Independent Auditor's report

To the members of Spire Healthcare Group plc

Our opinion on the Group financial statements and parent company financial statements

In our opinion:

- Spire Healthcare Group plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- The Group's financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Spire Healthcare Group plc which comprise:

	Group	Parent Company
Balance sheet as at 31 December 2018	✓	✓
Income statement for the year then ended	✓	
Statement of comprehensive income for the year then ended	✓	
Statement of changes in equity for the year then ended	✓	✓
Statement of cash flows for the year then ended	✓	✓
Related notes to the financial statements	✓	✓

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 52 to 59 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 113 in the annual report that they have carried out a robust assessment of the principal risks facing the Group and the parent company, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 113 in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation set out on page 60 in the annual report as to how they have assessed the prospects of the Group and the parent company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	– Manipulation of NHS revenue by changes to the pricing master file. – Misstatement of revenue due to management posting fraudulent manual journal entries to revenue. – Inappropriate capitalisation of costs to property, plant and equipment. – Risk of impairment to property carrying values
Audit scope	– We performed an audit of the complete financial information of 2 components and audit procedures on specific balances for a further 26 components. – The components where we performed full or specific audit procedures accounted for 98% of Profit before tax, 100% of Revenue and 100% of Total assets.
Materiality	– Overall group materiality of £1.6 million which represents 5% of profit before tax adjusted for certain exceptional items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Manipulation of NHS revenue by changes to the pricing master file NHS Revenue 2018 YE: **£272.2m** (2017 YE): £293.3m. *Refer to the Audit and Risk Committee Report (pages 94 to 97); Accounting policies (page 127); and Note 5 of the Consolidated Financial Statements (page 134)* Inappropriate revenue recognition by way of management manipulation of NHS prices within the pricing master file, resulting in inaccurate patient invoicing in respect of NHS revenue. The high volume of patient transactions, for which pricing is contractually agreed by a comparatively small number of NHS trusts, leads to a higher likelihood of material misstatement through intentional changes to individual procedural pricing on the pricing master file. We consider that the pressure to achieve forecast results or targets increases the risk of financial reporting manipulation by management.	To gain assurance over the NHS revenue recognised during the period, we have performed the following procedures: – We used data analytics to assess the accuracy of all FY18 NHS billing data to publicly available NHS national tariff base prices, adjusted by Market Force factors. – For any material revenue portion of the population for which we were unable to agree the price billed to NHS national tariff base prices, e.g. for local plans where we would already have the expectation of a possible price deviation, we have agreed a sample of this billing data to appropriate audit support. Specifically, we have agreed a sample of this billing data to the underlying signed agreement (local plan) or, in instances where no current contract or correspondence was available, we traced the settlement of the invoice directly to cash. – We used data analytics, covering all NHS revenue transactions in the year, to test the correlation between revenue, accrued revenue, accounts receivable and cash. – We investigated whether there were any pricing disputes with the NHS during the year through discussions with legal counsel, review of minutes and verifying any matter noted to correspondence, where available. – We obtained a summary of aged NHS receivables and verified that the ageing is appropriate by testing a sample across the different ageing categories. We have performed a search for any large or unusually long outstanding receivables that are outside expected credit terms that may indicate that pricing disagreements exist. – Whilst we have not relied on any of the work performed by internal audit, we reviewed the results from their individual site audits completed during FY18, to understand if there were any revenue findings specific to NHS pricing which require further enquiry and corroboration.	We did not identify material errors in the pricing master file, nor evidence of management manipulation of revenue through this means. Furthermore, we did not identify any indicators of pricing disputes with the NHS. Based on our audit procedures performed, we concluded that revenue for the year is appropriately recognised and free from material misstatement.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Misstatement due to management posting fraudulent manual journal entries to revenue NHS Revenue 2018 YE: £272.2m (2017 YE: £293.3m). PMI Revenue 2018 YE: £432.6m (2017 YE: £426.0m). Self-pay Revenue 2018 YE: £174.1m (2017 YE: £160.2m). Partnership Revenue 2018 YE: £27.0m (2017 YE: £26.6m). Other Income 2018 YE: £25.2m (2017 YE: £25.6m). *Refer to the Audit and Risk Committee Report (pages 94 to 97); Accounting policies (page 127); and Note 5 of the Consolidated Financial Statements (page 134)* We consider that the pressure to achieve forecast results and analysts' expectations increases the risk of financial reporting manipulation by management. Given management's bonus structure and the pressure to achieve the agreed performance target, we consider there to be a risk of financial reporting manipulation by management. Based on the key performance indicators that are analysed by both external and internal parties, we consider revenue to be susceptible to management override of control as this forms the foundation for the key performance indicators. We understand that the high volume of system generated, low value revenue transactions, results in limited opportunity for management to fraudulently misstate revenue, (other than through manipulation of changes to the pricing master file for NHS billing data as considered above). For management to fraudulently misstate, we consider there to be a greater incentive to override controls by posting manual journal entries to revenue.	We performed a walkthrough of the financial statement close process and obtained an understanding over the journal entry process, consolidation journal entry process and adjusting journals posted directly to the financial statements. Utilising our analytics-based revenue programme, we have understood revenue trends through the use of analytics as follows: – analysis of double-entry postings to the related accounts and how these accounts are aligned with our understanding of the revenue process, activity and source; and – identifying revenue trends which do not correlate with our expectation, and investigating and corroborating these uncorrelated trends. We performed mandatory journal testing by focusing on specific criteria designed to identify journals through which we believe management can/may post fraudulent manual entries to revenue.	We have not identified any misstatements due to management posting fraudulent manual journal entries to revenue. We have not found any instances of management override.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Inappropriate capitalisation of costs to property, plant and equipment Costs capitalised for YE 2018: £65.2m (2017 YE: £119.9m). *Refer to the Audit and Risk Committee Report (pages 94 to 97); Accounting policies (page 128); and Note 12 of the Consolidated Financial Statements (page 138)* Given management's bonus structure and analysts' expectations of the Group's performance, for example underlying EBITDA and adjusted EPS, we consider the risk of inappropriate capitalisation to be a fraud risk. As a result of the scale of capital expenditure in the current year, relating to both development projects and general capital spend, we consider there is increased opportunity for management to inappropriately capitalise costs to manipulate the Group's profits. The high volume of costs being capitalised over all property, plant and equipment categories means that it is harder for management to detect material inappropriate items.	– We obtained an understanding of the capital budgeting process through our walkthrough; specifically, how management monitors the actual spend versus budget and how this is reported through the business and to the board and executive committee. – As part of our detailed testing, we compared actual expenditure to approved budgets for the selected projects, where applicable, and investigated any material variances. – We tested a sample of capital additions to property, plant and equipment. We obtained the invoice to verify the existence and valuation of each item. We also obtained evidence that the expenditure has been authorised by an appropriate individual. We verified that the expenditure was capital in nature by reading the description and detail on the invoices, and supporting documentation. – Our sample selected included both low and high value items. We focused our attention on accrued spend and 'internal' costs such as staff costs for the Group's employees, as we considered there to be higher risk of manipulation in this area. Where internal costs were capitalised, we verified that the costs were directly attributable to the relevant project. – We performed mandatory testing of journal entries. Our journal testing approach considered appropriate criteria to identify a journal testing sample which addressed the risk of inappropriate capitalisation of costs to property, plant, and equipment.	Our audit procedures found no instances of expenditure which had been inappropriately capitalised to property, plant and equipment. Based on our audit procedures performed, we concluded that costs have been appropriately capitalised to property, plant, and equipment.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Risk of impairment to property carrying values Freehold property carrying value for 2018: **£687.0m** (2017 YE: £725.5m). *Refer to the Audit and Risk Committee Report (pages 94 to 97); Accounting policies (page 128); and Notes 6 and 12 of the Consolidated Financial Statements (pages 134 and 138 respectively).* Management look for indicators of impairment based on various factors, such as how hospitals are performing compared to budget. Where there is an indicator of impairment, management perform an impairment test in accordance with IAS 36, by calculating a value in use for these properties. The value in use is calculated using a discounted cash flow model based on the Group's forecasts through to 2022. Given the shortfall in actual EBITDA experienced during FY18, we consider that the risk of property impairment is increased. The uncertainty over current forecasting assumptions, leads us to consider that the risk of a material misstatement in management's value in use calculation is increased for those properties where an indicator of impairment exists. Management continue to review for impairment all other properties where indicators of impairment exist and where headroom between cost and VIU based on current forecasts is considered insignificant.	– We obtained a comparison of each hospital's EBITDA for FY18 to its budget. From this comparison, we selected certain freehold and long leasehold hospital properties to focus our impairment testing on, specifically those which show underperformance compared to budget of 10% or more. – We obtained management's value in use calculation for the selected hospitals. We made enquiries to understand the process and controls behind the preparation of management's underlying five-year forecast, given the reliance on this plan for the value in use model. – We compared the actual results achieved in the prior periods to the forecasts prepared for those periods, to judge the historical accuracy of management's forecasts. – We assessed the reasonableness of management's cash flow forecasts by comparing to prior year actuals. We obtained external views of the market, and had discussions with EY health sector specialists on market dynamics and expected market performance. We used this information to challenge the forecasts and assumptions made by management. – We engaged EY specialists to assist us in verifying the appropriateness of key inputs to the discounted cash flow model, such as the discount rate and the terminal growth rate. – We performed sensitivity analyses over the assumptions used by management, incorporating the above-mentioned healthcare market data and inputs, as appropriate.	Having sensitised management's value in use calculations for the hospitals we focused on, we conclude that the risk of material misstatement is low. The carrying value was supported, suggesting no need to recognise impairment on these properties. We therefore agree with management's conclusion that the carrying value of the Group's properties is appropriate.

