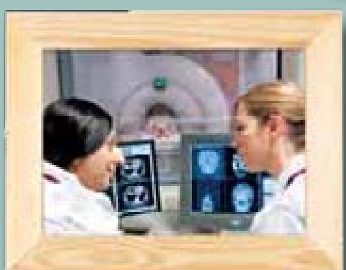
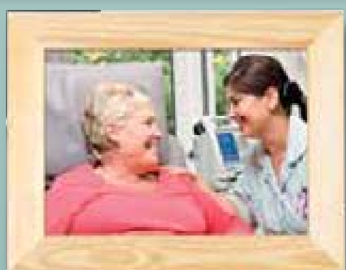
Annual Review 2013

A picture of good health





Spire Healthcare

Setting the standards in quality healthcare

Since Spire was formed in 2007 we have successfully grown and transformed the business, establishing a platform for future expansion.

2009
- Completed £10m investment at Spire Bristol Hospital which included a fifth theatre, ITU, extended recovery suite, new consulting rooms and 12 new patient bedrooms

2007 2008 2009 2010

Spire Healthcare

2007
- Spire created through Cinven's acquisition and rebranding of 25 BUPA hospitals for £1.4bn
- New management team installed

2008
- Acquired 10 Classic Hospitals for £145m from LGV Capital establishing Spire as the second largest private hospitals provider in the UK
- Also acquired Thames Valley Hospital for £23m

2010

- Opened Spire Shawfair Park Hospital in Edinburgh
- Also opened four new out-patient satellite clinics and nine fertility services

2012

- Opened Montefiore Hospital in Brighton/Hove, a £35m development

2012

- Opened our flagship Perform site at St George's Park

2011 2012 2013

2011

- Acquired Lifescan, the UK's leading independent provider of CT health checks
- Commenced SAP implementation

2013

- Commenced construction of first wholly-owned, stand-alone radiotherapy and cancer treatment centre in Bristol
- Re-launched vision, mission and values

Spire Healthcare is one of the UK's leading private hospital groups. Our 38 hospitals and 12 clinics treated more in-patient and day-case patients than ever in 2013, while maintaining exemplary patient, staff and consultant satisfaction scores.

We put patients at the heart of everything we do. Our staff nationwide provide patients with very high standards of healthcare, delivered with attentiveness, kindness and compassion, in high quality facilities.

We work with experienced consultants to deliver tailored care to our patients, whether funded through medical insurance or paying for their own treatment. We also offer certain services to treat NHS patients.

A continuous programme of investment in our hospitals and the latest medical technology, totalling over £500 million since Spire Healthcare was formed, is increasing our capacity to admit and treat patients, and broadening the services we offer.

Contents

We invest consistently to offer patients a wide range of services and treatments at each stage of their care pathway, from initial GP referral, through consultation, diagnosis and treatment, to recovery and rehabilitation.

Our year in numbers

Patient satisfaction

92%

of patients rate our overall quality of service 'excellent' or 'very good'

EBITDAR*

£207.9m

an increase of £3.5m on 2012

Patient discharges (in-patient and day-cases)

236,203

an increase of 1.5% on 2012

Revenue

£764.5m

a 3.5% increase on 2012

Consultant satisfaction

78%

of consultants rate the quality of service Spire provides as 'excellent' or 'very good'

Investment

£53.7m

investment in facilities, equipment and services to capture market demand and growth

*Earnings before interest, tax, depreciation, amortisation and hospital property rentals (pre-exceptional items).

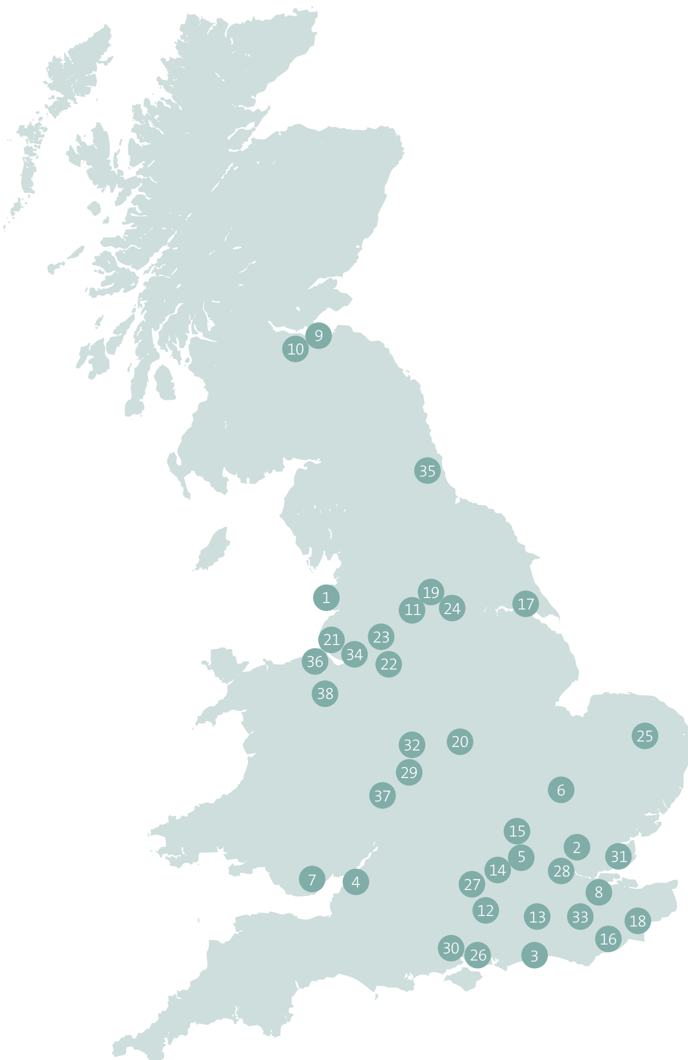
This definition applies to all references to 'EBITDAR' in this Annual Review.

