. We are focused on cash generation and debt reduction, placing Spire in a strong position for future EBITDA growth.

Our strategy is absolutely the right one for Spire so that we continue to be well positioned to reinforce our leading role in the independent sector and UK healthcare sector as a whole."

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About Spire Healthcare
Spire Healthcare is a leading independent hospital group in the United Kingdom, with 39 private hospitals, 8 clinics and one Specialist Cancer Care Centre across England, Wales and Scotland.

Spire Healthcare delivered tailored, personalised care to approximately 260,083 in-patients and daycase patients in 2018, and is the leading private provider, by volume, of knee and hip operations in the United Kingdom. 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 65 Fleet Street London EC4Y 1HT.

A live audiocast of the presentation will be available at 9.30am from the Spire website at:
http://webcast.openbriefing.com/spire8473/

Operating Review

Performance

Group revenue was flat in 2018 at £931.1 million (2017: £931.7 million), while EBITDA declined 20.4% to £119.4 million (2017: £150.0 million). In-patient and daycase admissions reduced by 3.4% to 260,083 cases (2017: 269,301 cases). Our three "new" hospitals (Manchester, Nottingham and St Anthony's) generated combined profits for the first time.

The main drivers of the Group's lower operating profits of £28.6 million in 2018 (2017: £42.9 million) were the unexpected reduction in NHS revenue and planned cost increases.

Revenue

- Overall, In-patient/daycase admissions declined by 9,218 to 260,083 with a mix shift from orthopaedic to oncology, which grew by 23%, and in-patient to daycase procedures.
- The increase in Private Payor revenue of PMI 1.5% and self-pay 8.7% substantially offset the significant decline in NHS revenue.
- NHS admissions and revenue were negatively impacted by significant NHS cost constraints and new referral management schemes

Costs

- There was a planned investment programme including increases in clinical staff and other costs associated with Spire's drive to enhance Clinical Quality and Patient Safety, as well as additional investment in marketing to drive self-pay volumes and the full year cost impact of our new hospitals
- There was a material mix impact with a greater proportion of oncology and day case admissions. Oncology is lower margin but good, high value business. Day cases have lower revenue but provide an opportunity to deliver operational efficiencies.
- Other cost increases include the full year impact of our new hospitals and normal inflationary rental increases
- There was a benefit from the cost saving initiatives that were introduced during the year and direct costs flexed down with the lower admission volumes versus 2017

Cash flows

Our robust operating cash flows enabled us to continue to invest in our estate and our systems, and to maintain the dividend. During the year, we invested £65.2 million (2017: £119.9 million) in capital projects, including the conclusion of the developments of the new Spire Manchester Pathology Centre, and major upgrades of the facilities at Spire Bushey, Spire Hull, Spire Cheshire and Spire Cambridge Lea Hospitals. Despite this, net debt was reduced to £453.8 million (2017: £462.8 million).

Operational review *continued*

Market trends

Overall UK healthcare market

The ageing population and greater prevalence of long-term medical conditions are increasing demand for healthcare services. NHS resources are being stretched to cope with growing demand and are subject to budgetary constraints. Treatment and care for people with long-term conditions accounts for an estimated 70% of total health and social care expenditure, 50% of all GP appointments, 64% of all out-patient appointments and more than 70% of all in-patient bed days. The number of people with three or more long term conditions was around 2.9 million in 2018 (up from 1.9 million in 2008).

Individual payor groups

Against this backdrop, private healthcare plays an important role in helping to meet the UK's increasing healthcare needs:

- **NHS:** We continue to partner with the NHS to help it meet growing demand, while reducing the requirement for capital investment in the public sector. As NHS decision-making is dispersed, the way in which our NHS contracts are managed means our NHS revenue is vulnerable to priorities that can vary by geography. However, during 2018 the NHS has been allocated additional funding to help reduce waiting times – some £20 billion over the five years to 2023/24. Some of this funding is expected to result in increased NHS spending in the independent sector, enabling Spire Healthcare to remain part of the solution by continuing to help the NHS deliver outstanding healthcare and providing choice to patients.
- **Private medical insurance (PMI):** The majority of private patients are funded by private medical insurers, with most PMI being funded by the corporate market. This makes PMI sensitive to economic downturns, as demonstrated by the fall in the proportion of the population covered by PMI in the UK from 12.3% in 2008 to 10.4% in 2017. PMI providers now highlight increases in productivity and reductions in sickness absence to employers as key selling points. In the medium-term, Spire Healthcare will differentiate on quality and compete hard to achieve growth in PMI, while insurance providers may seek to expand the sector by broadening their range of services to cover health and fitness, GP services and emergency care. In 2018, we won a new contract with a leading private medical insurer, on the basis of our transparency and quality, reflecting a trend for insurers to increasingly focus on quality credentials.
- **Self-pay treatment:** Self-pay offers the potential for real growth in private patient treatments, with demand relatively unaffected by economic uncertainty. We have seen good growth in self-pay volumes for several years. Longer NHS waiting times are a key driver of demand, while thresholds for NHS surgery have been raised on several treatments and others of 'limited clinical value' have been restricted altogether. Convenience and flexibility are also key factors in choosing private healthcare, and more patients are now using the private sector for outpatient appointments and diagnostics before deciding whether to switch back to the NHS or continue with private treatment. The proportion of the workforce which is self-employed has also risen, with most of the growth coming in management and professional occupations in the service sector. More of these people are looking to self-fund healthcare to avoid taking too much time away from work without the security of sick-pay and other corporate benefits.

Impact of Brexit

Although the Brexit referendum took place three years ago and the UK is approaching the date when it is due to leave the European Union, there is as yet not enough information to assess the medium to long term impact of the result on future NHS funding levels, the UK healthcare sector as a whole (including clinical staffing levels) and Spire's position within that sector. Our plans for coping with a disorderly Brexit are well advanced. For full detail see note 23 on page 36.

STRATEGY REVIEW

Spire Vision

At our preliminary results presentation in March 2018, we set out our vision for Spire "To become the go-to UK independent healthcare brand, famous for clinical quality and customer care". This vision has not changed, and we will focus on five key areas to help deliver it.

1. Uncompromising on clinical quality and patient safety
    - We aim to lead our sector in quality and clinical care by setting new standards in the industry.
    - By embedding a 'quality first' culture, we continue to improve our CQC ratings and to achieve other external accreditations from specialist organisations.
    - We are building on the systems we already have in place to develop even more robust standards of patient care.
    - We put patients and their safety first and have increased our clinical resources to continually assess and support quality improvements.
    - By enhancing the ongoing clinical reviews we conduct, patients can be assured of the highest standards and quality care at our hospitals.

2. First choice for private patients and key partner to the NHS
    - We aim to be the 'go to' private healthcare brand – offering rapid diagnosis and first-class treatment.
    - We are committed to providing access to diagnosis and treatment on our patients' terms.
    - We have aligned our sales and marketing functions to better understand our customers and meet their needs – especially those within the self-pay sector.

- We have invested in our sites, to provide the most welcoming environments for patients, and we are developing advanced clinical services to meet emerging needs.
- Our customers can also choose to enjoy enhanced service levels to improve their patient experience.

3. Most recommended customer experience
    - We aim to lead our sector in customer satisfaction, with our strong focus on care and retention.
    - We will offer a swift diagnosis process, which is important to our patients, and improve the efficiency of our reservation, admission and discharge processes.
    - We work hard to prepare patients for their stay with us, their care and treatment, and their return home.
    - We operate excellent local services and are making these more consistent across our portfolio. This includes putting more services online to make it easier for patients to interact with us.
    - Our aim is for every patient we treat to recommend us to their friends and family, and to use us again if they need us.

4. Best place to practise
    - We work closely with consultants and want to be the place where they most want to work.
    - The relationship we have with our consultants involves strong local engagement, understanding their needs and working hard to meet them, using findings from our annual consultant survey.
    - We have implemented the practices and privileges review to ensure high standards.
    - We use technology to make patient and theatre booking easier and more flexible, and support our consultants by providing them with proven, modern equipment.
    - We also provide access to our dedicated consultants' app, which has been further enhanced this year.

5. Best place to work
    - Our aim is to be the employer of choice for the best people in our industry.
    - With a strong focus on employee communications and engagement, we are building our culture and values, and driving performance across a more aligned organisation.
    - We have strengthened our HR functions and our central recruitment capability to support our teams.
    - We are developing transparent, easy to understand reward frameworks to recognise excellent performance. This has included the launch of 'Spire for You', an online portal that supports our employee reward, benefits and engagement.