In the prior year, our auditor's report included a key audit matter in relation to the risk of manipulation of revenue by changes to both the NHS and PMI pricing master files. In the current year, we have re-evaluated our risk assessment and concluded that the key audit matter is only considered relevant to NHS revenue. This is based on our assessment that the risk of manipulation of PMI revenue resulting in a material misstatement is low.

Specifically, as part of our continued increase in the use of data analytics in our audit, we have utilised a custom-built pricing analyser in our significant risk assessment for the first time in our FY18 audit. As a result, we have evaluated that, although there still exists a higher likelihood that the pricing of PMI revenue may be manipulated, there is a lower magnitude of effect of such manipulation, should it occur, than previously assessed. This is primarily due to the level of disaggregation in the structure of PMI pricing data, which we have been able to analytically examine as part of our risk assessment for the first time. Consequently, we have concluded that there is a lower opportunity for management to materially misstate PMI revenue through this method, and we no longer consider this to be a significant risk to the financial statements.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls and changes in the business environment when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we identify the subsidiaries, which represent the principal business units within the Group. The Group continues to operate solely in the UK.

We performed an audit of the complete financial information of two components (2017: four) ("full scope components") which were selected based on their size or risk characteristics. For a further 26 (2017: 14) components ("specific scope components"), we performed audit procedures on specific accounts within that entity that we considered had the potential for the greatest impact on the significant accounts in the group financial statements either because of the size of these accounts or their risk profile.

The entities for which we performed audit procedures accounted for 100% (2017: 100%) of the Group's Revenue and 100% (2017: 100%) of the Group's Total assets. For the current year, the full scope components contributed 93% (2017: 92%) of the Group's Revenue and 69% (2017: 68%) of the Group's Total assets. The specific scope components contributed 7% (2017: 8%) of the Group's Revenue and 32% (2017: 32%) of the Group's Total assets. The audit scope of these components may not have included testing of all significant accounts of the component but has contributed to the coverage of significant accounts tested for the Group. It is not possible to present the split between full and specific scope components on a profit before tax basis in a meaningful way. This is due to intra-group profits earned in certain specific scope components which result in the aggregated profit before tax amounting to more than 100%.

Of the remaining 12 entities (2017:17), we performed other procedures, including analytical review and testing the clerical accuracy of consolidation journals to respond to any potential risks of material misstatement of the group financial statements.

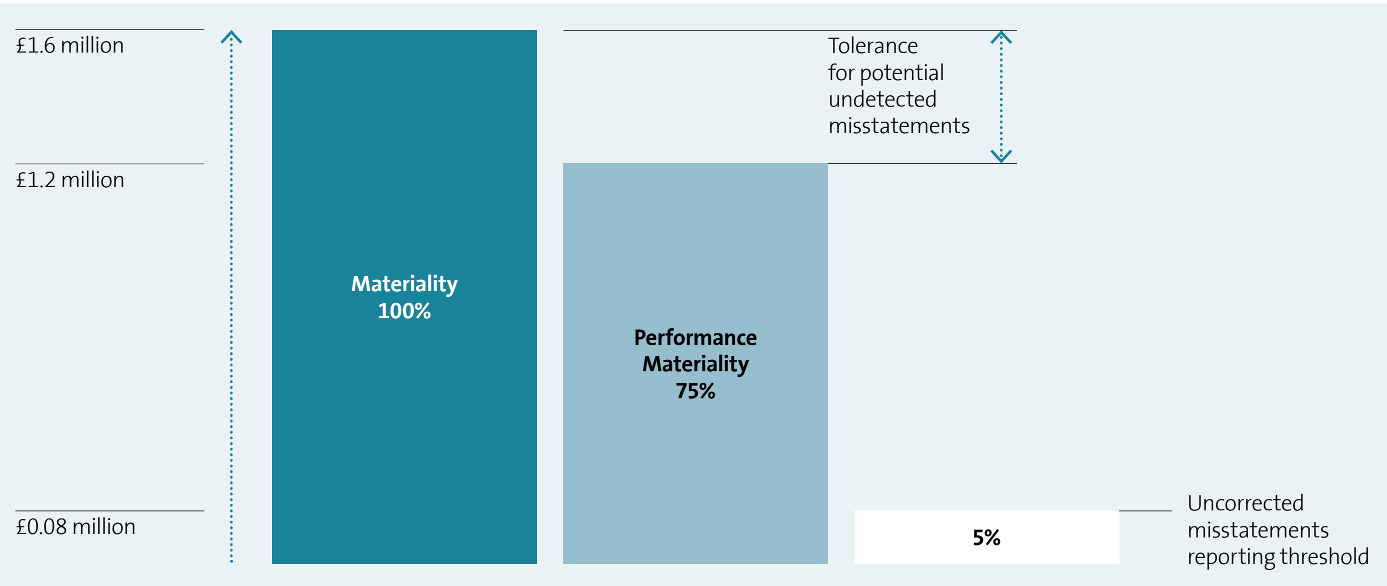
Changes from the prior year

We note the following changes in our scoping from the prior year:

Entity Name	Scoping in FY18	Scoping FY17	Rationale for change
Spire Healthcare Property Development Limited	Specific scope	Full scope	Contributing percentage to total assets (scoping parameter) has decreased due to decrease in hospital builds and assets under construction.
Spire Healthcare Finance Limited	Specific scope	Full scope	No significant contribution to any other scoping parameters other than external debt held.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.



Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.6 million (2017 YE: £3.5 million), which is 5% of adjusted profit before tax (2017: 5% of adjusted profit before tax). We have adjusted profit before tax for certain exceptional items amounting to £ 24.4 million (2017: £47.7 million), in order to calculate materiality on a basis which reflects the underlying performance of the Group. We believe this provides us with the most applicable measurement basis for the users of the financial statements and is in line with the adjusted performance measures the Group uses. We have not adjusted for 'other' exceptionals being a credit of £0.3 million (2017: £1.6 million charge).

We determined materiality for the Parent Company to be 75% of Group materiality.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our planning materiality, namely £1.2 million (2017 YE: £2.5 million). We have set performance materiality at this percentage due to our assessment of the overall control environment and the history of no or very few audit adjustments.

Audit work on subsidiaries for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each entity is based on the relative size and risk of the entity in relation to the Group as a whole and our assessment of the risk of misstatement arising in that entity. In the current year, the range of performance materiality allocated to components was £0.2 million to £1.2 million (2017: £2.5 million to £0.5 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.08 million (2017: £0.2 million), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report set out on pages 2 to 113, including the Strategic Report set out on pages 2 to 73 and the Governance Report set out on pages 74 to 113, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 113 – Statement of Directors' responsibility – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit and Risk Committee reporting** set out on pages 94 to 97 – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee/the explanation as to why the annual report does not include a section describing the work of the Audit and Risk Committee is materially inconsistent with our knowledge obtained in the audit; and
- **Directors' statement of compliance with the UK Corporate Governance Code** on page 76 – the parts of the directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 113, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are those related to the reporting framework (IFRS adopted by the EU, the Companies Act of 2006 and the Corporate Governance Code), the relevant tax compliance regulations in the UK, the Data Protection Act of 1998 and the EU General Data Protection Regulation. In addition, we conclude that there are certain laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements being the Listing Rules of the London Stock Exchange, the Bribery Act of 2010 and certain laws specific to entities operating in the private healthcare provider industry.
- We understood how Spire Healthcare Group plc is complying with those frameworks by making enquiries of management, internal audit, those responsible for legal and compliance procedures and the company secretary. We corroborated our enquiries through the review of board minutes, communications with the Audit and Risk Committee and correspondence received from regulatory bodies.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management and those charged with governance to understand where they considered there was a susceptibility to fraud. We also considered performance targets, forecasted results and bonus structures and their influence on efforts made by management to manage earnings or influence the perception of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified risk.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures included the review of board minutes to identify any non-compliance with laws and regulations, a review of the reporting to the Audit and Risk Committee on compliance with regulations, enquiries with those responsible for legal and compliance, enquiries with the company secretary and with management.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address
- We were appointed as auditors by the Board in November 2008 to audit the financial statements of the Company for the period ending 31 December 2008 and subsequent financial periods. The period of total uninterrupted engagement, including the period prior to the Companies admission on the London Stock Exchange in 2014, is 11 years, covering the years ended 31 December 2008 to 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit and Risk Committee.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Debbie O'Hanlon (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Reading
27 February 2019

Consolidated income statement

For the year ended 31 December 2018

(£ million)	Note	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	5	**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/(loss)	6	**54.2**	**(25.6)**	**28.6**	92.1	(49.2)	42.9
Finance income	7	**0.2**	**–**	**0.2**	0.1	–	0.1
Finance cost	7	**(20.6)**	**–**	**(20.6)**	(20.3)	–	(20.3)
Profit/(loss) 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/(loss) for the year		**27.5**	**(16.2)**	**11.3**	57.9	(41.1)	16.8
Profit/(loss) 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	11	**6.9**	**(4.1)**	**2.8**	14.4	(10.2)	4.2
– diluted	11	**6.8**	**(4.0)**	**2.8**	14.4	(10.2)	4.2

The notes on pages 127 to 151 form an integral part of these financial statements.