At a glance

With 38 hospitals and 12 clinics, Perform (a sports medicine, physiotherapy and rehabilitation brand) and Lifescan (a screening service), we provide comprehensive healthcare services across the UK.

Our hospitals

01 **Blackpool**
Spire Fylde Coast Hospital
02 **Brentwood**
Spire Hartswood Hospital
03 **Brighton**
The Montefiore Hospital
04 **Bristol**
Spire Bristol Hospital
05 **Bushey**
Spire Bushey Hospital
06 **Cambridge**
Spire Cambridge Lea Hospital
07 **Cardiff**
Spire Cardiff Hospital
08 **Chatham**
Spire Alexandra Hospital
09 **Edinburgh**
Spire Murrayfield Hospital
10 **Edinburgh**
Spire Shawfair Park Hospital
11 **Elland**
Spire Elland Hospital
12 **Farnham**
Spire Clare Park Hospital
13 **Gatwick**
Spire Gatwick Park Hospital
14 **Gerrards Cross**
Spire Thames Valley Hospital
15 **Harpenden**
Spire Harpenden Hospital
16 **Hastings**
Spire Sussex Hospital
17 **Hull**
Spire Hull and East Riding Hospital
18 **Hythe**
Spire St Saviour's Hospital
19 **Leeds**
Spire Leeds Hospital
20 **Leicester**
Spire Leicester Hospital
21 **Liverpool**
Spire Liverpool Hospital
22 **Macclesfield**
Spire Regency Hospital
23 **Manchester**
Spire Manchester Hospital
24 **Methley**
Spire Methley Park Hospital
25 **Norwich**
Spire Norwich Hospital
26 **Portsmouth**
Spire Portsmouth Hospital
27 **Reading**
Spire Dunedin Hospital
28 **Redbridge**
Spire Roding Hospital
29 **Solihull**
Spire Parkway Hospital
30 **Southampton**
Spire Southampton Hospital
31 **Southend-on-Sea**
Spire Wellesley Hospital
32 **Sutton Coldfield**
Spire Little Aston Hospital
33 **Tunbridge Wells**
Spire Tunbridge Wells Hospital
34 **Warrington**
Spire Cheshire Hospital
35 **Washington**
Spire Washington Hospital
36 **Wirral**
Spire Murrayfield Hospital
37 **Worcester**
Spire South Bank Hospital
38 **Wrexham**
Spire Yale Hospital



Hospital highlights

In 2013 we started constructing our first wholly-owned, stand-alone radiotherapy and cancer treatment centre in Bristol. We also opened a new clinic in Formby and a new Perform centre in Southampton.

Patient satisfaction

2013	92%
2012	92%
2011	91%

92% of patients rate the quality of service as 'excellent' or 'very good'

Likelihood to recommend

2013	97%
2012	97%
2011	96%

97% of patients would recommend their Spire hospital

Care and attention from nurses

2013	93%
2012	92%
2011	89%

93% of patients rate the care and attention from nurses as 'excellent' or 'very good'

Consultant satisfaction

2013	78%
2012	78%
2011	77%

78% of consultants rate our quality of service as 'excellent' or 'very good'

Working in partnership

87%

of consultants feel Spire works in partnership with them

GP confidence

91%

of GPs rated the quality of service from Spire 'excellent' or 'very good'

Reassuring

97%

of patients felt reassured and safe during their stay

New facilities

5

Three MRI scanners and two CT scanners installed in our hospitals in 2013

The patient pathway

Providing high quality patient care is our top priority. We offer a wide range of services and treatments at each stage of the patient's care pathway, from initial GP referral, through consultation, diagnosis and treatment, to recovery and rehabilitation. Our staff provide our patients with high standards of healthcare delivered with attentiveness, kindness and compassion in quality facilities.

Primary care

Working with GPs to facilitate speedy, convenient and fully informed referrals. Enabling patients to make an informed choice at the start of their care pathway.

Consultants

Providing high quality facilities, a wide range of services and highly trained staff, so that our experienced consultants can deliver outstanding healthcare.

Diagnostics

Investing in the latest scanning technology, skilled clinicians and comprehensive pathology services to provide prompt and accurate diagnoses. Giving patients reassurance that comes from a clear treatment plan.