BUSINESS DEVELOPMENT

Investing in our hospital assets

- Work completed at Spire Cambridge Lea Hospital, comprising the expansion and refurbishment of the daycase unit, a new JAG accredited endoscopy suite and the upgrade of the Level 1 Critical Care extended recovery area .
- Development work continued at Spire Bushey Hospital to provide a 6th theatre, a new larger recovery unit and Theatre Sterile Services Unit (TSSU), as well as 10 new patient bedrooms. Work is due to complete in Q2 2019.
- Work commenced on the new specialist orthopaedic centre at Spire Manchester. The facility will comprise 7 consulting rooms, a minor treatment room, and incorporate MRI, fluoroscopy, ultrasound, plain X-ray services. It is expected to open in H2 2019.
- Other investments included a new MRI scanner at Spire Norwich, the refurbishments at Spire Hartswood, Spire Bristol, Spire Parkway (Solihull) and Spire Hull, a new Mobile CT Scanner and a Group-wide telephony project.
- At the end of December 2018, the Group has 134 operating theatres and 20 oncology centres.

Developing our service offering for growth

- We continue to update and extend our diagnostic network with investments in new MRI scanners.
- Our Spire GP service has now been rolled out to all our hospitals and we are looking to grow this service offering further – patients can now book an appointment online. We will also add (in due course) a digital Spire GP service to this physical GP service.
- We continue to finesse the design and responsiveness of our recently revamped website, which is key to attracting new patients to Spire. Website traffic and digital enquiries continue to grow at record levels (now 50% of all incoming enquiries).
- We have finalised and deployed our new central online marketing strategy. A successful central marketing campaign in Q4 2018 has been followed by further refinements in our Q1 2019 campaign.
- We are implementing an improved consumer finance proposition having tested it in an extended pilot programme.

Developing operational excellence

- We are seeking to improve the utilisation of spare theatre capacity to improve the recovery of fixed and semi-variable costs in the business.
- We continue to focus on delivering economies of scale in procurement, distribution and logistics and other in-house support services such as pathology and sterilisation.

- In 2018 we reduced staff numbers in several areas, including development, central overhead and mainly non-clinical hospital costs. From FY 2019 onwards we expect to continue restructuring the cost base through further standardisation and efficiency improvements.
- We are moving to shorter, more targeted 90-day plans for delivery of targets without losing our focus on patient safety and will ensure our central and local teams work better together, sharing best practice and common processes.
- We already have a major programme in place to review and simplify our end-to-end processes, which will help us deliver a better customer experience and make us generally easier do business with.
- We retain our focus on recruitment and retention - improving the employer proposition to make Spire Healthcare an employer of choice plus introducing development programmes to 'grow our own'. We also hired a new specialist recruitment organisation to assist us in external recruitment across the country.

Leading the way in marketing and retailing private healthcare

- The challenge for private healthcare providers is to improve their marketing capabilities and offerings to ensure that the public is better aware of the options to self-fund treatment. Spire Healthcare aims to lead the way in marketing and retailing private healthcare.
- Understanding patient needs is vital to tapping this demand effectively. Having invested in our central marketing team and resources in 2018, we have access to better market insights and are able to leverage our scale and reach the right people.
- Our research shows that providing quick and easy access to diagnosis meets a fundamental need for our target market.
- The roll-out of Spire GP at our hospitals has helped with this, offering a more immediate way for patients to be referred for these treatments.
- Quality of care, in the form of access to leading consultants, the latest and most advanced technology, and a choice of treatments is not always available on the NHS. Flexibility in the choice of appointment time, is also highly important.
- In 2018, we launched online booking for self-pay consultations, through which we are already taking a significant share of bookings.

Senior appointments

In July, the Company announced the appointment of Jitesh Sodha as Chief Financial Officer and an Executive Director from 1 October 2018. He replaces Simon Gordon who stood down from the Board on 2 March 2018 and left Spire at the end of that month. Jitesh's skills will greatly benefit Spire including his track record in helping companies execute ambitious transformation plans.

In September, the Company announced the appointment of John Forrest as Chief Operating Officer from 8 October 2018. John's extensive experience, knowledge and relevant skills built up at Greene King and Premier Inn will make a significant and positive difference to Spire's operational aspirations.

Spire received notification from Mediclinic Jersey Limited, the Company's principal shareholder and a wholly-owned subsidiary of Mediclinic International plc, that its nominated Non-Executive Director to Spire's Board, Danie Meintjes, would not stand for re-election at the Company's annual general meeting on 24 May 2018 and would be replaced by Dr Ronnie van der Merwe (Mediclinic International's CEO). Ronnie was appointed a Non-Executive Director from the conclusion of the 2018 AGM.

In February 2019 Shelley Thomas was appointed as Group HR Director. Shelley's extensive experience and knowledge will make a significant difference to our people leadership. Cora McCallum, who was until recently an equity research analyst at Investec, joined this week to head up Investor Relations.

Regulation and Governance

During the year under review we made significant investments in our clinical governance, including the establishment of our new national Specialist Advisory Panel. The role of the Panel is to advise us in relation to medical standards, governance, oversight and ethics. Another important governance initiative has been the introduction of "Freedom to Speak Up" Guardians at all our sites, to allow colleagues to feel free to raise any concerns about safety or wrongdoing, so that they can be properly investigated. This is in line with the National Guardian's Office, which is sponsored by the CQC, NHS England and NHS Improvement.

During the year, the CQC completed a number of second inspections of our hospitals in England, including some focused reviews of core services. Most results have been published, though some are awaited. Of the reports issued, all were rated 'Good' or 'Outstanding' for all core services and all key questions, some with improved ratings on initial reviews. The proportion of our hospitals now ranked "Good" or "Outstanding" has risen to 76% (from 67%) which continues to far exceed the NHS average. Within domains, 100% of our hospitals are rated 'Good' or 'Outstanding' for Caring and our performance in the Safe, Effective, Responsive and Well-led domains remains in line with or better than the rest of the sector average for each. Four of our hospitals are rated 'Outstanding' overall, with others having 'Outstanding' ratings for individual domains or services. We look forward to the CQC returning to more of our hospitals in 2019/20 to enable us to demonstrate the improvements we have made and to showcase good practice.

Both of our hospitals in Scotland were inspected in 2018 and continue to demonstrate good quality standards under HIS's new ratings system.

Outlook for 2019

After a difficult year, in 2019 we expect a return to modest revenue growth, offset by mix and the full year effect of investments in quality. This outlook reflects a measured approach whilst the NHS remains an uncertain market.

- Revenue components:
  - Self-Pay: positive momentum in admissions and revenue
  - PMI: Moderate revenue increase
  - NHS: Tariff improvement from April 2019, but future volumes remain unclear
  - Mix: continued shift to oncology and day case
- Costs: full year effect of investment, inflation and ongoing cost saving initiatives
- Capex and cash: capex of approximately £60-65m, with the Company maintaining positive cashflow

Financial review

Selected financial information

(£ million)	2018 Total before exceptional and other items	2018 Exceptional and other items [5]	2018 Total	2017 Total before exceptional and other items	2017 Exceptional and other items [5]	2017 Total	Variance (on total after exceptional and other items) %	Underlying variance % [1]
Revenue	931.1	–	931.1	**931.7**	**–**	**931.7**	**(0.1%)**	**(1.3%)**
Cost of sales	(497.6)	–	(497.6)	(492.2)	–	(492.2)	1.1%	0.5%
Gross profit	433.5	–	433.5	**439.5**	**–**	**439.5**	**(1.4%)**	**(3.2%)**
Other operating costs	(379.3)	(25.6)	(404.9)	(347.4)	(49.2)	(396.6)	2.1%	0.4%
Operating profit	54.2	(25.6)	28.6	**92.1**	**(49.2)**	**42.9**	**(33.3%)**	**(30.9%)**
Net finance costs	(20.4)	–	(20.4)	(20.2)	–	(20.2)	1.0%	
Profit before taxation	33.8	(25.6)	8.2	**71.9**	**(49.2)**	**22.7**	**(63.9%)**	
Taxation	(6.3)	9.4	3.1	(14.0)	8.1	(5.9)	152.5%	
Profit for the year	27.5	(16.2)	11.3	**57.9**	**(41.1)**	**16.8**	**(32.7%)**	
EBITDA [2]			119.4			**150.0**	**(20.4%)**	**(23.3%)**
Basic earnings per share, pence	6.9	(4.1)	2.8	**14.4**	**(10.2)**	**4.2**	**(33.3%)**	
Total dividend paid/proposed per share, pence [3]			3.8			3.8	–	
Capital investments			65.2			119.9	(45.6%)	
Net cash from operating activities	125.4	(9.1)	116.3	158.4	(34.4)	124.0	(6.2%)	
Net debt at the year end [4]			453.8			**462.8**	**(1.9%)**	

Year ended 31 December

1. Excludes the impact of Spire Manchester, Spire Nottingham and Spire St Anthony's hospitals (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 16 May 2019. If approved, it will be paid on 25 June 2019 to shareholders on the register of members as 31 May 2019.
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.