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 loss for the year	**(0.5)**	–
Total comprehensive income for the year attributable to owners of the Parent	**10.8**	16.8

The notes on pages 127 to 151 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018

(£ million)	Notes	Share capital	Share premium	Capital reserves (note 19)	EBT share reserves (note 19)	Hedging reserve (note 19)	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	24	–	–	–	–	–	(15.2)	(15.2)
Share-based payments	25	–	–	–	–	–	1.0	1.0
Utilisation of EBT shares for 2014 LTIP Awards	19	–	–	–	1.3	–	(1.3)	–
As at 1 January 2018 as previously reported		**4.0**	**826.9**	**376.1**	**(0.9)**	**–**	**(168.2)**	**1,037.9**
Charge arising from adoption of IFRS 9	16	–	–	–	–	–	**(6.4)**	**(6.4)**
As at 1 January 2018 as restated		**4.0**	**826.9**	**376.1**	**(0.9)**	**–**	**(174.6)**	**1,031.5**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**11.3**	**11.3**
Other comprehensive loss for the year		**–**	**–**	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Total comprehensive income						**(0.5)**	**11.3**	**10.8**
Dividend paid	24	**–**	**–**	**–**	**–**	**–**	**(15.2)**	**(15.2)**
Share-based payments	25	**–**	**–**	**–**	**–**	**–**	**0.5**	**0.5**
Utilisation of EBT shares for 2014 DBP Awards	19	**–**	**–**	**–**	**0.1**	**–**	**(0.1)**	**–**
Balance at 31 December 2018		**4.0**	**826.9**	**376.1**	**(0.8)**	**(0.5)**	**(178.1)**	**1,027.6**

The notes on pages 127 to 151 form an integral part of these financial statements.

Consolidated balance sheet

As at 31 December 2018

(£ million)	Note	2018	2017
ASSETS			
Non-current assets			
Property, plant and equipment	12	**1,019.2**	1,036.9
Intangible assets	13	**517.8**	517.8
		1,537.0	1,554.7
Current assets			
Inventories	15	**29.4**	30.1
Trade and other receivables	16	**94.2**	104.5
Income tax receivable		**2.0**	–
Cash and cash equivalents	17	**47.7**	39.2
		173.3	173.8
Non-current assets held for sale	18	**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	20	**488.4**	492.1
Other payables	23	**2.3**	–
Deferred tax liabilities	21	**72.2**	72.6
		562.9	564.7
Current liabilities			
Provisions	22	**16.4**	17.9
Borrowings	20	**10.2**	9.9
Trade and other payables	23	**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

These Consolidated financial statements and the accompanying notes were approved for issue by the Board on 27 February 2019 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Jitesh Sodha
Chief Financial Officer

The notes on pages 127 to 151 form an integral part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

(£ million)	Note	2018	2017
Cash flows from operating activities			
Profit before taxation		**8.2**	22.7
Adjustments for:			
Depreciation	12	**65.1**	57.4
Impairment of property, plant and equipment	12	**17.4**	10.3
Reversal of impairment on property, plant and equipment	12	**(1.2)**	–
Reversal of impairment on assets held for sale		**(0.5)**	–
Loss on disposal of property, plant and equipment	6	**0.1**	0.4
Finance income	7	**(0.2)**	(0.1)
Finance costs	7	**20.6**	20.3
Share-based payments	25	**0.5**	1.0
		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
Tax paid		**(1.4)**	(3.1)
Net cash from operating activities		**116.3**	124.0
Cash flows from investing activities			
Interest received		**0.2**	0.1
Purchase of property, plant and equipment		**(73.7)**	(119.2)
Proceeds on disposal of property, plant and equipment		**1.4**	0.8
Proceeds on disposal of assets held for sale		**4.1**	–
Net cash used in investing activities		**(68.0)**	(118.3)
Cash flows from financing activities			
Interest paid		**(24.4)**	(18.8)
Repayment of bank borrowing		**(0.2)**	(0.4)
Dividends paid to equity holders of the Parent	24	**(15.2)**	(15.2)
Net cash used in financing activities		**(39.8)**	(34.4)
Net increase/(decrease) in cash and cash equivalents		**8.5**	(28.7)
Cash and cash equivalents at 1 January		**39.2**	67.9
Cash and cash equivalents at 31 December	17	**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	9	**(25.6)**	(49.2)

The notes on pages 127 to 151 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2018

1. General information

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

The financial statements for the year ended 31 December 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. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and on an historical cost basis. The Group financial statements are presented in UK sterling and all values are rounded to the nearest million pounds (£million), except when otherwise indicated

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Further details on the Group's critical judgements and estimates are included in note 3

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. Further information on this is provided in the Risk management and internal control section on pages 49 to 51. 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.

Revenue recognition

The Group derives its revenue primarily from providing private healthcare services to both the public sector and private patients in the UK. Revenue from charges to patients is recognised when the treatment is provided.

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. The criteria for revenue recognition are as follows: identify the contract with the customer, identify the performance obligation, determine the transaction price, allocate the transaction price to the performance obligations, and satisfying the performance obligation. It applies to all contracts with customers, except those in the scope of other standards.

Revenue is recorded as services are transferred to the patient, with the consideration based on the total amount the group expects to receive, taking account of discounts where they are quantifiable and probable. The criteria for revenue recognition are also satisfied as services are transferred to the patient over time.

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

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

Interest income

Interest is recognised on an effective interest rate basis.

2. Accounting policies continued

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

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

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

Operating profit is adjusted to exclude exceptional and other items to calculate the Key Performance Indicator 'Operating profit before exceptional and other items'.

Exceptional and other items
Exceptional items are those items which, by virtue of their nature, size or incidence, either individually or in aggregate, need to be disclosed separately to allow a full understanding of the underlying performance of the Group. Items which may be considered exceptional in nature include significant write-downs of goodwill and other assets, restructuring costs relating to strategy review, impairments, hospital closures and set-up costs, business acquisition costs, non-routine medical malpractice provision, aborted project costs and executive medical leave and non-routine death in service.

Other items are those items which the directors believe are relevant to the understanding of the results for the year and which are excluded from the adjusted measures, where the directors considered necessary to do so due to their nature or amount, to provide further understanding of the Group's financial performance and comparability between reporting periods. Other items include compliance set up costs and deferred tax adjustments in relation to revised property carrying values.

Cash and cash equivalents
Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows. There are no bank overdrafts in either year presented.

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

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

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except for:
- goodwill not deductible for tax purposes;
- the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- investments in subsidiary companies where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Property, plant and equipment
Property, plant and equipment is stated at cost less accumulated depreciation. Major projects are treated as assets in the course of construction until completed when they are transferred to the appropriate asset class.

No depreciation is charged on freehold land or assets in the course of construction. Other assets are depreciated so as to write off the carrying amounts of the assets, less their estimated residual values, over their expected useful lives, as follows:

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

The expected useful lives and residual values of property, plant and equipment are reviewed annually and revised as appropriate. The review of the asset lives and residual values of properties takes into consideration the plans of the business and levels of expenditure incurred on an ongoing basis to maintain the properties in a fit and proper state for their ongoing use as hospitals. In the case of major facilities opening in new locations, the rate of depreciation is modified to reflect that the site is not always fully operational from the official opening date.

2. Accounting policies continued

Consolidation

The results of all subsidiary undertakings are included in the Consolidated financial statements. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the Consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

The Employee Benefit Trust (EBT) is treated as an extension of the Group and the Company.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in other operating costs.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill

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

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

Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets other than derivatives

Initial recognition and measurement

Financial assets within the scope of IFRS 9, are classified as financial assets at fair value through profit or loss, amortised cost or fair value through other comprehensive income.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

The Company's financial assets include cash and short-term deposits and trade and other receivables.

Subsequent measurement

Trade receivables are accounted for at amortised cost. The Group applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. Where there is a specific indicator of impairment, the Group makes an estimate of the asset's recoverable amount. Losses arising from impairment are recognised in the Consolidated Income Statement in Other operating costs.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. On initial recognition, loans and receivables are measured at fair value plus directly attributable transaction costs. Subsequently, such assets are measured at amortised cost, using the effective interest rate ('EIR') method, less any allowance for impairment.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in interest receivable in the Consolidated Income Statement.

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired, or the Group has transferred its rights to receive cash flows from the asset including transferring substantially all the risks and rewards of the asset.