Treatment

Offering a wide range of treatment and surgery, including some of the most acute, complex and specialist procedures, across our 38 hospitals nationwide. Providing choice for patients.

Recovery

From High Dependency and Intensive Care Units to our integrated sports injury rehabilitation facility, Spire gets patients back on their feet faster than ever before.

Chairman’s statement

In 2013 Spire’s staff performed exceptionally by delivering high quality care to our patients and achieving strong operational results despite challenging circumstances. Our success is based on our constant commitment to quality care.

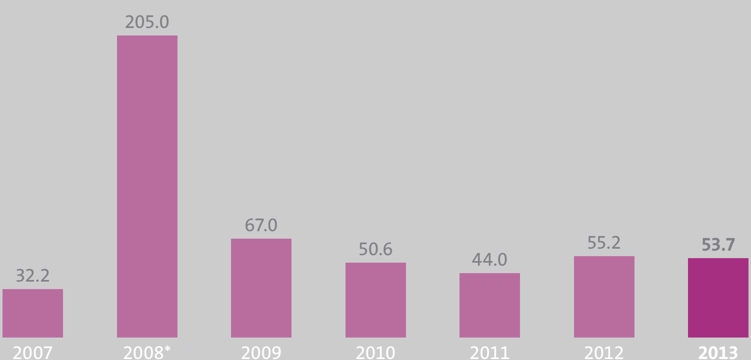
As I write this the UK macroeconomic outlook looks broadly positive, but only twelve months ago we were threatened with a triple dip recession and the Eurozone was in crisis. The coalition government’s economic policies now seem to be working at the macro level, but most would agree that we are not yet at a place where the recovery can definitely be seen as solid and sustainable, nor are the benefits being felt by all. However, there is scope for optimism and we are seeing an improvement in trading conditions.

Financial performance

I am particularly pleased then to report that in 2013 Spire Healthcare achieved its sixth successive year of growth. After a difficult first half, with insured activity notably down, we experienced a marked upturn from the third quarter on. Overall, patient numbers and turnover have grown steadily since Spire was formed in 2007.

In 2013 revenues grew to £764.5 million, while our operating profit (EBITDAR), pre-exceptional items, increased to £207.9 million.

Capital invested in Spire Healthcare since 2007 (£m)



*Acquired Classic Hospitals and Thames Valley Hospital for £168m

+£500m

Over £500m invested in Spire Healthcare since 2007

£53.7m

invested in Spire Healthcare in 2013

Garry Watts

Garry Watts, FCA, MBE, was for seven years CEO of SSL International plc (and before that its CFO). SSL was a £2.5bn international consumer healthcare brands company, which was acquired by Reckitt Benckiser in late 2010.

Garry is also Chairman of BTG plc, and of Foxtons Group plc, deputy chairman of Stagecoach Group plc and a non-executive director of Coca-Cola Enterprises, Inc.

A chartered accountant and former partner at KPMG, Garry was previously an executive director of Celltech plc and of Medeva plc and a non-executive director of Protherics plc.

Other roles have included 17 years as a member of the UK Medicines and Healthcare Products Regulatory Agency Supervisory Board.

Garry is a father of three, and a grandfather. He splits his time between London and Perthshire, where he walks and fishes. He is a cricket and rugby fan and enjoys the theatre and opera.

Chairman's statement continued

Clinical performance

It gives me equal pleasure that our strong financial performance was matched by the maintenance of an already high performance in our clinical outcomes and our patient and consultant satisfaction scores.

In the last year we treated 236,203 in-patients and day-case patients, a small increase on the previous year. We maintained our levels of patient and consultant satisfaction with 92% of patients and 78% of consultants rating Spire's quality of service as 'excellent' or 'very good'.

Our overall 'Friends and Family' test score of 88 (April to November 2013) ranked us in the top 20 across all hospitals, both NHS and private, in England. Our score means that Spire is one of the UK's most favoured providers of hospital treatment.

These quality results are all the more pleasing given that they were achieved during a period of general economic difficulty and the disruption that inevitably resulted from the Competition and Markets Authority review of the private healthcare industry.

Our dedicated staff

Our continuing strong clinical and financial performance is due to the dedication of our staff. Their motivation, engagement and wellbeing is monitored as part of our balanced scorecard management system. In 2013, the proportion of staff who rated Spire a 'great place to work' dipped six percentage points to 72%. Although this is still a high score, it was the first decline in five years and reflects the challenges our staff faced during the year. We are keenly aware of the outstanding efforts they make and I would like to formally thank them on behalf of the Board as we work to reverse this decline in 2014.

As Rob Roger outlines in his Chief Executive's statement, our value driven focus is supported by an ongoing investment programme. Our business model is focused on expanding and enhancing the care we provide, which gives our dedicated team of clinical and administrative staff the means and support to drive the business forward.

Governance

In early 2013 the Heart of England NHS Foundation Trust (HEFT) commissioned Sir Ian Kennedy to conduct a review of the response of HEFT to concerns about Mr Paterson's surgical practice. Its results and recommendations were published in December 2013 and accepted fully.