Financial review *continued*

(£ million)	2018	2017[3]	Variance %	Underlying variance excluding disposals % [1]
	Year ended 31 December			
Total revenue	**931.1**	**931.7**	**(0.1%)**	**(1.3%)**
Of which:				
PMI	432.6	426.0	1.5%	0.5%
NHS	272.2	293.3	(7.2%)	(8.3%)
Self-pay	174.1	160.2	8.7%	7.6%
Partnerships	27.0	26.6	1.5%	0.8%
Other [2]	25.2	25.6	(1.6%)	(4.1%)
	931.1	**931.7**	**(0.1%)**	**(1.3%)**
Of which:				
In-patient/daycase	637.5	637.2	0.1%	(1.0%)
Out-patient	268.4	268.9	(0.2%)	(1.7%)
Other	25.2	25.6	(1.6%)	(4.1%)
	931.1	**931.7**	**(0.1%)**	**(1.3%)**
Number ('000s)				
Total in-patient/daycase admissions	**260.1**	**269.3**	**(3.4%)**	**(4.6%)**
Of which:				
PMI volumes	116.8	118.4	(1.3%)	(2.2%)
NHS volumes	92.7	101.5	(8.7%)	(9.9%)
Self-pay volumes	47.5	46.2	2.8%	1.5%
Partnership volumes	3.1	3.2	(2.2%)	(3.1%)

1. Excludes the impact of Spire Manchester, Spire Nottingham and Spire St Anthony's hospitals (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').
3. 2017 numbers have been restated to separately present the Partnership revenue figures.

Revenue

(£ million)	2017	In-patient/daycase volume	In-patient/daycase rate	Out-patient	Other	2018	Growth
Underlying total revenue	881.1	(27.4)	21.4	(4.5)	(0.9)	869.7	(1.3%)
Non underlying revenue	50.6	7.1	(0.6)	3.8	0.5	61.4	
Total revenue	931.7					931.1	(0.1%)

Revenue for the year ended 31 December 2018 decreased by £0.6 million, or 0.1%, to £931.1 million (2017: £931.7 million).

Underlying revenue (excluding Spire Manchester, Spire Nottingham and Spire St Anthony's hospitals) reduced by £11.4 million, or 1.3%, to £869.7 million (2017: £881.1 million). Going forwards, the Company will no longer detail underlying figures, but presents them within this announcement for the benefit of comparison with prior periods. Of the underlying revenue reduction of 1.3%:

- a decrease of 4.6% in the volume of underlying in-patient and daycase admissions accounted for a 3.1% decline in revenue in the year, with Self-pay admissions growth partially offsetting volume declines in other payors;
- a 3.7% increase in rate for underlying in-patient and daycase admissions (average revenue per case) drove an increase to total revenue of 2.4%. Private payors rate overall grew by 5.2%; partnerships 9.8%, self -pay 7.1%, PMI 3.9% and NHS payors saw a small increase of 0.8%;
- underlying outpatient revenues have declined by 1.7% overall with the biggests decline of 5.4% in NHS revenues. The impact of the NHS triage centres is a significant contributory factor as seen by a 1.1% decline in NHS outpatient activity. PMI volumes have declined by 4.2% however higher revenue per activity has resulted in an overall decline of only 1.5%. Self-pay outpatient revenues are up 3.9% driven by an increase in volumes of 6%; and
- an increase in non-underlying revenues of £10.8 million, or 21.3% was driven by increases of in-patient and daycase volumes driving revenue growth across PMI of £2.6 million, NHS of £2.0 million and Self-pay of £2.0 million with increase in outpatient revenues of £3.8 million, primarily PMI of £2.3m.

PMI

(£ million)	2017	In-patient/daycase volume	In-patient/daycase rate	Out-patient	2018	Growth
Underlying PMI revenue	394.9	(5.6)	9.6	(2.1)	**396.8**	**0.5%**
Non underlying revenue	31.1	2.6	(0.2)	2.3	**35.8**	
Total PMI revenue	426.0				**432.6**	**1.5%**

PMI revenue for the year ended 31 December 2018 increased by £6.6 million, or 1.5%, to £432.6 million (2017: £426.0 million). Underlying revenue increased by £1.9 million, or 0.5%, to £396.8 million (2017: £394.9 million). Of the underlying increase in PMI revenue of 0.5%:

- a decrease of 2.2% in the volume of in-patient and daycase admissions accounted for a 1.4% reduction in PMI revenue in the year;
- a 3.9% increase in rate for in-patient and daycase admissions (average revenue per case), resulted in an increase to PMI revenues overall of 2.4%. This rate increase was a combination of contractual increases to prices and a modest increase in the complexity of work undertaken in the year;
- outpatient revenues have declined 1.5%, outpatient activity has continued to decline, by 4.2% versus prior year compared to a decline of in-patient and daycase admissions of 2.2%. The impact of the decline in activity has been partially mitigated by the year on year increase in average revenue per activity of 2.7%.

NHS

(£ million)	2017	In-patient/daycase volume	In-patient/daycase rate	Out-patient	2018	Growth
Underlying NHS revenue	286.6	(22.4)	1.7	(3.2)	**262.7**	**(8.3%)**
Non underlying revenue	6.7	2.0	–	0.8	**9.5**	
Total NHS revenue	293.3				**272.2**	**(7.2%)**

NHS revenue for the year ended 31 December 2018 decreased by £21.1 million, or 7.2%, to £272.2 million (2017: £293.3 million). Underlying NHS revenue declined by £23.9m, or 8.3%, to £262.7 million (2017: £286.6 million). Of the underlying decline in NHS revenue of 8.3%:

- a decrease of 9.9% in the volume of underlying in-patient and daycase admissions accounted for a 7.8% reduction in total underlying NHS revenue in the year;
- The average revenue per case for NHS admissions increased by 0.8% over 2017. Growth in in-patient and daycase rate (average revenue per case) contributed 0.6% to underlying NHS revenue Growth in the year. Orthopaedic revenues have declined significantly year on year, 10.1%, accounting for 70.3% of the total underlying revenue decline; and
- outpatient revenue fell against 2017 primarily due to a combination of a decline in e-referral average rate per activity of 5.1% and a decline of 29.4% in NHS local activity.

The underlying revenue decline in NHS revenue of 8.3% is split as follows:

- NHS eReferral revenue declined by 5.2% in the year ended 31 December 2018;
- NHS local revenue declined by 28.0% in the same period. Management had expected NHS local contract revenue to continue the decline started in 2017 due to the relaxation of penalties 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 89.3% of underlying NHS revenue in the year ended 31 December 2018, up from 86.3% in the prior year.

Self-pay

(£ million)	2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	2018	Growth
Underlying Self-pay revenue	151.1	1.7	8.4	1.3	**162.5**	**7.6%**
Non underlying revenue	9.1	2.0	–	0.5	**11.6**	
Total Self-pay revenue	160.2				**174.1**	**8.7%**

Self-pay revenue for the year ended 31 December 2018 increased by £13.9 million, or 8.7%, to £174.1 million (2017: £160.2 million). Underlying revenue grew by £11.4 million, or 7.6%, to £162.5 million (2017: £151.1 million). Of the underlying growth in Self-pay revenue of 7.6%:

- an increase of 1.5% in the volume of underlying in-patient and daycase admissions accounted for a 1.1% rise in Self-pay revenue in the year;
- the average revenue per case for Self-pay in-patient and daycase admissions grew by 7.1% over the prior year which drives an additional 5.6% of revenue; and
- outpatient activities grew by 6% against 2017 which resulted in an increase in self-pay outpatient revenue of 3.9%.

Partnerships

(£ million)	2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	2018	Growth
Underlying Partnerships revenue	24.3	(0.2)	0.7	(0.3)	**24.5**	**0.8%**
Non underlying revenue	2.3	–	–	0.2	**2.5**	
Total Partnerships revenue	26.6				**27.0**	**1.5%**

Partnerships revenue for the year ended 31 December 2018 increased by £0.4 million, or 1.5%, to £27.0 million (2017: £26.6 million). Underlying revenue grew by £0.2 million, or 0.8%, to £24.5 million (2017: £24.3 million). Of the underlying growth in Partnerships revenue of 0.8%:

- a decrease of 3.1% in the volume of underlying in-patient and daycase admissions accounted for a 0.8% fall in Partnerships revenue in the year;
- the average revenue per case for Partnerships in-patient and daycase admissions grew by 9.8% over the prior year, contributing 2.9% to the increase in Partnerships revenue in the year; and
- outpatient activities in 2018 declined 14.6% which was mitigated by an increase in average revenue per activity resulting in an annual decline in outpatient revenues of 1.5%.