2. Accounting policies continued

Impairment

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the receivables and the economic environment. 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.

ii) Financial liabilities other than derivatives

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss, or at amortised cost. The Company determines the classification of financial liabilities at initial recognition.

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, and derivative financial instruments.

Subsequent measurement

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate ('EIR') method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in interest receivable and interest payable in the profit or loss. Amortised cost is calculated by taking in to account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Derivative financial instruments

The Group may enter into derivative financial instrument arrangements to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value on the date on which a derivative contract is entered in to and subsequently remeasured at fair value at each balance sheet date. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The Group applies cash flow hedge accounting to such derivatives if the criteria for doing so are met. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge.

The effective portion of the changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. The cash flow hedge reserve is adjusted to the lower of the cumulative gain or loss on the hedging instrument and the cumulative change in fair value of the hedged item.

Amounts deferred in equity are recycled in the income statement in the periods when the hedged item is recognised, in the same line of the income statement as the recognised hedged item. If cash flow hedge accounting is discontinued, the amount that has been accumulated in OCI is maintained if the hedged future cash flows are still expected to occur. Otherwise, the amount is immediately reclassified to profit or loss as a reclassification adjustment.

iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Balance Sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

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

The Group holds consignment stock on sale or return. The Group is only required to pay for the equipment it chooses to use and therefore this stock is not recognised as an asset.

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

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

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

Provisions
A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk-adjusted, future cash flows at a pre-tax risk-free rate. Provisions are measured gross of any expected insurance recovery. Any such insurance recoveries are recognised in other receivables when the receipt of them is judged sufficiently probable.

Leases
The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangements at the inception date: whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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

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

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

Sale and leaseback of properties
In circumstances where the Group sells a property to a third party and then enters into an agreement with the buyer to lease the asset back under an operating lease (a 'sale and leaseback transaction'), the asset is shown as disposed from property, plant and equipment. If the sale is at fair value, the profit or loss on disposal is recognised immediately in the income statement. If the sale price is below fair value, the profit or loss on disposal is also recognised immediately, except if a loss is compensated for by future rentals being below a market price, in which case the loss is amortised over the life of the lease. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period of the lease.

Share capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium. Where the employee benefit trust 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 in both the Company and the Consolidated balance sheet until the shares are cancelled or reissued.

Dividend distribution
Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is approved by the Company's shareholders. Interim dividends are recognised when paid.

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

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

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

Share-based payments
The Group operates a number of equity-settled share-based payment schemes under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Where the share awards have non-market related performance criteria, the Group has used the Black Scholes valuation model to establish the relevant fair values. Where the share awards have total shareholder return ('TSR') market-related performance criteria, the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values (see note 25). The resulting fair values are recognised in the income statement over the vesting period of the options.

At the end of each year, the Group revises its estimates of the number of options that are expected to vest based on the non-market conditions and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

2. Accounting policies continued

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

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 to 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; and
- 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**

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; and
- 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.

2. Accounting policies continued

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 16 is 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	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)

(£ million)	As reported at 1 January 2018	IFRS 16 transition	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
Tax liability – deferred tax	(72.6)	45.8	(26.8)	(72.2)	(2.2)	(28.6)
Total liabilities excluding tax liability	(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 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.

3. Critical accounting judgements and estimates

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

Judgements

Leases

In the determination of the classification of a number of leases over hospital properties as operating leases, assumptions have been made about the discount rate applied to the annual rent payable over the remainder of the lease term compared against their respective fair values and of the useful economic life of the hospitals. Further information about commitments under these leases is given in note 26.

Exceptional and other items

Judgements are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional and other items. Deciding which items meet the respective definitions requires the Group to exercise its judgement. Details of these items categorised as exceptional and other items are outlined in note 9.

3. Critical accounting judgements and estimates continued

Estimates

Goodwill

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

The assumptions considered to be most critical in reviewing goodwill for impairment are contained in note 13.

Property impairment

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

4. Auditor's remuneration

During the year, the Group (including its subsidiary undertakings) obtained the following services from the Group's external auditor as detailed below:

(£ million)	2018	2017
Audit of these financial statements	0.4	0.4
Audit of the financial statements of subsidiaries of the company pursuant to legislation	0.1	0.1
	0.5	0.5

5. Segmental reporting

In determining the Group's operating segment, management has primarily considered the financial information in internal reports that are reviewed and used by the executive management team and 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[1]	27.0	26.6
Other[2]	25.2	25.6
Total	931.1	931.7

1 Partnerships is a new category, previously included within Other.
2 Other revenue 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). 2017 data has been amended to show £5.5million CQUIN revenue within the NHS category. This was previously reported within Other.

6. Operating profit

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 (see note 12)	65.1	57.4
Ian Paterson claims and related costs (see note 9)	1.0	28.7
Reversal of impairment on property, plant and equipment (see note 12)	(1.2)	–
Reversal of impairment on assets held for sale (see note 18)	(0.5)	–
Impairment of property, plant and equipment (see note 12)	17.4	10.3
Loss on disposal of property, plant and equipment (see note 12)	0.1	0.4
Staff costs (see note 8)	298.9	282.1

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

Inventory recognised as an expense in the current period is disclosed in note 15.

7. Finance income and costs

(£ million)	2018	2017
Finance income		
Interest income on bank deposits	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

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

8. Staff costs

(No.)	2018	2017
The average number of persons employed by the Group (including directors) during the year	11,320	11,344
The average number of full-time equivalent persons employed by the Group during the year	8,441	8,381

The aggregate payroll costs of these persons were as follows:

(£ million)	2018	2017
Wages and salaries	255.5	242.1
Social security costs	23.2	21.6
Pension costs, defined contribution scheme	20.2	18.4
	298.9	282.1

Other pension costs are in respect of the defined contribution scheme; unpaid contributions at 31 December 2018 were £1.9 million (2017: £1.8 million).

9. Exceptional and other items

(£ 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, equipment, write offs and aborted project costs	17.9	14.4
Other	(0.3)	0.7
Total exceptional costs (see also other items)	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 mainly 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 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 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 project costs charged as exceptional items in the year of £14.4 million.

9. Exceptional and other items continued

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

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

10. Taxation

(£ million)	2018	2017
Current tax		
UK corporation tax expense	**–**	4.5
UK corporation tax adjustment to prior years	**(2.7)**	–
Total current tax	**(2.7)**	4.5
Deferred tax		
Origination and reversal of temporary differences	**(1.9)**	1.7
Effect 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%). Deferred tax is detailed in note 21.

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 expense	**(3.1)**	5.9

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

The UK Government has announced a further decrease in the future UK corporation tax rate from 18% to 17% from April 2020. This change has resulted in a deferred tax credit arising from the reduction in the balance sheet carrying value of deferred tax liabilities to reflect the anticipated rate of tax at which those liabilities are expected to reverse.

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11. 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 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. Refer to the Remuneration Committee Report for the terms and conditions of instruments generating potential ordinary shares that affect the measurement of diluted EPS. There are no instruments that are antidilutive for the periods presented which have been excluded from the calculation of diluted EPS.

	2018	2017
Profit for the year 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") reflects the underlying performance of the business and assists in providing insights 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

12. 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 and Whalley Range, Manchester Hospitals. Further details are shown in note 18. The impairment in 2018 is the result of a write down of £12.6 million in the carrying value of the Alexandra Hospital and a write off of the £3.6 million of costs associated with the potential development of a site in Milton Keynes.

No assets are subject to restrictions on title or pledged as security for liabilities.

The cost of Equipment and Assets in the course of construction as at 1 January 2017 has been restated from £308.4 million to £354.8 million and £114.8 million to £116.0 million respectively, with a corresponding increase in accumulated depreciation on Equipment of £47.6 million. 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 £187.7 million and £5.3 million respectively, with a reduction in Long leasehold properties of £173.5 million, with a corresponding increase in depreciation of £19.5 million. There is no impact to the overall carrying value of property, plant and equipment as at 31 December 2017. There is no change to the income statements for any of the years presented.

12. Property, plant and equipment continued

Impairment testing

The Directors consider property impairment at least annually or more frequently if there is an indication that carrying amount may be impaired. This is achieved by comparing the value-in-use of the property with its carrying value in the accounts. The value-in-use calculations require the Group to estimate cash flows expected to arise in the future, taking into account market conditions. The present value of these cash flows is determined using an appropriate discount rate and market conditions covering the five-year period to December 2023.

Management identified a number of key assumptions relevant to the property impairment calculations, being EBITDA growth, which is impacted by an interaction of a number of elements and assumptions regarding cost inflation, capex maintenance spend and discount rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market conditions.

In addition to the above the Directors have obtained an independent external valuation. This valuation of £1.138 billion fully supports the carrying value of the freehold property portfolio.

13. Intangible assets

(£ million)	Goodwill
Cost or valuation:	
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
Carrying amount:	
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.

Impairment testing

The Directors treat the business as a single cash-generating unit for the purposes of testing goodwill for impairment. The recoverable amount of goodwill is calculated by reference to its estimated value-in-use.

In order to estimate the value-in-use, management has used trading projections covering the five-year period to December 2023.