Mr Paterson also performed procedures at two Spire hospitals. We commissioned an independent report and we published the findings and recommendations in March 2014. We have committed to implementing all the recommendations together with eight further improvements to try to ensure that this will not happen again.

We have issued a full and unreserved apology to all of the patients and their families for any distress they have suffered as a result of their treatment by Mr Paterson while he was a surgeon at the Spire Parkway and Little Aston hospitals.

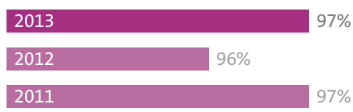
98%

of consultants would recommend their Spire hospital to friends and family

91%

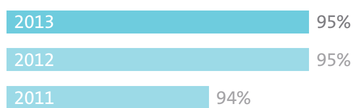
of staff believe what they do makes a positive difference to Spire Healthcare

Staff go out of their way to make a difference



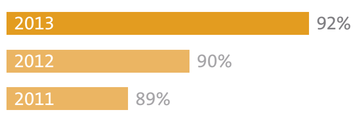
97% of patients felt our staff went out of their way to make a difference

Care and attention from the consultant



95% of patients rated the care and attention from their consultant as 'excellent' or 'very good'

Prepared for their stay



92% of patients rated the way in which they were prepared for their hospital stay as 'excellent' or 'very good'

Competition and Markets Authority

The Competition and Markets Authority (CMA, which has replaced the Competition Commission) final report on the private healthcare market was published on 2 April 2014. We welcome its publication and will work with the CMA to make its remedies as effective as possible. Over the last two years we have supported the review and played our part throughout in providing information, constructive proposals and recommendations aimed at securing the long-term future of our industry – an industry which is a vital and growing partner of the NHS in providing healthcare in the UK. The clarification of hospital-consultant arrangements and the requirement for provision of more, and better, information to patients and GPs will be to the benefit of all stakeholders, but especially to those that matter most – patients.

The future

The future is always uncertain, but we can be sure of one thing: as a society and as a country, demographics, life styles and medical advances will ensure that demand for healthcare continues to rise. The ability of the State to fund increases in NHS provision will remain constrained. The demand gap will grow. The private sector, with its existing capacity, access to capital and ability to grow and provide state-of-the-art services, will play an increasing role in an integrated public-private healthcare system, working with the NHS.

Just over one quarter of Spire's business now comprises procedures for NHS patients, undertaken at NHS tariff rates. Competition in healthcare is not a case of winner takes all – we can all be the winners if we work together to develop an affordable, efficient and high quality, integrated healthcare system for the country.

Spire's prospects are good. The signs are positive that we are in a period of economic growth. The private healthcare sector can move forward in conditions of relative stability now the CMA review is complete and the new NHS commissioning arrangements are bedding down.

Our strong financial position, continuing investment programme, increasing capacity for even the most highly acute care, ability to continue to grow and dedicated staff, all allow us to approach the future with confidence.

Garry Watts
Chairman

> "As a society and as a country, demographics, life styles and medical advances will ensure that demand for healthcare will continue to rise."

Chief Executive’s statement

Spire Healthcare’s mission is to bring together the best people, dedicated to developing excellent clinical environments and delivering the highest quality patient care. We continue to invest in our people and facilities to ensure our patients receive the highest standards of care.

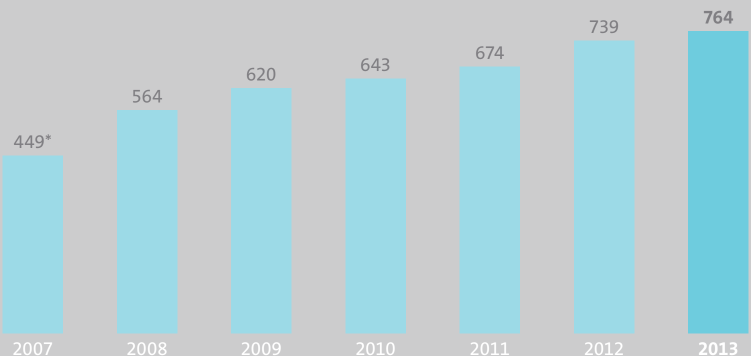
Spire today

In the six years since Spire was established we have succeeded in creating one of the UK’s market leading private healthcare groups. Our original 25 hospitals have expanded to the point where we now have 38 hospitals, 110 operating theatres and over 1,800 beds, offering nationwide coverage across England, Wales and Scotland.

Our skilled staff work with many of the country’s most experienced consultants delivering personalised high quality care to our patients every year.

We offer a fully integrated service with involvement at all stages of the patient journey and covering a broad range of specialties including the most acute levels of care.

Strong revenue growth (£m)



*Full 12 months results, including period up to date of acquisition

£13m

Committed to investing £13m in Spire’s new Specialist Care Centre in Bristol

£2.9m

Committed to investing £2.9m in a new cardiac catheterisation laboratory at Spire Cardiff Hospital

Rob Roger

Rob has been CEO of Spire since May 2011. Previously he was appointed CFO when Spire Healthcare was formed in 2007.