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 £0.4 million, or 1.6%, in the year, to £25.2 million (2017: £25.6 million). This is due to the cessation of an external supply contract which ended mid-year.

Cost of sales and gross profit

Cost of sales increased in the year by £5.4 million, or 1.1%, to £497.6 million (2017: £492.2 million) on revenues that declined by 0.1% in the year. Underlying cost of sales increased in the year by £2.0 million, or 0.4%, on underlying revenues that decreased by 1.3% in the year. Underlying gross margin for the year of 2018 was 47.3%, compared with 48.2% in 2017.

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

	Group		Underlying	
	Year ended 31 December		Year ended 31 December	
	2018	2017	**2018**	2017
Clinical staff	**20.5%**	19.6%	**19.8%**	18.8%
Direct costs	**22.4%**	22.1%	**22.3%**	21.9%
Medical fees	**10.5%**	11.1%	**10.6%**	11.1%
Cost of sales	**53.4%**	52.8%	**52.7%**	51.8%
Gross profit margin	**46.6%**	47.2%	**47.3%**	48.2%

Overall the underlying Group gross profit margin has reduced compared to 2017. There has been a significant impact in clinical staffing costs relating to achieving compliance against all necessary standards. Supply-side constraints to nursing resource continue to exist; clinical staff costs as a percentage of revenues have increased in 2018 compared to the prior year. Management has initiated changes to the recruitment process in the latter half of the year in order to limit use of agency staff in the future.

Continued initiatives in Procurement have resulted in savings in direct costs of drugs, prostheses and consumables. Conversely, an increase in oncology volumes this year incurred a higher drug spend (oncology revenue has increased by 23.2% year on year).

Management actions alongside case mix changes have continued to generate medical fee savings in the year. The mix shift in NHS work towards lower orthopaedic volumes has also impacted favourably.

Other operating costs

Other operating costs for the year ended 31 December 2018 increased by £8.3 million, or 2.1%, to £404.9 million (2017: £396.6 million). Excluding exceptional and other items, other operating costs for the year increased by £31.9 million, or 9.2%, to £379.3 million (2017: £347.4 million).

Underlying other operating costs decreased in the year by £1.5 million, or 0.4%, to £377.5 million (2017: £375.9 million). Excluding exceptional and other items, underlying other operating costs for the year increased by £25.1 million, or 7.7%, to £351.9 million. The composition of these costs are shown below:

	Group		Underlying	
	Year ended 31 December		Year ended 31 December	
	2018	2017	**2018**	2017
Gross profit margin	**46.6%**	47.2%	**47.3%**	48.2%
Hospital and central overheads	**(26.6%)**	(24.2%)	**(26.2%)**	(23.6%)
Depreciation and amortisation	**(7.0%)**	(6.2%)	**(6.4%)**	(6.1%)
Rent	**(7.1%)**	(6.9%)	**(7.6%)**	(7.3%)
Loss on disposal of assets	**(0.1%)**	–	**–**	(0.1%)
Operating margin	**5.8%**	9.9%	**7.1%**	11.1%
EBITDA margin	**12.8%**	16.1%	**13.4%**	17.3%

EBITDA and underlying EBITDA

EBITDA for the year ended 31 December 2018 decreased by £30.6 million, or 20.4%, to £119.4 million (2017: £150.0 million). Underlying EBITDA decreased by £35.5 million, or 23.3%, from £152.2 million to £116.7 million.

The Group EBITDA margin of 12.8% compares to 16.1% in 2017 and was impacted by the costs associated with the start-up nature of new sites. The Group underlying EBITDA margin of 13.4% compares to 17.3% in 2017 and the movement is the result of hospital and central overhead and rent increases explained above.

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 £3.0 million, or 5.5%, to £57.5 million (2017: £54.5 million) as the Group continues to invest in capacity and capability across the existing network of hospitals.

Total depreciation charged in the year of £65.1 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 £2.2 million, or 3.4%, to £66.1 million (2017: £63.9 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 2018, the charge to the income statement was £0.5 million (2017: £1.0 million), or £0.6 million inclusive of National Insurance (2017: £1.1 million).

Exceptional items and other items

	Year ended 31 December	
(£ million)	**2018**	2017
Ian Paterson claims and related costs	**1.0**	28.7
Hospital set-up and closure costs	**0.8**	3.4
Executive medical leave and death in service	**–**	0.9
Business reorganisation and corporate restructuring	**4.7**	0.6
Hospital impairment on property, plant and equipment and write off and aborted project costs	**17.9**	14.4
Other	**(0.3)**	0.7
Total exceptional costs	**24.1**	48.7
Income tax credit on exceptional items	**(9.1)**	(8.0)
Total post-tax exceptional items	**15.0**	40.7

Spire is continuing to pursue legal action against its insurers to seek recoveries of the Ian Paterson settlement and related costs. This may give rise to future exceptional income being recognised in the income statement. In 2018, a further £1.0 million expense has been incurred. No account has been taken of further recoveries in the results for the year ended 31 December 2018.

Hospital set-up and closure costs are mainly due to closure and decommissioning of the Windsor clinic. Business reorganisation costs include internal group reorganisation costs associated with the strategic review that commenced in Q4 2017 and a cost reduction project covering hospitals and central functions. Property impairment primarily relates to the Spire Alexandra hospital, where a charge of £12.6 million was taken in the first half of 2018. Other property impairment costs relate to the aborted development in 2017 of a hospital site in Central London and the write off of costs associated with a potential development in Milton Keynes.

In the year ended 31 December 2017, the completion of the criminal proceedings against Ian Paterson (a consultant who previously had practising privileges at Spire Healthcare) resulted in Spire Healthcare providing £28.7 million in relation to this settlement. 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 which resulted in write-offs and aborted costs charged as exceptional items in the year of £14.4 million.

(£ million)	**2018**	2017
Compliance costs	**1.5**	0.5
Total other items	**1.5**	0.5
Income tax credit on other items	**(0.3)**	(0.1)
Deferred tax reassessment of temporary difference on property	**–**	–
Total post-tax exceptional costs	**1.2**	0.4

Compliance set up costs include amounts incurred in 2018 and 2017 to meet the requirements of GDPR regulations.

Full details of exceptional items are disclosed in note 9 on page 29.

Net finance costs

Net finance costs increased by 1.0% to £20.4 million (2017: £20.2 million) as a result of an incremental increase in finance lease costs and higher margins on bank borrowings. The 2018 charge is stated after a gain of £3.3 million which arose on modification of the facility under IFRS 9.

Taxation

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK. The reconciliation of the actual tax charge to that at the domestic corporation tax rate is as follows:

(£ million)	**2018**	2017
Profit before taxation	**8.2**	22.7
Tax at the standard rate	**1.6**	4.4
Effects of:		
Expenses not deductible for tax purposes	**1.1**	0.5
Adjustments to prior year	**(1.0)**	0.2
Difference in tax rates	**(0.2)**	(0.5)
Increase from impairment of fixed assets	**0.7**	1.3
Disposal of fixed assets	**(5.3)**	–
Total tax (credit)/charge	**(3.1)**	5.9

Expenses not deductible for tax purposes relate mostly to depreciation on non-qualifying fixed assets, disallowable entertaining and professional fees.

Profit after taxation

The profit after taxation for the year ended 31 December 2018 was £11.3 million (2017: £16.8 million).

This statement was prepared for illustrative purposes only and does not represent the Group's actual earnings. The information was prepared as described in the notes set out below.

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.

Consistent with our approach for 2017, we have excluded the results of Spire Manchester, Spire Nottingham and Spire St Anthony's hospitals in arriving at 'underlying' in this report. Our approach recognises that, whilst significant progress has continued to be made since the opening or redevelopment of these sites in 2017, their transition from what were effectively start-up operations flowed into 2018.

	Year ended 31 December	
(£ million)	**2018**	2017
Revenue	**931.1**	931.7
Adjustments:		
New hospitals and redeveloped hospital	**(61.4)**	(50.6)
Underlying revenue	**869.7**	881.1
Operating profit before exceptional items	**54.2**	92.1
Adjustments:		
New hospitals and redeveloped hospital	**5.0**	5.6
Underlying operating profit before exceptional and other items	**59.2**	97.7
Depreciation and amortization on underlying assets	**57.5**	54.5
Underlying EBITDA	**116.7**	152.2
EBITDA	**119.4**	150.0
Adjustments:		
New hospitals and redeveloped hospital	**(2.7)**	2.2
Underlying EBITDA	**116.7**	152.2

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)	**2018**	2017
Profit before taxation	8.2	**22.7**
Adjustment for:		
Exceptional and other items	25.6	49.2
Adjusted profit before tax	33.8	71.9
Taxation[1]	(6.3)	(14.0)
Adjusted profit after tax	27.5	57.9
Weighted average number of ordinary shares in issue (No.)	400,818,049	400,614,357
Adjusted basic earnings per share (pence)	6.9	14.4

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 12.