Management identified a number of key assumptions relevant to the value-in-use calculations, being revenue growth, which is impacted by an interaction of a number of elements of the operating model, including pricing trends, volume growth and the mix and complexity of discharges, assumptions regarding cost inflation and discount rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends.

A long-term growth rate of 2.25% (2017: 2.25%) has been applied to cash flows beyond 2023, which is based on historic growth rates achieved by the sector, which have typically exceeded the retail price index ('RPI'). Pre-tax discount rates were based on the capital asset pricing model, utilising a sector-specific Beta in arriving at the equity premium and cost of debt based on current bank lending rates. A specific pre-tax discount rate was calculated to reflect the profile of cash flows inherent to the cash-generating unit and this was 9.0% (2017: 9.0%).

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. For example, an increase of 1.0% in the pre-tax discount rate to 10.0%, with all other assumptions held constant, did not identify any impairments. Similarly, reducing growth by half to 1.125% in the period beyond 2023, with all other assumptions held constant, did not identify any impairment. The pre-tax discount rate would need to increase to 11%, with all other assumptions held constant, in order to reduce recoverable value equal to the carrying amount.

14. Subsidiary undertakings

As at 31 December 2018, these Consolidated financial statements of the Group comprise the Company and the following companies, most of which are incorporated in, and whose operations are conducted in, the United Kingdom. All subsidiaries are 100% owned unless otherwise indicated.

Incorporated in England and Wales and registered at 3 Dorset Rise, London, EC4Y 8EN, unless otherwise stated	Principal activity	Class of share
Classic Hospitals Group Limited	Holding company	Ordinary
Classic Hospitals Limited	Non-trading company	Ordinary
Classic Hospitals Property Limited	Property company	Ordinary
Didsbury MSK Limited°	Dormant company	Ordinary
Fox Healthcare Acquisitions Limited	Leasing company	Ordinary
Fox Healthcare Holdco 2 Limited	Holding company	Ordinary
Lifescan Limited	Non-trading company	Ordinary
Links Bidco S.à r.l. Propco 8#	Property company	Ordinary
Montefiore House Limited+	Health provision	Ordinary
SHC Holdings Limited	Holding company	Ordinary
Spire Cambridge (Disposal) Limited	Non-trading company	Ordinary
Spire Fertility (Disposal) Limited	Non-trading company	Ordinary
Spire Healthcare (Holdings) Limited	Holding company	Ordinary
Spire Healthcare Finance Limited*	Holding company	Ordinary
Spire Healthcare Group UK Limited	Holding company	Ordinary
Spire Healthcare Holdings 1&	Holding company	Ordinary
Spire Healthcare Holdings 2 Limited	Holding company	Ordinary
Spire Healthcare Holdings 3 Limited	Holding company	Ordinary
Spire Healthcare Limited	Health provision	Ordinary
Spire Healthcare Properties Limited	Hospital leasing	Ordinary
Spire Healthcare Property Developments Limited	Development company	Ordinary
Spire Property 1 Limited	Property company	Ordinary
Spire Property 4 Limited	Property company	Ordinary
Spire Property 5 Limited	Property company	Ordinary
Spire Property 6 Limited	Property company	Ordinary
Spire Property 13 Limited	Property company	Ordinary
Spire Property 16 Limited	Property company	Ordinary
Spire Property 17 Limited	Property company	Ordinary
Spire Property 18 Limited	Property company	Ordinary
Spire Property 19 Limited	Property company	Ordinary
Spire Property 23 Limited	Property company	Ordinary
Spire Thames Valley Hospital (BVI Property Holdings) Limited^	Holding company	Ordinary
Spire Thames Valley Hospital Limited	Non-trading company	Ordinary
Spire Thames Valley Hospital Propco Limited	Property company	Ordinary
Spire UK Holdco 2A Limited	Holding company	Ordinary
Spire UK Holdco 4 Limited	Holding company	Ordinary

° Ownership interest is 80.0%.
Incorporated in Luxembourg and registered at 2 Boulevard Konrad Adenauer, L-1115 Luxembourg.
+ Ownership interest is 50.1%.
* Direct shareholding of the Company.
& Spire Healthcare Holdings 1 is an undertaking with unlimited liability. The registered address of the undertaking is 3 Dorset Rise, London, EC4Y 8EN
^ Incorporated in the British Virgin Islands (BVI) and registered at Harneys Corporate and Trust Services Limited, Craigmuir Chambers, Road Town, Tortola, VG1110, BVI.

15. Inventories

(£ million)	2018	2017
Prostheses, drugs, medical and other consumables	29.4	30.1

Cost of sales for the year ended 31 December 2018 includes inventories recognised as an expense amounting to £182.8 million (2017: £179.0 million).

16. Trade and other receivables

(£ million)	2018	2017
Amounts falling due within one year:		
Trade receivables	45.1	54.2
Unbilled receivables	14.5	14.4
Prepayments	28.6	29.1
Other receivables	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.

The loss allowance as at 31 December 2018 was determined as follows for trade receivables:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	1.3%	9.3%	32.9%	67.7%	100%	
Carrying amount (£ million)	33.0	6.1	2.3	2.3	1.4	45.1
Loss allowance	0.4	0.6	0.8	1.6	1.3	4.7

Trade receivables are written off when there is no longer a reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the group, and failure to make contractual payments for a period of greater than 2 years past due.

From 1 January 2018, the Group assesses on a forward looking basis expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied for trade receivables is the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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
	40.4	50.3

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

(£ million)	2018	2017
At 1 January as previously reported	3.9	5.0
Adoption of IFRS 9	6.4	–
At 1 January as restated	10.3	5.0
Provided in the year	2.6	5.0
Utilised during the year	(8.2)	(6.1)
At 31 December	4.7	3.9

16. Trade and other receivables continued

The Group adopted IFRS 9 Financial Instruments from 1 January 2018 and now applies the IFRS 9 simplified approach to measuring Expected Credit Losses (ECLs) for trade receivables. Under this standard, lifetime ECL provisions are recognised for receivables using a matrix of rates dependant on age thresholds and customer types. The ECL rates are determined with reference to historical performance of each payor age group during the last two years.

Under the previous accounting standard (IAS 39) provision was made for debts reaching 12 months after due date. The change in accounting policy resulted in an adjustment through opening retained earnings.

To develop the ECL matrix, trade receivables were grouped according to shared characteristics (Payor/payor type) and the days past due. As the majority of the Group's debt is receivable from large, well-funded insurance companies, the National Health Service or from a large number of individuals, the Group has concluded that historical debt performance of the portfolio during the last two reporting periods provides a reasonable approximation of the future expected loss rates for each payor age category. The ECL matrix is refreshed at each reporting date. Trade debtors are not modified after initial recognition. No collateral is held in respect of trade debtors. Expected credit losses are calculated on a collective basis and are not allocated to individual financial assets.

17. Cash and cash equivalents

(£ million)	2018	2017
Cash at bank	40.5	17.0
Short-term deposits	7.2	22.2
	47.7	39.2

Cash and cash equivalents comprise cash balances, short-term deposits and other short-term highly liquid investments (including money market funds) with maturities not exceeding three months placed with investment grade counterparties which are subject to an insignificant risk of change in value.

18. 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 12)	2.0	2.0
Whalley Range property (note 12)	–	3.6
	2.0	5.6

19. Share capital and reserves

	2018	2017
Authorised shares		
Ordinary shares of £0.01 each	401,081,391	401,081,391

	£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 reserves

This reserve represents the movement of fair value on hedging transaction of £0.5 million during the year. See note 28 for further information.

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: nil shares acquired).

19. Share capital and reserves continued

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.

(number of shares)	2018	2017
At 1 January	**281,631**	670,559
Exercised – 2014 LTIP	**–**	(254,589)
Exercised – 2016 & 2017 LTIP	**–**	(134,339)
Exercised – 2014 DBP	**(28,979)**	–
At 31 December	**252,652**	281,631

At 1 January 2018, the EBT held 281,631 shares. In April 2018, 10,922 shares were exercised in relation to the 2014 Deferred Bonus Plan ('DBP') and in June 2018, a further 18,057 shares were exercised in relation to the 2014 DBP. There were no new purchases of shares 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 shares were exercised in relation to the 2014 Long Term Incentive Plan ('LTIP') and in April 2017, a further 26,489 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 no new purchases of shares 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. Loans and borrowings

(£ million)	2018	2017
Secured borrowings		
Bank loans[1]	**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

1 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.

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.

(£ million)	2018	2017
Total borrowings (measured at amortised cost) and interest rate swaps		
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

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:

	2018		2017	
(£ million)	Minimum payments	Present value of payments	Minimum payments	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%.

20. Loans and borrowings continued

Terms and debt repayment schedule

The maturity date is the date on which the relevant bank loans are due to be fully repaid.

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[1]	July 2022	2.25%	**423.8**	425.1
Revolving credit facility (undrawn committed facility)	July 2022		**100.0**	100.0

1 The difference between the accounting carrying value and the debt repayment schedule is attributable to the modification gain on the loan extension.

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.