Prior to joining the world of healthcare, Rob spent 20 years in the leisure industry, primarily at Pepsico, First Choice PLC and Merlin Entertainment Group. In all of these companies he has seen strong growth during his tenure through the basic concept of understanding the hierarchy of customer needs and delivering to them. This, combined with managing a highly autonomous and flat management structure, means staff feel empowered and make decisions that will lead to change.

Rob is a Scottish Chartered Accountant and has interests in skiing, cycling and rugby. He keeps himself busy with his five children.

Chief Executive's statement continued

Our clinical performance and satisfaction ratings have improved steadily and are amongst the best in the sector.

We have invested over £500 million since 2007 in a targeted, consistent and ongoing programme; acquiring and opening new hospitals, installing state-of-the-art equipment and facilities, supporting our people and developing new capabilities in orthopaedics, cancer care, cardiology, neurology, diagnostics, pathology and physiotherapy.

We have a diversified payor mix – in 2013 over half of our business was funded by Private Medical Insurance (PMI) and just over a quarter by the NHS. The balance was made up of individuals who chose to self-pay.

We have invested in engaging with the consultants who practise in our hospitals, with the GPs who refer patients to us and with the NHS commissioners with whom we increasingly work.

We believe that our market is set to grow significantly in the future, driven by fundamental demographic, economic and healthcare trends. We are determined to be the leading private provider of quality healthcare for people across the UK in the years to come.

Performance in 2013

2013 was a challenging year, but our clinical, operational and financial performance was strong. We experienced a decline in insured and self-pay patient numbers in the first quarter but, in a year of two halves, we saw a marked improvement in the later stages of the year.

The Competition and Markets Authority's review of the private healthcare sector continued to run throughout the year, as did the independent Verita review that we commissioned into how we responded to concerns regarding consultant Mr Paterson's work at our Parkway and Little Aston hospitals.

Whilst Mr Paterson was suspended in August 2011 and had his practising privileges removed in 2012, I wanted an independent review to understand fully the circumstances that enabled Mr Paterson to practice as he did and to ensure that all possible lessons could be learned from this event.

The report was finalised in early March 2014 and we published the findings and recommendations immediately. The findings and recommendations showed that there are improvements to be made in our internal governance processes. As a result I have asked for action plans to be implemented to improve our processes during 2014. We cannot allow this type of situation to arise again at any of our hospitals.

During this time our staff continued to deliver high quality clinical care to all our patients and I would like to thank them for their support.

Our financial performance was satisfactory. Revenue increased for the sixth consecutive year, reaching £764.5 million and our EBITDAR margin was maintained through extremely good operational efficiency.

In January 2013 we completed a partial refinancing of our loan facilities through a sale, subject to leases, of 12 of our 38 hospitals across the UK raising c.£700 million. The proceeds of this transaction, net of costs, were used to reduce bank debt and provide us with additional flexibility to continue investing for future growth.

Quality care

Dr Jean-Jacques de Gorter, our Group Medical Director, reviews our clinical performance in detail on pages 16 to 18, and I am pleased to record that our outcomes and the quality of our care continue to be excellent.

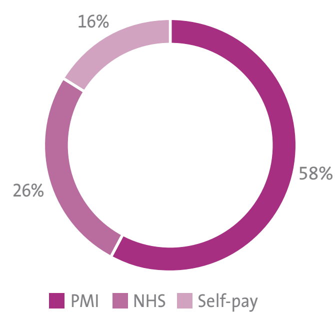
72%

of staff recommend Spire as a 'great place to work'

96%

of consultants say Spire is easy to do business with

Diversified patient mix



Innovation and Investment

We continue to drive innovation and investment. During the year we invested some £53.7 million in a range of projects, many aimed at the continued development of our acute services.

Some highlights of the year included:

- the construction of our first wholly-owned, stand-alone radiotherapy and cancer treatment centre in Bristol;
- the opening of a new MRI scanner at Spire Parkway Hospital in Solihull which has the capability to provide a new treatment for uterine fibroids called MR guided Focused Ultrasound (MRgFUS);
- the opening of Spire's Formby Clinic, aimed at giving local people easier access to the range of treatments we offer at Spire Liverpool Hospital; and
- a new partnership at Perform at St George's Park with the US-based Michael Johnson Performance training brand.

We also continued to develop our range of services, building our Perform branded physiotherapy and sports medicine offering by opening a new site at the Southampton Cricket Club's Ageas Bowl, and further enhancing Spire Pathology Services. Pathology is a highly competitive market, requiring operational scale, but we are putting in place the building blocks to offer healthcare customers, including the NHS, faster and more cost-effective services.

On 31 March 2014 it was confirmed that the Trustees of the Daughters of the Cross of Liege, agreed to sell St Anthony's hospital to Spire Healthcare.

Located in North Cheam, Surrey, St Anthony's is a 92-bed private hospital which provides a range of services such as health screening, diagnostic treatments, medical and surgical services.

The hospital will be a central platform for Spire's continued growth in cardiology and other areas of acute care. Its reputation is well founded and we look forward to welcoming the staff and patients into the Spire family.