Cash flows analysis for the year

	Year ended 31 December	
(£ million)	**2018**	2017
Opening cash balance	39.2	**67.9**
Operating cash flows before exceptional items and income tax paid	125.4	**158.4**
Exceptional items	(7.7)	(31.3)
Net income tax paid	(1.4)	(3.1)
Operating cash flows after exceptional items and income tax paid	116.3	124.0
Net cash used in investing activities	(68.0)	(118.3)
Net cash used in financing activities	(39.8)	(34.4)
Closing cash balance	47.7	**39.2**
Closing net debt	453.8	**462.8**

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 £125.4 million, which constitutes a cash conversion rate from EBITDA for the year of 105.0% (2017: £158.4 million or 105.6%). The net cash outflow from movements in working capital in the year was £7.7 million (2017: £15.1 million net cash inflow).

Investing and financing cash flows
Net cash used in investing activities for the year ended 31 December 2018 was £68.0 million (2017: £118.3 million). Cash outflow for the purchase of property, plant and equipment in the year totalled £73.7 million (2017: £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 financing activities for the year ended 31 December 2018 was £39.8 million, including interest paid of £24.4 million and dividend paid to shareholders of £15.2 million.

Net cash used in financing activities for the year ended 31 December 2017 was £34.4 million, including interest paid of £18.8 million and dividend paid to shareholders of £15.2 million.

Borrowings

At 31 December 2018, the Group had bank debt of £423.8 million (2017: £425.1 million), drawn under facilities which mature in July 2022 and finance lease debt of £77.7 million (2017: £76.9 million). Additionally, the Group has a revolving loan facility of £100.0 million (2017: £100.0 million) available until July 2022, which was undrawn at 31 December 2018.

	Year ended 31 December	
(£ million)	**2018**	2017
Cash	**(47.7)**	(39.2)
External debt (incl finance leases)	**498.1**	502.0
	453.8	462.8

As at 31 December 2018, net debt was £453.8 (excluding the gain recorded under IFRS 9 of £3.3 million that was recorded at the date of the extension). Net debt for the purposes of the net debt / EBITDA covenant was £455.0 million and was 3.67x EBITDA after adjusting for one-offs of £4.7million (2017: 3.09x).

As of 1 January 2019 the Group will adopt a revised calculation methodology for its net debt/EBITDA covenant; this will deal with an inconsistency relating to how certain sites were treated within the overall portfolio of leasehold sites. At December 2018 our net debt/EBITDA for covenant purposes was 3.67x, whereas it would have been 3.27x under the revised calculation.

Adoption of IFRS 16 - Leases

The Group will adopt IFRS 16 – leases, on a full retrospective basis from 1 January 2019. Under IAS 17 the Group had a significant portfolio of operating leases relating to various hospital properties. IFRS 16 will change the Group's accounting treatment for its operating leases, it will recognise a right-of-use asset relating to the leased asset and a liability for its obligation to make lease payments.

Rental costs will be replaced by a depreciation charge on the asset as well as an interest charge on the liability. Due to the size of the Group's property lease portfolio, the impact of adopting IFRS 16 will be significant. The impact arising from non-property operating leases is negligible, the Group will adopt the exemption for short-term leases (less than 12 months) or where the underlying asset value is low.

The Group expects a decrease in net assets of £29.6m in its opening balance sheet on 1 January 2018. This comprises Right-of-Use assets of £557.6m, Lease Liabilities of £633.0m, a Deferred Tax asset of £45.8m and a charge of £29.6m to retained profits.

Dividend

Subject to shareholder approval, the Company will pay a final dividend in respect of the financial year ended 31 December 2018 of 2.5 pence (2017: 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
Patient Safety	Spire continually monitors its clinical standards, policies and procedures and will further strengthen medical governance and oversight in 2019, reporting plans and progress via the Board's Clinical Governance and Safety Committee ('CGSC').
Government & NHS policy	The Group maintains direct engagement with government via DoH, NHS England and NHS Improvement. 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 & Regulation	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 reviews and maintains insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed 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 Clinical & Medical Professionals	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 market has seen increased pressure in 2018 and 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.
Cyber security	The Group'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, the Group 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.
Brexit	The Board is continually monitoring the implications and effects of Brexit through the Group's Brexit committee who are putting in place measures to ensure disruption is as minimal as possible.
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 and is actively focussed on cash management and capital expenditure.

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	**Jitesh Sodha** Chief Financial Officer

27 February 2019

Consolidated income statement

For the year ended 31 December 2018

(£ million)	Notes	2018 Total before exceptional and other items	2018 Exceptional and other items (note 9)	2018 Total	2017 Total before exceptional and other items	2017 Exceptional and other items (note 9)	2017 Total
Revenue	7	931.1	–	931.1	931.7	–	931.7
Cost of sales		(497.6)	–	(497.6)	(492.2)	–	(492.2)
Gross profit		433.5	–	433.5	439.5	–	439.5
Other operating costs		(379.3)	(25.6)	(404.9)	(347.4)	(49.2)	(396.6)
Operating profit	6	54.2	(25.6)	28.6	92.1	(49.2)	42.9
Interest income	8	0.2	–	0.2	0.1	–	0.1
Finance costs	8	(20.6)	–	(20.6)	(20.3)	–	(20.3)
Profit before taxation		33.8	(25.6)	8.2	71.9	(49.2)	22.7
Taxation	10	(6.3)	9.4	3.1	(14.0)	8.1	(5.9)
Profit for the year		27.5	(16.2)	11.3	57.9	(41.1)	16.8
Profit for the year attributable to owners of the Parent		27.5	(16.2)	11.3	57.9	(41.1)	16.8
Earnings per share (in pence per share)							
– **basic**	12	6.9	(4.1)	2.8	14.4	(10.2)	4.2
– **diluted**	12	6.8	(4.0)	2.8	14.4	(10.2)	4.2

Consolidated statement of comprehensive income

For the year ended 31 December 2018

(£ million)	2018	2017
Profit for the year	11.3	16.8
Items that may be reclassified to profit or loss in subsequent periods		
Net loss on cash flow hedges	(0.5)	–
Other comprehensive income for the year	(0.5)	–
Total comprehensive income for the year attributable to owners of the Parent	10.8	16.8

Consolidated statement of changes in equity

For the year ended 31 December 2018

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Hedging reserve	Retained earnings	Total equity
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
Dividend paid	11	–	–	–	–	–	(15.2)	(15.2)
Share-based payments	20	–	–	–	–	–	1.0	1.0
Utilisation of EBT shares for 2014 LTIP Awards		–	–	–	1.3	–	(1.3)	–
As at 1 January 2018		4.0	826.9	376.1	(0.9)	–	(168.2)	1,037.9
Charge arising from adoption of IFRS 9		–	–	–	–	–	(6.4)	(6.4)
As at 1 January 2018 restated		4.0	826.9	376.1	(0.9)	–	(174.6)	1,031.5
Profit for the year		–	–	–	–	–	11.3	11.3
Other comprehensive income for the year		–	–	–	–	(0.5)	–	(0.5)
Total comprehensive income						(0.5)	11.3	10.8
Dividend paid	11	–	–	–	–	–	(15.2)	(15.2)
Share based payments	20	–	–	–	–	–	0.5	0.5
Utilisation of EBT shares for 2014 DBP Award		–	–	–	0.1	–	(0.1)	–
Balance at 31 December 2018		4.0	826.9	376.1	(0.8)	(0.5)	(178.1)	1,027.6

Consolidated balance sheet

As at 31 December 2018

(£ million)	Notes	2018	2017
ASSETS			
Non-current assets			
Intangible assets	13	517.8	517.8
Property, plant and equipment	14	1,019.2	1,036.9
		1,537.0	1,554.7
Current assets			
Inventories		29.4	30.1
Trade and other receivables	15	94.2	104.5
Income tax receivable		2.0	–
Cash and cash equivalents		47.7	39.2
		173.3	173.8
Non-current assets held for sale	5	2.0	5.6
		175.3	179.4
Total assets		1,712.3	1,734.1
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		(0.8)	(0.9)
Hedging reserve	19	(0.5)	–
Retained earnings		(178.1)	(168.2)
Equity attributable to owners of the Parent		1,027.6	1,037.9
Total equity		1,027.6	1,037.9
Non-current liabilities			
Borrowings	16	488.4	492.1
Other payables	18	2.3	–
Deferred tax liability		72.2	72.6
		562.9	564.7
Current liabilities			
Provisions	17	16.4	17.9
Borrowings	16	10.2	9.9
Trade and other payables	18	95.2	101.5
Income tax payable		–	2.2
		121.8	131.5
Total liabilities		684.7	696.2
Total equity and liabilities		1,712.3	1,734.1