Changes in liabilities arising from financing activities

(£ million)	1 January	Cash flows	Non cash changes	Loan modification	31 December
2018					
Bank loans	**425.1**	**(15.2)**	**13.8**	**(3.3)**	**420.4**
Lease liabilities	**76.9**	**(9.4)**	**10.2**	**–**	**77.7**
Total	**502.0**	**(24.6)**	**24.0**	**(3.3)**	**498.1**

Aside from accrued interest there were no non-cash movements in 2017.

Reconciliation of net change in cash and cash equivalents to net debt

(£ million)	2018	2017
Bank loans	**425.1**	424.1
Obligations under finance leases	**76.9**	76.1
	502.0	500.2
Cash at bank	**(17.0)**	(53.9)
Short-term deposits	**(22.2)**	(14.0)
Net debt at 1 January	**462.8**	432.3
Net (increase)/decrease in cash and cash equivalents	**(8.5)**	28.7
Loans movement	**(1.3)**	1.0
Movement in obligations under finance leases	**0.8**	0.8
	(9.0)	30.5
Net debt at 31 December	**453.8**	462.8

Loans movement excludes the gain of £3.3 million that was recorded at the date of the extension.

21. Deferred tax

	Property, plant and equipment	Share-based payments	Losses	Provisions and other temporary differences	Total
At 1 January 2017	81.4	(0.3)	(8.5)	(1.4)	71.2
Charge/(credit) to the profit or loss	(5.5)	0.1	7.1	0.2	1.9
Change in tax rates	(0.5)	–	–	–	(0.5)
At 1 January 2018	**75.4**	**(0.2)**	**(1.4)**	**(1.2)**	**72.6**
Charge/(credit) to the profit or loss	**(0.4)**	**0.1**	**–**	**0.1**	**(0.2)**
Change in tax rates	**(0.2)**	**–**	**–**	**–**	**(0.2)**
At 31 December 2018	**74.8**	**(0.1)**	**(1.4)**	**(1.1)**	**72.2**
Disclosed within liabilities	**74.8**	**(0.1)**	**(1.4)**	**(1.1)**	**72.2**

Deferred tax on property, plant and equipment has arisen on differences between the carrying value of the relevant assets and the tax base. The losses relate entirely to non-trade losses.

21. Deferred tax continued

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted, or substantively enacted, at the balance sheet date. The Finance Act 2016, which included a further reduction in the UK corporate tax rate from 18.0% to 17.0% on 1 April 2020, has been enacted and so deferred tax assets and liabilities have been calculated at this rate unless the temporary difference is expected to reverse sooner than 1 April 2020 in which case the applicable rate of 18.00% to 19.25% has been used.

The Group has unrecognised deferred tax assets as at 31 December 2018 as follows:

(£ million)	2018	2017
Trading losses	1.1	0.9
Capital losses	0.1	0.1
Tax basis for future capital disposals	18.6	17.9
	19.8	18.9

These amounts are the expected tax value of the gross temporary difference at the enacted long-term tax rate of 17% (2017: 17%). A deferred tax asset has not been recognised in respect of these amounts due to uncertainties as to the timing of future profits that the trading losses could be offset against and whether capital gains will arise against which the capital losses and tax basis for capital disposals could be utilised.

22. Provisions

(£ 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 practising 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 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 twelve months.

23. 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
	97.5	101.5

In 2018, non-current 'Other payables' are lease incentives totalling £2.3 million (2017: £nil).

24. 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
Total	**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.

25. 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	
(£ million)	Charge £m	Number of options (thousands)	Charge £m	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 scheme is shown below:

Long Term Incentive Plan

The Long Term Incentive Plan ('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.

Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years, unless the Committee determines otherwise. Awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the Plan rules.

Vesting of awards will be dependent on a range of financial, operational or share price measures, as set by the Committee, which are aligned with the long-term strategic objectives of the Group and shareholder value creation. Not less than 30% of an award will be based on share price measures. The remainder will be based on either financial and/or operational measures. At the threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance. For awards granted in 2017, vesting will be based on EPS (35%), relative TSR (35%) and Operational Excellence (30%) targets. The details of measures, targets and weightings may be varied by the Committee prior to grant based on the Group's strategic objectives.

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.

The aggregate number of share awards outstanding for the Group and their weighted average exercise price is shown below:

	2018			
	LTIP (TSR condition) (thousands)	LTIP (EPS condition) (thousands)	LTIP (OE condition) (thousands)	Deferred Bonus Plan (thousands)
At 1 January	**863**	**863**	**221**	**29**
Granted	**763**	**763**	**655**	**–**
Exercised	**–**	**–**	**–**	**(29)**
Surrendered	**(88)**	**(88)**	**(44)**	**–**
Cancelled	**(552)**	**(552)**	**–**	**–**
At 31 December	**986**	**986**	**832**	**–**
Exercisable at 31 December	**32**	**–**	**–**	**–**
Weighted average contractual life	**2.0 years**	**2.0 years**	**2.0 years**	**n/a**

25. Share-based payments continued

	2017			
	LTIP (TSR condition) (thousands)	LTIP (EPS condition) (thousands)	LTIP (OE condition) (thousands)	Deferred Bonus Plan (thousands)
At 1 January	992	992	–	29
Granted	383	383	328	–
Exercised	(189)	(189)	(11)	–
Surrendered	(323)	(323)	(96)	–
Cancelled	–	–	–	–
At 31 December	863	863	221	29
Exercisable at 31 December	32	–	–	–
Weighted average contractual life	1.2 years	1.2 years	2.3 years	0.4 years

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 2.0 years (2017: 1.3 years).

Share options outstanding at the end of the year have the following expiry date:

			Share options thousands	
Grant – vest	Expiry date	Exercise price (£)	**2018**	2017
LTIP grants				
30/09/2014 – December 2016	30/09/2024	–	**32**	32
01/04/2015 – March 2018	01/04/2025	–	**–**	547
30/03/2016 – March 2019	30/03/2026	–	**–**	631
30/03/2017 – March 2020	30/03/2027	–	**591**	737
30/03/2018 – March 2021	28/03/2028	–	**1,594**	–
08/10/2018 – March 2021	28/03/2028	–	**587**	–
Deferred Bonus Plan				
01/06/2015 – 01/06/2018	01/06/2025	–	**–**	29

The following information is relevant to the determination of the fair value of the awards granted for the years ended 31 December 2018 and 2017, respectively, under the schemes:

2018	**LTIP (TSR condition)**	**LTIP (EPS condition)**	**LTIP (OE condition)**	**Deferred Bonus Plan**
Option pricing model	**Monte Carlo**	**Fair value at grant date**	**Fair value at grant date**	**n/a**
Fair value at grant date (£)[1]	**1.02/0.25**	**2.09/1.36**	**2.09/1.36**	**n/a**
Weighted average share price at grant date (£)[1]	**2.09/1.36**	**2.09/1.36**	**2.09/1.36**	**n/a**
Exercise price (£)	**Nil**	**Nil**	**Nil**	**n/a**
Weighted average contractual life	**3.0 years**	**3.0 years**	**3.0 years**	**n/a**
Expected dividend yield	**n/a**	**n/a**	**n/a**	**n/a**
Risk-free interest rate[1]	**0.9%/1.0%**	**n/a**	**n/a**	**n/a**
Volatility[1]	**36%/37%**	**n/a**	**n/a**	**n/a**

1 The disclosure indicates the inputs on two grant dates.

25. Share-based payments continued

2017	LTIP (TSR condition)	LTIP (EPS condition)	LTIP (OE condition)	Deferred Bonus Plan
Option pricing model	Monte Carlo	Fair value at grant date	Fair value at grant date	n/a
Fair value at grant date (£)	1.47	3.26	3.26	n/a
Weighted average share price at grant date (£)	3.26	3.26	3.26	n/a
Exercise price (£)	Nil	Nil	Nil	n/a
Weighted average contractual life	3.0 years	3.0 years	3.0 years	n/a
Expected dividend yield	n/a	n/a	n/a	n/a
Risk-free interest rate	0.2%	n/a	n/a	n/a
Volatility	34%	n/a	n/a	n/a

The expected volatility is based on the historical volatility of the Company and a comparator group of other international healthcare companies.

26. 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
Later 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 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

27. 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 C11 for details of contingent liability in respect of lease arrangements and agreements.

28. Financial risk management and impairment of financial assets

The Group has exposure to the following risks from its use of financial instruments:
- credit risk;
- liquidity risk; and
- market risk.

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

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

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

Credit risk and impairment

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

Trade and other receivables

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

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

The Group establishes an allowance for impairment that represents its expected credit loss in respect of trade and other receivables.

This allowance is composed of specific losses that relate to individual exposures and also a collective loss component established in respect of losses that have been incurred but not yet identified, determined based on historical data of payment statistics.

Note 16 shows the ageing and customer profiles of trade receivables outstanding at the year end.