Vision, mission and values

In 2012 we conducted a widespread consultation on our vision, mission and values. This resulted in a re-launch in February 2013, of the six values that underpin everything we do:

- Caring is our passion
- Succeeding together
- Driving excellence
- Doing the right thing
- Delivering on our promises
- Keeping it simple.

In the year since re-launch, through a comprehensive communications campaign, we have embedded and reinforced these values in all our hospitals and facilities.

Competition and Markets Authority review

In April 2012 the Office of Fair Trading (OFT) referred the private healthcare market to the Competition Commission (CC) for a market investigation. In June 2012 the CC published an issues statement in which it listed seven areas to be investigated. These were refined to four key areas in the Provisional Decision issued in August 2013:

- the market power of hospital providers in local areas;
- the market power of the larger hospital groups in negotiations with insurers;
- barriers to entry caused in part by arrangements between hospitals and consultants; and
- limited information availability in respect of hospital and consultant quality outcomes and consultants fees.

In January 2014 the CC published its provisional remedies document.

Throughout 2013 and the first quarter of 2014 we, along with all the major private hospital groups, major insurers and other interested parties, made written submissions to the CC, which can be read on their website. We also participated in a one-day remedies hearing with the CC in November 2013.

Chief Executive's statement continued

On 2 April the Competition and Markets Authority (CMA, which has replaced the CC) published its final report. The remedies included:

- a combination of measures to improve the public availability of information on consultant fees and of information on the performance of consultants and private hospitals;
- the divestiture by HCA of either i) the London Bridge and the Princess Grace hospitals or ii) the Wellington hospital;
- measures to ensure that arrangements between NHS trusts and private hospital operators to operate or manage a PPU will be capable of review by the CMA; and
- a restriction or ban on certain benefits and incentive schemes provided by private hospital operators to clinicians.

We have, from the start, welcomed the investigation, believing that Spire provides outstanding patient care and value for money, competing openly in a highly competitive market. We have positively engaged in the process throughout, providing information and proposing constructive remedies to issues of concern to us all.

The end of the CC/CMA process now allows us to focus on what really matters – providing more, and better, healthcare services to a growing number of patients in the UK healthcare market, and to working as a partner alongside the NHS in the provision of UK healthcare.

Transparency

Notwithstanding the CMA review, in June 2013, we, together with the four other largest private hospital groups in the UK, published the prices of our 75 most common medical procedures on our website, for the first time giving patients the opportunity easily to compare costs when looking for private healthcare.

This initiative follows our 'Doing the right thing' value; we believe consumers should have all the information necessary, in as clear and comparable a format as possible, for them to make informed decisions about where to have their treatment.

An increase in the number of self-pay patient visits may mean more patients are now choosing to self-fund their treatment rather than wait to be treated on the NHS or by contributing to Private Medical Insurance. Patients funding their care in this way now have easy access to the pricing information they need to help make their decision.

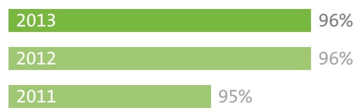
Spire tomorrow – our strategy

During 2013 we completed a strategic review targeted on each of our three core business sectors.

Insurance

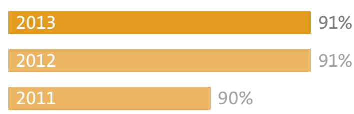
We expect the insurance market to return to growth over the next five years, driven by economic recovery, increased employment, pressures on NHS provision and concentration by the insurers on corporate products. We are already seeing signs of recovery – the spend on private medical insurance started to rise again in 2012 for the first time since 2008 and the number of lives insured increased 3% in 2013 on 2012.

Make a difference



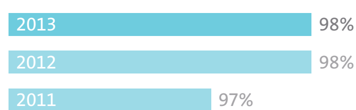
96% of consultants believe staff really go out of their way to make a difference to their working relationship

Arranging treatment



91% of patients rated the process of arranging their procedure as 'excellent' or 'very good'

Control pain



98% of patients felt staff did everything they could to control their pain

We will continue to deepen our relationships with all insurers so that we can better understand their requirements and develop innovative solutions that offer better value for money and clinical outcomes.

We will seek to grow patient volumes and revenues by continuing to increase our acuity mix, offering more complex neurosurgery, orthopaedics, cancer and cardiac care.

Self-pay

We believe that the self-pay market will also grow, driven by the same economic and service provision factors, as well as the promotion, by the insurers, of new products aimed at encouraging individuals – particularly among the growing numbers of relatively affluent older people – to 'self-pay'.

Our self-pay strategy includes continuing to build our relationships with GPs in the face of increasing NHS rationing, increasing our brand awareness with consumers and developing a sustainable value proposition based on competitive and transparent pricing and the delivery of quality outcomes.

NHS

Our NHS strategy recognises the significant ongoing funding pressure it faces and the increasing promotion of a mixed healthcare economy providing comprehensive provision. NHS patients will benefit from additional capacity, flexibility and high quality care, all undertaken at NHS tariff rates.