Consolidated statement of cash flows

For the year ended 31 December 2018

(£ million)	Notes	2018	2017
Cash flows from operating activities			
Profit before taxation		8.2	22.7
Adjustments for:			
Depreciation	6	65.1	57.4
Impairment of property, plant and equipment	6	17.4	10.3
Reversal of impairment on property, plant and equipment	6	(1.2)	–
Reversal of impairment on assets held for sale		(0.5)	–
Share-based payments	20	0.5	1.0
Loss on disposal of property, plant and equipment	6	0.1	0.4
Finance income		(0.2)	(0.1)
Finance costs	8	20.6	20.3
		110.0	112.0
Movements in working capital:			
Decrease in trade and other receivables		4.0	14.6
Decrease/(increase) in inventories		0.7	(2.0)
Increase in trade and other payables		4.5	1.3
(Decrease)/increase in provisions		(1.5)	1.2
Cash generated from operations		117.7	127.1
Income tax paid		(1.4)	(3.1)
Net cash from operating activities		116.3	124.0
Cash flows from investing activities			
Purchase of property, plant and equipment		(73.7)	(119.2)
Proceeds of disposal of property, plant and equipment		1.4	0.8
Proceeds of disposal of assets held for sale		4.1	–
Interest received		0.2	0.1
Net cash used in investing activities		(68.0)	(118.3)
Cash flows from financing activities			
Interest paid		(24.4)	(18.8)
Repayment of borrowings		(0.2)	(0.4)
Dividend paid to equity holders of the Parent	11	(15.2)	(15.2)
Net cash used in financing activities		(39.8)	(34.4)
Net (decrease)/increase in cash and cash equivalents		8.5	(28.7)
Cash and cash equivalents at beginning of year		39.2	67.9
Cash and cash equivalents at end of year		47.7	39.2
Exceptional and other items (note 9)			
Exceptional and other items paid included in the cash flow		(7.7)	(31.3)
Total exceptional and other items		(25.6)	(49.2)

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 range of private healthcare services.

The financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors of the Company on 27 February 2019.

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 2018 included in this report was approved by the Board on 27 February 2019. The financial information set out here does not constitute the Company's statutory accounts for the year ended 31 December 2018, but is derived from those accounts. Statutory accounts for 2018 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 2022. The Directors have considered the Group's forecasts and projections, 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 twelve 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 million committed undrawn revolving credit facility.

The Group has undertaken extensive activity to identify and mitigate its exposure to plausible risks which may arise from Brexit. Based on the Directors' current assessment of the likelihood of the Brexit risks arising together with their assessment of the planned mitigating actions being successful, the Directors have concluded it is appropriate to prepare the accounts on a going concern basis.

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 2018, a copy of this report will shortly be available on the Company's website at www.spirehealthcare.com.

New and amended standards and interpretations
Changes in accounting policy

New standards, interpretations and amendments applied

The following amendments to existing standards were effective for the Group from 1 January 2018, but either they were not applicable to or did not have a material impact on the Group:

- Amendments for IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts'
- Annual Improvements to IFRS Standards 2014–2016 Cycle: Amendments to IFRS 1 and IAS 28
- Amendments to IAS 40: Transfers of Investment Property
- The Group applied IFRS 15 and IFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 'Revenue from Contracts with Customers' was 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 has adopted IFRS 15 with effect from 1 January 2018 using the Modified Retrospective approach.

IFRS 9 *Financial Instruments*

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement bringing all three aspects of the accounting together for financial instruments: classification and measurements; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018.

Impact of adoption

The loss allowance for trade receivables as at 31 December 2017 reconciled to the opening loss allowances on 1 January 2018 as follows:

	(£ million)
At 31 December 2017 – calculated under IAS 39	3.9
Amounts restated through opening retained earnings	6.4
Opening loss allowance at 1 January 2018 – calculated under IFRS 9	**10.3**

2. Accounting policies *continued*

The group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared characteristics and the days past due. The group has concluded that the expected loss rates for trade receivables, are a reasonable approximation of the loss rates for each ageing bucket based on historical debt trends of our portfolio of customers for the last two reporting periods.

Trade and other receivables are held to collect contractual cash flows, classified under the 'hold to collect' business model and measured at amortised cost. Under IAS39, trade and other receivables were classified as 'loans and receivables' and also measured at amortised cost. Contractual cash flows represent 'solely payments of principal and interest' (Trade and other receivables are not interest bearing).

Unbilled receivables, other receivables and cash and cash equivalents were assessed for expected credit loss, with the risk immaterial due to the nature of the financial assets under assessment. No ECL provision was recorded as a result of this assessment

- There was no material accounting impact to the financial liabilities as a result of adopting IFRS 9.
- There were no designated hedging relationships as at 1 January 2018 that required assessment under IFRS 9.

New standards, interpretations and amendments not applied

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*
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.

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 15, IFRS 16 and IFRS 9 are discussed below.

IFRS 16 *Leases*

The Group will adopt IFRS 16 on a fully retrospective basis on 1 January 2019 therefore prior year financial information will be restated to reflect the impact of the new accounting standard.

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 operating lease cost which the Group currently incurs will be replaced by a depreciation charge on the right-of-use asset (over the term of the lease) as well as an interest charge on the lease liability over the same period.

The Group has completed a detailed assessment of the potential impact of adopting IFRS 16 on its Consolidated financial statements at 1 January 2019 and has concluded that IFRS 16 will have a significant impact for the Group's financial statements owing to its large portfolio of properties which were previously accounted for as operating leases. The impact arising from non-property operating leases is negligible and the Group intends to adopt the recognition exemption for short-term leases (less than 12 months) and low value assets.

The results of this exercise are summarised below:

Information on the impact of IFRS 16 has been provided below with reference to the Group results for the year ended 31 December 2018.

(£ million)	As reported 2018	IFRS 16 adoption	As restated 2018
Other operating costs – operating leases	66.1	(66.3)	(0.2)
Other operating costs - depreciation	65.1	23.8	88.9
Operating profit/(loss)	28.6	42.5	71.1
Finance income	0.2	–	0.2
Finance cost	(20.6)	(56.3)	(76.9)
Profit/(loss) before taxation	8.2	(13.8)	(5.6)
Taxation – (movement in deferred tax)	3.1	(2.2)	0.9
Profit/(loss) after taxation	11.3	(16.0)	(4.7)

2. Accounting policies *continued*

(£ million)	As reported at 1 January 2018	IFRS 16 adoption	As restated at 1 January 2018	As reported at 31 December 2018	IFRS 16 adoption	As restated at 31 December 2018*
Total assets	1,734.1	557.6	2,291.7	1,712.3	1.0	2,270.9
Deferred tax	(72.6)	45.8	(26.8)	(72.2)	(2.2)	(28.6)
Total liabilities excluding tax	(623.6)	(633.0)	(1,256.6)	(612.5)	(14.8)	(1,260.3)
Total equity	1,037.9	(29.6)	1,008.3	1,027.6	(16.0)	982.0

* Includes IFRS 16 adoption during 2018 and the IFRS 16 transition adjustment as at 1 January 2018.

The Group expects a decrease in net assets of £29.6 million in its opening balance sheet on 1 January 2018. This comprises Right-of-Use assets of £557.6 million, Lease Liabilities of £633.0 million, a Deferred Tax asset of £45.8 million and a charge of £29.6 million to retained profits.

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 2018.

5. Non-current assets held for sale

As at December 2018, the Group's management have committed to sell one property which previously formed part of the Group operations, Spire St Saviours Hospital which closed in 2015. The property is expected to be sold within twelve months, has been classified as held for sale and is presented separately in the Consolidated balance sheet.

The proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and accordingly, no impairment loss has been recognised on the classification of these operations as held for sale, however, a reversal of impairment of £0.5 million in connection with the Whalley Range Hospital has been credited to the Income Statement in the year.

(£ million.)	2018	2017
Spire St Saviours property (note 14)	2.0	2.0
Whalley Range property (note 14)	–	3.6
	2.0	5.6

6. Operating profit

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

(£ million)	2018	2017
Rent of land and buildings under operating leases	66.1	63.9
Depreciation of property, plant and equipment	65.1	57.4
Medical malpractice provision	1.0	28.7
Impairment of property, plant and equipment	17.4	10.3
Reversal of impairment on property, plant and equipment	(1.2)	–
Reversal of impairment on assets held for sale	(0.5)	–
Loss on disposal of property, plant and equipment	0.1	0.4
Staff costs	298.9	282.1

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)	2018	2017
Insured	432.6	426.0
NHS	272.2	293.3
Self-pay	174.1	160.2
Partnerships	27.0	26.6
Other	25.2	25.6
Total	931.1	931.7

8. Finance costs

(£ million)	2018	2017
Finance income		
Interest income on bank facilities	0.2	0.1
Total finance income	0.2	0.1
Finance costs		
Interest on bank facilities	14.5	11.8
IFRS 9 gain arising on facilities extension[1]	(3.3)	–
Interest on obligations under finance leases and hire purchase contracts	9.4	9.2
Financed costs capitalised in the year	–	(0.7)
Total finance costs	20.6	20.3

1. Gain of £3.3 million that was recorded at the date of the extension which arose under IFRS 9

Finance costs capitalised during 2017 were calculated based on a weighted cost of borrowing of 3.4%.