Investments

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

Market risk

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

Interest rate risk

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

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

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

	Variable	Total	Undrawn facility
31 December 2018 (£ million)	**425.0**	**425.0**	**100.0**
Effective interest rate (%)	**3.26%**	**3.26%**	
31 December 2017 (£ million)	425.0	425.0	100.0
Effective interest rate (%)	2.42%	2.42%	

The following derivative contracts were in place at 31 December 2018 (no such arrangements were in place at 31 December 2017):

	Interest rate	Maturity date	Notional amount	Carrying value Asset/(Liability)
31 December 2018 (£ million)				
Interest rate swaps	**1.2168%**	**July 2022**	**213.0**	**(0.5)**

28. Financial risk management and impairment of financial assets continued

Sensitivity analysis

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

	Profit or loss		Equity	
(£ million)	25bp increase	25bp decrease	25bp increase	25bp decrease
At 31 December 2018				
Variable rate instruments	**(0.5)**	**0.5**	**(0.5)**	**0.5**
At 31 December 2017				
Variable rate instruments	(1.1)	1.1	(1.1)	1.1

Liquidity risk

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

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

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

– £100.0 million of revolving credit facility, which was fully undrawn as at 31 December 2018 (2017: £100.0 million undrawn).

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

			Maturity analysis		
2018 (£ million)	**Carrying amount**	**Contractual cash flows**	**Within 1 year**	**Between 1 and 2 years**	**More than 2 years**
Trade and other payables	**61.6**	**61.6**	**61.6**	**–**	**–**
Bank borrowings	**420.4**	**481.9**	**14.3**	**15.2**	**452.4**
Finance lease liabilities (present value)	**77.7**	**256.9**	**8.7**	**9.0**	**239.2**
	559.7	**800.4**	**84.6**	**24.2**	**691.6**

			Maturity analysis		
2018 (£ million)	**Carrying**	**Contractual cash flows**	**Within 1 year**	**Between 1 and 2 years**	**More than 2 years**
Derivative financial liabilities					
Interest rate swaps	**0.5**	**0.6**	**0.6**	**0.2**	**(0.2)**
	0.5	**0.6**	**0.6**	**0.2**	**(0.2)**

			Maturity analysis		
2017 (£ million)	Carrying amount	Contractual cash flows	Within 1 year	Between 1 and 2 years	More than 2 years
Trade and other payables	59.0	59.0	59.0	–	–
Bank borrowings	425.1	445.8	11.5	434.3	–
Finance lease liabilities (present value)	76.9	265.6	8.7	8.7	248.2
	561.0	770.4	79.2	443.0	248.2

Capital management

The Group's objective is to maintain an appropriate balance of debt and equity financing to enable the Group to continue as a going concern, to continue the future development of the business and to optimise returns to shareholders and benefits to other stakeholders.

The Board closely manages trading capital, defined as net assets plus net debt. The Group's net assets at 31 December 2018 were £1,027.6 million (2017: £1,037.9 million) and net debt, calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents and the gain of £3.3 million that was recorded at the date of the extension, amounted to £453.8 million (2017: £462.8 million).

The principal focus of capital management revolves around working capital management and compliance with externally imposed financial covenants. Throughout the period and up to the date of approval of these financial statements, the Group complied with all covenants required by our lending group.

Major investment decisions are based on reviewing the expected future cash flows and all major capital expenditure requires approval by the Board.

28. Financial risk management and impairment of financial assets continued

At the balance sheet date, the Group's committed undrawn facilities, and cash and cash equivalents were as follows:

(£ million)	2018	2017
Committed undrawn revolving credit facility	**100.0**	100.0
Cash and cash equivalents	**47.7**	39.2

Bases of valuation

As of 31 December 2018, except for an interest rate swap, the Group did not hold financial instruments that are included in level 1, 2 or 3 of the hierarchy.

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

The carrying value of the other financial instruments, being finance leases and debt, is approximately equal to their fair value based on review of current terms against market, except for floating rate debt, which is after the deduction of £3.8 million (2017: £1.8 million) of issue costs.

During the year ended 31 December 2018, there were no transfers between the levels in the fair value hierarchy.

As at 31 December 2018, the Group held the following financial instruments measured at fair value.

Liabilities measured at fair value (£ million)	Value as at 31 December 2018	Maturity analysis Level 1	Level 2	Level 3
Financial liabilities at fair value through profit or loss				
Interest rate swaps	**(0.5)**	–	(0.5)	–
	(0.5)	–	(0.5)	–
Financial liabilities at fair value using hedge accounting				
Interest rate swaps	**(0.5)**	–	(0.5)	–
	(0.5)	–	(0.5)	–

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

During the year ended 31 December 2017, there were no transfers between the levels in the fair value hierarchy.

As at 31 December 2017, the Group did not hold any financial instruments measured at fair value.

29. Related party transactions

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include the Board and Executive Committee, as identified on pages 84 to 87.

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

Key management compensation

(£ million)	2018	2017
Salaries and other short term employee benefits	**2.9**	3.5
Post-employment benefits	**0.3**	0.4
Share-based payments	**0.4**	0.9
	3.6	4.8

Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 101 to 109.

There were no transactions with related parties external to the Group in the year to 31 December 2018 (2017: nil).

30. 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 million, to be paid on 25 June 2019 to shareholders on the register on 31 May 2019.

Company balance sheet

As at 31 December 2018
(Registered number: 9084066)

(£ million)	Notes	2018	2017
ASSETS			
Non-current assets			
Investments	C9	**832.7**	832.2
		832.7	832.2
Current assets			
Other receivables	C7	**235.0**	122.0
Income tax receivable		**–**	0.2
Cash and cash equivalents	C6	**0.1**	0.1
		235.1	122.3
Total assets		**1,067.8**	954.5
EQUITY AND LIABILITIES			
Equity			
Share capital	19	**4.0**	4.0
Share premium		**826.9**	826.9
EBT share reserves	19	**(0.8)**	(0.9)
Retained earnings		**152.4**	122.0
Total equity		**982.5**	952.0
Current liabilities			
Income tax payable		**0.5**	–
Trade and other payables	C8	**84.8**	2.5
Total liabilities		**85.3**	2.5
Total equity and liabilities		**1,067.8**	954.5

The profit attributable to the owners of the Company for the year ended 31 December 2018 was £45.1 million (2017: £42.2 million).

The financial statements on pages 152 to 158 were approved by the Board of Directors on 27 February 2019 and signed on its behalf by:

Justin Ash
Chief Executive Officer

Jitech Sodha
Chief Financial Officer

Company statements of changes in equity

For the year ended 31 December 2018

(£ million)	Share capital	Share premium	EBT share reserves	Retained earnings	Total
At 1 January 2017	4.0	826.9	(2.2)	93.9	922.6
Profit for the year	–	–	–	42.2	42.2
Other comprehensive income for the year	–	–	–	–	–
Share-based payment	–	–	–	1.1	1.1
Utilisation of EBT shares for 2014 LTIP Awards	–	–	1.3	–	1.3
Dividend paid	–	–	–	(15.2)	(15.2)
As at 1 January 2018	**4.0**	**826.9**	**(0.9)**	**122.0**	**952.0**
Profit for the year	**–**	**–**	**–**	**45.1**	**45.1**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**
Share-based payment	**–**	**–**	**–**	**0.5**	**0.5**
Utilisation of EBT shares for 2014 DBP Awards	**–**	**–**	**0.1**	**–**	**0.1**
Dividend paid	**–**	**–**	**–**	**(15.2)**	**(15.2)**
As at 31 December 2018	**4.0**	**826.9**	**(0.8)**	**152.4**	**982.5**

Company statements of cash flows

For the year ended 31 December 2018

(£ million)	2018	2017
Cash flows from operating activities		
Profit before taxation	46.4	43.1
Dividend received	(44.3)	(42.8)
Profit before taxation (excluding dividend received)	2.1	0.3
Adjustments for:		
Interest income	(3.5)	(2.1)
Finance costs	0.1	0.1
	(1.3)	(1.7)
Movements in working capital:		
Increase in trade and other receivables	(112.9)	(39.9)
Increase in trade and other payables	82.3	–
Tax received	(0.4)	–
Net cash used in operating activities	(32.3)	(41.6)
Cash flows from investing activities		
Interest received	3.3	2.1
Dividend received	44.3	42.8
Net cash generated from investing activities	47.6	44.9
Cash flows from financing activities		
Finance costs	(0.1)	(0.1)
Dividend paid to equity holders of the Parent	(15.2)	(15.2)
Net cash used in financing activities	(15.3)	(15.3)
Net decrease in cash and cash equivalents	–	(12.0)
Cash and cash equivalents at beginning of year	0.1	12.1
Cash and cash equivalents at end of year	0.1	0.1

Notes to the Parent Company financial statements

This section contains the notes to the Company financial statements. The issued share capital and EBT share reserves are consistent with the Spire Healthcare Group plc Group financial statements. Refer to note 19 of the Group financial statements.

C1. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and on an historical cost basis. The financial statements are presented in UK sterling and all values are rounded to the nearest million pounds (£m), except when otherwise indicated.

See note 1 for general information about the Company.

The financial statements have been prepared on a going concern basis as the Directors believe there are no material uncertainties that lead to significant doubt that the Company can continue as a going concern for at least 12 months from the date of approval of these financial statements.