We will continue to build our relationships with central (specialist) and local NHS commissioners, expand our services via targeted specialties, increase our involvement in prime contracting models which give us some volume certainty and continue to build our higher acuity services.

Group

In implementing this strategy we will continue to improve our own operational efficiency. We will focus on the optimal balance between targeted provision through high quality, empowered management and better central provision of services such as procurement where volume and standardisation can drive down prices and improve quality.

Outlook

The first half of 2013 saw a combination of factors – the economy, pressures on the insurance market, reforms in the NHS and uncertainty surrounding the CMA review – all coming together. We started to see a turnaround mid-year which accelerated through the second half.

The fundamentals of our business are outstanding. The market will continue to grow, driven by economic and demographic growth, by the widening gap between healthcare demand and the country's ability to pay for the NHS to satisfy that demand. The independent healthcare sector will respond to the CMA and customer demand with increased transparency, more competitive (often fixed) pricing, more services and a broader range of care options. Spire will be an important part of an increasingly integrated NHS and private healthcare system and is positioned to become the leading private hospital provider in the UK.

Rob Roger
Chief Executive

"Our clinical performance and satisfaction ratings have improved steadily and are amongst the best in the sector."

Group Medical Director's statement

Dr Jean-Jacques de Gorter

Jean-Jacques de Gorter qualified from Charing Cross and Westminster medical school in 1993, practising in the UK, New Zealand and Australia prior to being appointed regional medical director for NHS Direct in 2002.

After completing his MBA at Cranfield School of Management, he moved to Bupa Hospitals to become director of clinical services, supporting its sale two years later to Cinven. He is currently a member of the National Joint Registry Steering Committee and a non-executive director for Milton Keynes NHS Foundation Trust. JJ enjoys running and competing in triathlons, and spending time with his five children.

Regulatory compliance remains particularly strong across the Group. Spire underwent 39 unannounced CQC inspections at 34 registered locations during the year.

I am pleased to report that at the end of 2013 all but two hospitals were meeting all Essential Standards – a compliance rate of 96.6% compared with the national average of 85%. Healthcare Improvement Scotland inspected Spire Murrayfield Hospital and assessed all the Standards inspected as being either ‘Good’ or ‘Very Good’. Healthcare Inspectorate Wales did not inspect either Spire Cardiff or Yale hospitals last year.

Patient safety remains of paramount importance to Spire, as does treating our patients with compassion and dignity. It is therefore pleasing to report that clinical quality performance indicators for this past year demonstrate once again strong performance by our clinical teams.

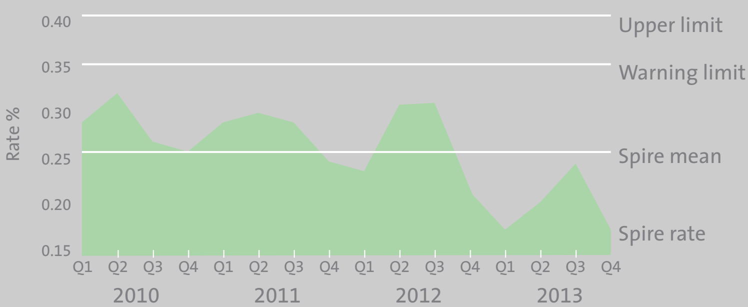
Spire has embedded reliable care processes evidenced bygood compliance with the Early Warning Score (97%), the blood transfusion pathway (87%), VTE risk assessment (97%) and the assessment of patients’ pain (97%).

The improvement in the processes for patient discharge stands out for special mention. When our programme began in 2009, hospitals discharged fewer than one in ten patients (9.9%) by 10am, and in 2010 only 79% of patients told us that the process was adequate from their perspective. As a result of sustained efforts by multi-disciplinary teams within hospitals, I am pleased to report that this year 85% of patients reported that their discharge was effective from their perspective, the greatest improvement in any single measure of patient satisfaction, whilst the number of patients discharged by 10am has more than tripled since this programme began (36%).

Overall rates for returns to theatre (0.15%), unplanned transfers (0.05%) and readmissions (0.21%) have all fallen year-on-year.

Nevertheless we remain committed to analysing individual episodes to identify any lessons learned in order to inform

Unplanned readmission (four year trend)



Group Medical Director's statement continued

changes to care pathways, policies or training that can further improve our care. The post-operative mortality rate remains low and we will continue to monitor this carefully and remain alert to factors that may require early intervention.

I am also pleased to report zero cases of MRSA bacteraemia over the past year. In addition, rates of surgical site infection following hip and knee replacement (0.22%) are the lowest ever reported by Spire, reflecting good standards of hand hygiene and infection prevention.