Notes to the preliminary announcement *continued*

9. Exceptional and other items

(£ million)	2018	2017
Medical malpractice	1.0	28.7
Hospitals set up and closure costs	0.8	3.4
Executive medical leave and death in service	–	0.9
Business reorganisation and corporate restructuring	4.7	0.6
Hospital impairment on property, plant and equipment and Strategic review	17.9	14.4
Other [1]	(0.3)	0.7
Total exceptional costs	24.1	48.7
Income tax credit on exceptional items	(9.1)	(8.0)
Total post-tax exceptional costs	15.0	40.7

1 Other exceptional items in 2018 mainly relate to development project fees. In 2017 predominantly relate to the Mediclinic International plc takeover bid, relocation of HR and payroll functions, release of onerous lease provision.

Spire is continuing to pursue legal action against its insurers to seek recoveries of the Ian Paterson settlement and related costs. This may give rise to future exceptional income being recognised in the income statement. In 2018, a further £1.0m expense has been incurred. No account has been taken of further recoveries in the results for the year ended 31 December 2018.

Hospital set-up and closure costs are mainly due to closure and decommissioning of the Spire Windsor Clinic. Business reorganisation costs include internal group reorganisation costs associated with the strategic review that commenced in Q4 2017 and a cost reduction project covering hospitals and central functions. Property impairment primarily relates to the Spire Alexandra hospital, where a charge of £12.6m was taken in the first half of 2018. Other property impairment costs in 2018 relate to the aborted development in 2017 of a hospital site in Central London and the write off of costs associated with a potential development in Milton Keynes.

In the year ended 31 December 2017, the completion of the criminal proceedings against Ian Paterson (a consultant who previously had practicing privileges at Spire Healthcare) resulted in Spire Healthcare providing £28.7 million in relation to this settlement. 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 which resulted in write-offs and aborted costs charged as exceptional items in the year of £14.4 million.

(£ million)	2018	2017
Compliance costs	1.5	0.5
Total other material items	1.5	0.5
Income tax credit on other material items	(0.3)	(0.1)
Total post-tax other material items	1.2	0.4

Compliance set up costs include amounts incurred in 2018 and 2017 to meet the requirements of GDPR regulations effective May 2018.

10. Taxation

(£ million)	2018	2017
Current tax		
UK Corporation tax expense	–	4.5
Adjustments in respect of prior years	(2.7)	–
Total current tax	(2.7)	4.5
Deferred tax		
Origination and reversal of temporary differences	(1.9)	1.7
Effects of change in tax rate	(0.2)	(0.5)
Adjustments in respect of prior years	1.7	0.2
Total deferred tax	(0.4)	1.4
Total tax expense	(3.1)	5.9

Corporation tax is calculated at 19.0% (2017: 19.25%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was (37.8)% (2017: 26.0%).

11. Dividends

(£ million)	2018	2017

Amounts recognised as distributions to equity holders in the year:		
– final dividend for the year ended 31 December 2017 of 2.5 pence per share (2016: 2.4 pence)	10.0	10.0
– interim dividend for the year ended 31 December 2018 of 1.3 pence per share (2017: 1.3 pence)	5.2	5.2
	15.2	15.2

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 16 May 2019. 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.

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.

	2018	2017
Profit for the year attributable to owners of the Parent (£ million)	11.3	16.8
Weighted average number of ordinary shares	401,081,391	401,081,391
Adjustment for weighted average number of shares held in the EBT	(263,342)	(467,034)
Weighted average number of ordinary shares in issue (No.)	400,818,049	400,614,357
Basic earnings per share (in pence per share)	2.8	**4.2**

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.

	2018	2017
Profit for the period attributable to owners of the Parent (£ million)	11.3	16.8
Weighted average number of ordinary shares in issue	400,818,049	400,614,357
Adjustment for weighted average number of contingently issuable shares	1,287,910	861,612
Diluted weighted average number of ordinary shares in issue (No.)	402,105,959	401,475,969
Diluted earnings per share (in pence per share)	2.8	**4.2**

The Directors believe that EPS excluding exceptional charges and other items ("Adjusted EPS") better reflects the underlying performance of the business and assists in providing a clearer view of the performance of the group.

Reconciliation of profit to profit excluding exceptional charges and other items ("Adjusted profit"):

	2018	2017
Profit for the year attributable to owners of the Parent (£ million)	11.3	16.8
Exceptional charges (see note 9)	15.0	40.7
Other items (see note 9)	1.2	0.4
Adjusted profit (£ million)	27.5	57.9
Weighted average number of Ordinary Shares in issue	400,818,049	400,614,357
Weighted average number of dilutive Ordinary Shares	402,105,959	401,475,969
Adjusted basic earnings per share (in pence per share)	6.9	14.4
Adjusted diluted earnings per share (in pence per share)	6.8	14.4

13. Intangible assets

(£ million)	Goodwill
Cost	
At 1 January 2017, 31 December 2017 and 31 December 2018	**518.8**
Impairment	
At 1 January 2017, 31 December 2017 and 31 December 2018	**1.0**
Net book value	
At 31 December 2018	**517.8**
At 31 December 2017	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 (2017: £nil) and no event has given rise to amounts written off (2017: £nil).

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

14. Property, plant and equipment

(£ million)	Freehold property	Long leasehold property	Equipment	Assets in the course of construction	Total
Cost:					
At 1 January 2017 as previously reported	686.4	176.8	308.4	114.8	1,286.4
Restatement	–	–	46.4	1.2	47.6
At 1 January 2017 as restated	**686.4**	**176.8**	**354.8**	**116.0**	**1,334.0**
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)
Reclassification	187.7	(173.5)	–	5.3	19.5
At 1 January 2018	**854.5**	**142.5**	**413.5**	**11.2**	**1,421.7**
Additions	**10.8**	**11.4**	**25.2**	**17.8**	**65.2**
Disposals	**(0.8)**	**(0.1)**	**(16.2)**	**–**	**(17.1)**
Transfers	**11.7**	**2.7**	**4.0**	**(18.4)**	**–**
At 31 December 2018	**876.2**	**156.5**	**426.5**	**10.6**	**1,469.8**
Accumulated depreciation and impairment:					
At 1 January 2017 as previously reported	103.4	43.8	147.7	–	294.9
Restatement	–	–	47.6	–	47.6
At 1 January 2017 as restated	**103.4**	**43.8**	**195.3**	**–**	**342.5**
Charge for year	9.3	9.1	39.0	–	57.4
Disposals	–	(2.3)	(14.6)	–	(16.9)
Impairment (note 9)	6.9	–	3.4	–	10.3
Assets held for sale	(28.0)	–	–	–	(28.0)
Reclassification	37.4	(17.9)	–	–	19.5
At 1 January 2018	**129.0**	**32.7**	**223.1**	**–**	**384.8**
Charge for the year	**16.3**	**7.0**	**41.8**	**–**	**65.1**
Disposals	**(0.8)**	**(0.1)**	**(14.6)**	**–**	**(15.5)**
Impairment (note 9)	**16.2**	**1.2**	**(1.2)**	**–**	**16.2**
At 31 December 2018	**160.7**	**40.8**	**249.1**	**–**	**450.6**
Net book value:					
At 31 December 2018	**715.5**	**115.7**	**177.4**	**10.6**	**1,019.2**
At 31 December 2017	725.5	109.8	190.4	11.2	1,036.9

Assets held for sale are in relation to Spire St Saviour's Hospital. Further details are shown in note 5. The impairment in 2018 is the result of a write down of £12.6m in the carrying value of the Spire Alexandra Hospital and a write off of the £3.6m of costs associated with the potential development of a site in Milton Keynes. The Directors have obtained an independent external valuation. This valuation of £1.138 billion fully supports the carrying value of the freehold property portfolio.

The cost of Equipment and Assets in the Course of Construction as at 1 January 2017 has been restated from £308.4m to £354.8m and £114.8m to £116.0m respectively, with a corresponding increase in accumulated depreciation on Equipment of £47.6m. There is no net impact to the overall carrying value of property, plant and equipment as at 1 January 2017. This is a result of a correction to the initial classification that was applied to the underlying assets.