The Company applies consistent accounting policies, as applied by the Group. To the extent that an accounting policy is relevant to both Group and Company financial statements, refer to the Group financial statements for disclosure of the accounting policy. Material policies that apply to the Company only are included as appropriate.

The Company has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the income statement of the Parent Company.

The Company did not have items to be reported as other comprehensive income; therefore, no statement of comprehensive income was prepared.

C2. Significant accounting policies in this section

Investment in subsidiaries

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment, the carrying value of the investment is compared to its recoverable amount, being its value-in-use.

Share-based payments

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings is recognised by the Company in its individual financial statements as an increase in its investment in subsidiaries with a credit to equity equivalent to the IFRS 2 cost in subsidiary undertakings. The subsidiary, in turn, will recognise the IFRS 2 cost in its income statement with a credit to equity to reflect the deemed capital contribution from the Company.

C3. Key estimates and assumptions in this section

Impairment testing of investments in subsidiaries

The Company's investments in subsidiaries have been tested for impairment by comparison against the underlying value of the subsidiaries' assets based on value-in-use calculated using the same assumptions as noted for the testing of goodwill impairment in note 13 of the Group financial statements.

C4. Staff costs and Directors' remuneration

The Company had no employees during the year, except for the Directors. The information on compensation for the Directors, being considered as the key management personnel of the Company, is disclosed in note C12.

C5. Auditor's remuneration

During the year, the Company obtained the following services from the Company's external auditor, as detailed below:

(£'000)	2018	2017
Amounts receivable by auditor and its associates in respect of:		
Audit of the Company's annual financial statements	**10.0**	10.0
	10.0	10.0

C6. Cash and cash equivalents

(£ million)	2018	2017
Cash at bank	**0.1**	0.1
	0.1	0.1

C7. Other receivables

(£ million)	2018	2017
Amounts owed by subsidiary undertakings	**235.0**	122.0
	235.0	122.0

The amounts owed by subsidiary undertakings bear interest at LIBOR plus 2.25% (2017: LIBOR plus 2.00%). The amounts are unsecured and repayable on demand. No allowance for expected credit losses has been included for amounts receivable from subsidiary undertakings. As described in the Directors' report, the Group has sufficient resources to satisfy Going Concern and Viability considerations. All subsidiaries are under common control and resources could be made available for settlement of debts as and when required.

C8. Trade and other payables

(£ million)	2018	2017
Amounts owed to subsidiary undertakings	**84.6**	2.4
Accruals	**0.2**	0.1
	84.8	2.5

The amounts owed to subsidiary undertakings bear interest at LIBOR plus 2.25% (2017: LIBOR plus 2.00%). The amounts are unsecured and repayable on demand.

C9. Investment in subsidiaries

(£ million)	Subsidiary undertakings	Total
Net book value		
At 1 January 2017	831.1	831.1
Additions – IFRS 2 costs	1.1	1.1
At 1 January 2018	**832.2**	832.2
Additions – IFRS 2 costs	**0.5**	0.5
At 31 December 2018	**832.7**	832.7

Details of the Company's subsidiaries at the balance sheet date are in note 14 to the Group financial statements.

At the year end, investments in subsidiaries were reviewed for indicators of impairment and no indicators for impairment were found.

C10. Capital management and financial instruments

The capital structure of the Company comprises issued capital, reserves and retained earnings as disclosed in the Parent Company statement of changes in equity totalling £982.5 million (2017: £952.0 million) as at 31 December 2018, and cash amounted to £0.1 million (2017: £0.1 million).

Credit risk

As at 31 December 2018, the Company had amounts owed by subsidiary undertakings of £235.0 million (2017: £122.0 million). The Company's maximum exposure to credit risk from these amounts is £235.0 million (2017: £122.0 million).

Liquidity risk

The Company finances its activities through its investments in subsidiary undertakings.

The Company anticipates that its funding sources will be sufficient to meet its anticipated future administrative expenses and dividend obligations as they become due over the next 12 months.

(£ million)	2018	2017
Financial assets: Carrying amount and fair value		
Loans and receivables		
Cash and cash equivalents	**0.1**	0.1
Amounts owed by subsidiary undertakings	**235.0**	122.0
	235.1	122.1

All of the above financial assets are current and not impaired.

(£ million)	2018	2017
Financial liabilities: Carrying amount and fair value		
Amortised cost		
Amounts owed to subsidiary undertakings	**84.6**	2.4
	84.6	2.4

C10. Capital management and financial instruments continued

The fair value of financial assets and liabilities approximates their carrying value.

All of the Company's financial liabilities have a maturity of less than one year.

Market risk

Interest rate risk and sensitivity analysis

As at 31 December 2018 the Company had short-term borrowings of £84.6 million (2017: £2.4 million) owed to subsidiary undertakings, which are repayable on demand and bear interest at LIBOR plus 2.25% (2017: LIBOR plus 2.00%). Interest on these borrowings in the year amounted to nil (2017: nil) and the Directors do not perceive that servicing this debt poses any significant risk to the Company given its size in relation to the Company's net assets.

IFRS 7 *Financial Instruments: Disclosures* required a market risk sensitivity analysis illustrating the fair values of the Company's financial instruments and the impact on the Company's income statement and shareholders' equity of reasonably possible changes in selected market risks. Excluding cash and cash equivalents, the Company has no financial assets or liabilities that expose it to market risk, other than the amounts owed by/to subsidiary undertakings of £235.0 million (2017 £122.0 million) and £84.6 million (2017: £2.4 million) respectively. The Directors do not believe that a change of 25 basis points in the LIBOR interest rates will have a material impact on the Company's income statement or shareholders' equity.

C11. Contingent liabilities

Lease arrangements with a consortium of investors

The Company has given a guarantee to a consortium of investors, comprising Malaysia's Employees Provident Fund (EPF), affiliated funds of Och-Ziff Capital Management Group and Moor Park Capital, in relation to the sale of 12 of the Spire Group's property-owning companies on 17 January 2013. With effect from 17 January 2013, the total third party annual commitments of the Group under these operating leases increased by £51.3 million per annum.

As a result of the sale, the Group has long-term institutional lease arrangements (up to December 2042, subject to renewal or extension), with the landlord for each of the 12 properties. The leases include key terms such as annual rental covenants and minimum levels of capital expenditure invested by the Group. The capital expenditure covenants measured on an average basis over each five-year period during the term of the leases, require the Group to incur, in total, £5.0 million of maintenance capital expenditure and £3.0 million of additional capital expenditure on the portfolio of 12 hospitals each year, such being subject to indexation in line with RPI. If the minimum rent cover ratio is not met, the Group is required to enter into an asset performance recovery plan in order to comply with the covenants, but no default would be deemed to have occurred. The Company is a party to this guarantee. As at 31 December 2018, the Group complied with the required covenants.

Lease agreements entered into by Classic Hospitals Limited

Under lease agreements entered into on 26 January 2010 by Classic Hospitals Limited, a subsidiary undertaking of the Company, the Company has undertaken to guarantee the payment of rentals over the lease term to August 2040, and to ensure that the other covenants in the lease are observed. The initial rentals payable under the leases in 2010 were £6.3 million per annum, which will be subject to an increase in future years. As part of these arrangements, the assets of the Company are subject to a fixed and floating charge in the event of a default. As at 31 December 2018, there was no breach in the required covenants.

C12. Related party transactions

The Company's subsidiaries are listed in note 14 to the Group financial statements. The following table provides the Company's balances that are outstanding with subsidiary companies at the balance sheet date:

(£ million)	2018	2017
Amounts owed from subsidiary undertakings – Spire Healthcare Finance Limited and Spire Healthcare Limited	**235.0**	122.0
Amounts owed to subsidiary undertakings – Spire UK Holdco 2A Limited and Spire Healthcare Limited	**(84.7)**	(2.4)
	150.3	119.6

The amounts outstanding are unsecured and repayable on demand.

The following table provides the Company's transactions with subsidiary companies recorded in the profit for the year:

(£ million)	2018	2017
Amounts invoiced to subsidiaries	**31.5**	40.6
Amounts invoiced by subsidiaries	**(0.1)**	(0.1)
Dividend received from subsidiaries	**44.3**	42.8

Amounts invoiced to/by subsidiaries relate to general corporate purposes.

C12. Related party transactions continued

Directors' remuneration

The remuneration of the Non-Executive Directors of the Company is set out below. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 101 to 109.

(£ million)	2018	2017
Short term employee benefits*	0.7	0.7
Pension contributions	–	–
Share-based payments*	–	–
Total	0.7	0.7

* Emoluments and share-based payment charges for the Executive Directors are borne by a subsidiary company, Spire Healthcare Limited. Share-based payment related charges for the Executive Chairman prior to Admission (i.e., Directors' Share Bonus Plan) are also borne by a subsidiary company, Spire Healthcare Limited. Please refer to Note 29 of the Group consolidation statements.

Directors' interests in share-based payment schemes

Refer to note 25 to the Group financial statements for further details of the main features of the schemes relating to share options held by the Chairman, Executive Directors and Senior Management Team.

Other transactions

During the year, the Company did not make any purchases in the ordinary course of business from an entity under common control.

C13. 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.