The cost of Freehold Properties, Long Leasehold Properties and Assets in the Course of Construction as at 31 December 2017 has been adjusted to reflect a reclassification of certain assets. This is a result of a correction to transfers relating to those assets in 2017. The cost of Freehold Properties and Assets in the Course of Construction increased by £187.7m and £5.3m respectively, with a reduction in Long Leasehold Properties of £173.5m, with a corresponding increase in depreciation of £19.5m. There is no impact to the overall carrying value of property, plant and equipment as at 31 December 2017.

15. Trade and other receivables

(£ million)	2018	2017
Amounts falling due within one year:		
Trade receivables	45.1	54.2
Other receivables	14.5	14.4
Prepayments	28.6	29.1
Accrued income	10.7	10.7
	98.9	108.4
Allowance for expected credit losses	(4.7)	(3.9)
Total current trade and other receivables	94.2	104.5

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 expected credit losses 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, net of expected credit losses, is considered to be an approximation to its fair value.

Trade receivables comprise the following wider customer/payor groups:

(£ million)	2018	2017
Private medical insurers	28.0	29.5
NHS	5.1	11.6
Patient debt	1.8	4.3
Other	5.5	4.9
Total	40.4	50.3

16. Borrowings

(£ million)	2018	2017
Secured borrowings		
Bank loans	420.4	425.1
Obligations under finance leases	77.7	76.9
	498.1	502.0
Interest rate swaps	0.5	–
	498.6	502.0

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. In July 2018, the Group extended the maturity of its bank loan facility for a further three years and recorded this as a non-substantial loan modification not resulting in de-recognition. A modification gain of £3.3 million was recorded at date of extension, which in turn decreased the carrying amount of the loan held.

Total borrowings (measured at amortised cost) and interest rate swaps

(£ million)	2018	2017
Amount due for settlement within 12 months	10.2	9.9
Amount due for settlement after 12 months	488.4	492.1
	498.6	502.0

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:

(£ million)	2018 Minimum payments	2018 Present value of payments	2017 Minimum payments	2017 Present value of payments
Within one year	8.7	5.5	8.7	6.2
After one year but not more than five years	37.7	17.6	36.6	19.2
More than five years	210.5	54.6	220.3	51.5
Total minimum lease payments	256.9	77.7	265.6	76.9
Less amounts representing finance charges	(179.2)	–	(188.7)	–
Present value of minimum lease payments	77.7	77.7	76.9	76.9

Property leases, with a present value liability of £77.7 million (2017: £76.9 million), expire in 2040 and carry an implicit interest rate of 12.9% (2017: 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	2018	2017
Senior finance facility	July 2022	2.25%	423.8	425.1
Revolving credit facility (undrawn committed facility)	July 2022		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 2.25% over LIBOR (2017: 2.00% over LIBOR). In July 2018, the Group extended the maturity of its bank loan facility for a further three years.

17. Provisions

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

(£ million)	Medical malpractice	Business restructuring and other	Total
At 1 January 2018	16.8	1.1	17.9
Increase in existing provisions	6.0	2.4	8.4
Provisions utilised	(6.8)	(1.3)	(8.1)
Provisions released	(1.3)	(0.5)	(1.8)
At 31 December 2018	14.7	1.7	16.4

Medical malpractice relates to estimated liabilities arising from claims for damages in respect of services previously supplied to patients including commitments in respect of the removal or replacement of the PIP brand of breast implants. 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, the cost of decommissioning two facilities and potential costs associated with the resolution of a customer contract

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 £7.7 million (2017: £7.5 million).

Provisions as at 31 December 2018 are materially considered to be current and expected to be utilised at any time within the next 12 months.

18. Trade and other payables

(£ million)	2018	2017
Trade payables	47.7	49.0
Accrued expenses	29.1	36.5
Social security and other taxes	6.8	6.0
Other payables – lease incentives	2.4	2.5
Other payables – other	11.5	7.5
Total	97.5	101.5

Non-current 'Other payables' in 2018 are lease incentives totalling £2.3 million (2017: £nil).

19. Share capital and reserves

	£0.01 ordinary shares	
	Shares	£'000
Issued and fully paid		
At 31 December 2018	**401,081,391**	**4,010**
At 31 December 2017	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.

Hedging reserve
This reserve represents the movement of fair value on hedging transaction of £0.5 million during the year.

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 2018, the EBT purchased no shares (2017: no shares).

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 2018, 252,652 shares (2017: 281,631) were held by the EBT in relation to the Directors' Share Bonus award and Long-Term Incentive Plan.

At 1 January 2018, the EBT held 281,631 shares. In April 2018, 10,922 number of shares were exercised in relation to the 2014 Deferred Bonus Plan ('DBP') and in June 2018, a further 18,057 number of shares were exercised in relation to the 2014 DBP. There were no new purchases of share and at 31 December 2018 the EBT held 252,652 shares.

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, a further 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.

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 £0.5 million in the year ended 31 December 2018 (2017: £1.0 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 (2017: £0.1 million).

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

	2018		2017	
	Charge (£ million)	Number of options (thousands)	Charge (£ million)	Number of options (thousands)
Long Term Incentive Plan	0.5	2,804	1.0	1,946
Deferred Bonus Plan	–	–	–	29
	0.5	2,804	1.0	1,975

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 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:

	2018		2017	
(£ million)	Land and buildings	Other	Land and buildings	Other
Not later than one year	68.0	0.8	65.4	1.1
Less than one year and not later than five years	269.8	1.6	259.1	2.2
Later than five years	1,246.0	–	1,263.1	–
	1,583.8	2.4	1,587.6	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 2018, the Group held consignment stock on sale or return of £22.9 million (2017: £23.0 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)	2018	2017
Contracted but not provided for	16.8	65.5

22. Contingent liabilities

The Group had the following guarantees at 31 December 2018:

- The bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2017: £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

2018 final dividend
For 2018, the Board has recommended a final dividend of 2.5 pence per share, amounting to approximately £10.0 million, to be paid on 25 June 2019 to shareholders on the register on 31 May 2019.

Brexit impact on the Group
Spire is monitoring closely the legal and political developments in the process towards the UK's exit from the EU which is currently planned to occur on 29 March 2019 ("Brexit"). We have established a Brexit working group which reports to our Executive Brexit Preparation Committee. We have undertaken comprehensive planning to prepare the Group for the operational and economic arrangements that we can reasonably expect following a no-deal Brexit.

We take business continuity extremely seriously and our number one priority is to mitigate the risks to continuity and safety of patient care, alongside critical issues related to other stakeholders be they staff, customers or consultants.

However, the absence of an agreed and binding post-Brexit trade arrangement with the EU, this close to 29 March 2019, means that a no-deal Brexit remains a principal risk for the Group.

The Group has considered the impact in a number of areas:

Supply Chain

The Group buys directly from UK suppliers, but our due diligence indicates that around 80% of the goods (other than blood) that we use to operate our hospitals come into the UK from or via the EU.

Our supply chain currently operates on short ordering times and low inventories. If a no-deal Brexit results in border checks causing delays or shortages due to other supply chain factors, then our supply chain may be disrupted.

After reviewing our operations and logistics network, the Group has taken precautions to ensure we will be holding sufficient supplies to allow the business to continue to operate in the weeks following a no-deal Brexit, while respecting Government guidance. We are also engaging with the Government as our long term operations are reliant on its plans to ensure that there are continued supplies of adequate medical supplies in the UK.

Employees

Each Spire staff member is a highly valued member of our organisation. While less than 10% of our staff are EU citizens, we are encouraging them to stay in the UK and will support them to register with the EU Settlement Scheme when it opens in March 2019. We will continue to recruit the highest calibre of candidates from the EU and elsewhere, in line with our current recruitment processes.

Increased costs

After a no-deal Brexit, it's reasonable to anticipate that EU imports will be subject to customs charges and tariffs. We do not know what duties will be levied so cannot quantify the impact.

Mitigation

We have been working closely with our key suppliers over many months to understand their Brexit plans. We have also been undertaking detailed contingency planning for some time to mitigate the impact of a no-deal Brexit in accordance with Government guidance.

We believe we are taking all reasonable steps to ensure that disruption to our patients and other stakeholders is kept to a minimum. However, given the uncertainties around the impact of a no-deal Brexit, we cannot rule out disruption to the business as there may be some circumstances outside of our reasonable control

Shareholders' information

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Corporate website

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

Financial calendar

2019 Annual General Meeting (London)	16 May 2019
Ex-div date for 2018 final dividend	30 May 2019
Record date for 2018 final dividend	31 May 2019
Payment date for 2018 final dividend	25 June 2019
Announcement of 2019 half year results	September 2019