The Patient Reported Outcome Measures (PROMs) data published by the Department of Health for NHS funded patients demonstrates that patients undergoing a hip or knee replacement at a Spire hospital report better than average health outcomes. For hip replacement, from April 2011 to March 2012, finalised data shows the adjusted health gain averaged 21.0 compared with a national average of 20.0. Based on case-mix adjusted health gain and finalised NHS PROMS data for 2011/12 (published in October 2013) four Spire hospitals appeared in the top 20 nationwide (Sussex, Washington, Leeds and Wirral). Not only was the health gain score better than average, but also patients' adjusted follow up scores were higher with Spire averaging 38.9 (out of a possible 48) compared with a national average of 38.0, for data from April 2011 to March 2012. The same holds true for patients undergoing knee replacement. NHS PROMS finalised data from April 2011 to March 2012, shows an adjusted average health gain of 15.9 compared with a national average of 15.1 (Spire Washington, Spire Leeds and Spire Hull and East Riding appeared in the top 20 hospitals nationwide, based on case-mix adjusted health gain and finalised NHS PROMS data for 2011/12), whilst the average follow up score was 34.5 (out of a possible 48) compared with a national average of 33.8.

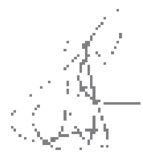
Widely reported issues relating to poor care within some NHS providers has resulted in an increase in recruitment by the public sector, in turn making our own recruitment of clinical staff even more challenging. It is therefore pleasing to report that our dependency on agency staff for wards and in theatres (2.7%) remained low and within our target, a testament to the attitude and flexibility of our people, and Spire's value of 'succeeding together'.

In 2013 we commissioned an independent report into the governance arrangements at Spire Parkway and Little Aston hospitals as part of our response to concerns raised about the surgical practice of Mr Ian Paterson. We published the findings and recommendations in March 2014 and are committed to implementing the recommendations in full, as well as sharing our learning with colleagues across the independent sector.

Our five strategic goals for clinical services are serving us well and remain the same:

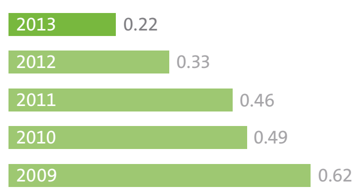
- To deliver value through reliable care processes resulting in superior clinical outcomes;
- To offer superior customer service by consistently delivering responsive, compassionate and dignified care;
- To enhance our reputation for clinical excellence by supporting clinical research and new service developments;
- To enable clinical education that meets the needs of the business and our trusted partners;
- To comply with professional and non-professional regulation.

In conclusion, I want to extend my gratitude to all our clinical teams across the UK for their leadership, attention to detail and continuing dedication to delivering a high standard of patient care. We are at the cusp of witnessing greater transparency, and with it greater accountability, with respect to clinical performance and quality. This is something that we welcome. We are, and always have been, prepared to be judged by our results.

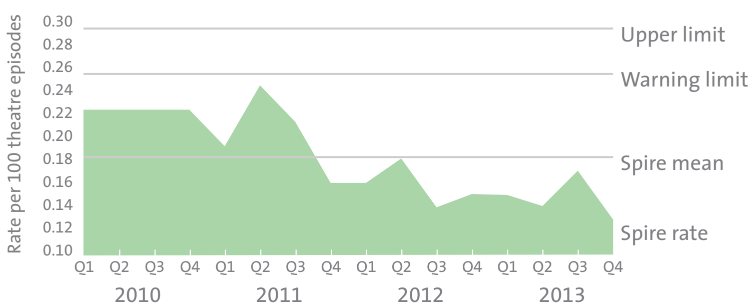


Dr Jean-Jacques de Gorter
Group Medical Director

Surgical site infection in hip and knee arthroplasty (per 100 procedures)



Unplanned return to theatre (four year trend)



A picture of good health

Providing high quality patient care is our top priority.

We invest consistently to offer patients a wide range of services and treatments at each stage of their care pathway, from initial GP referral, through consultation, diagnosis and treatment, to recovery and rehabilitation.

Primary care
Working with GPs to facilitate speedy, convenient and fully informed referrals. Enabling patients to make an informed choice at the start of their care pathway.

Consultants
Providing high quality facilities, a wide range of services and highly trained staff, so that our experienced consultants can deliver outstanding healthcare.

Diagnostics
Investing in the latest scanning technology, skilled clinicians and comprehensive pathology services to provide prompt and accurate diagnoses. Giving patients reassurance that comes from a clear treatment plan.

Treatment
Offering a wide range of treatment and surgery, including some of the most acute, complex and specialist procedures, across our 38 hospitals nationwide. Providing choice to patients.

Recovery
From High Dependency and Intensive Care Units to our integrated sports injury rehabilitation facility, getting patients back on their feet as fast as possible.

Primary care

GPs – offering patients choice and advice on referral

GPs are at the heart of healthcare delivery in the UK. They are usually patients' first point of contact on becoming unwell and, following the Health and Social Care Act, they are the key members of Clinical Commissioning Groups (CCGs), driving local healthcare provision.

When GPs refer patients on to specialist consultants or particular facilities they should provide patients with information about their options of provider and consultant. At this point the patient can choose if their treatment will be provided by the NHS, whether in an NHS hospital, or via the Choose and Book system. If they are going to go private they can use their private medical insurance (PMI), if they have a PMI policy, or by funding it themselves (self-pay).

As the key interface in directing patients to consultants and secondary healthcare facilities, GPs' advice is often crucial in the patient making an informed choice.

At Spire we have invested heavily in GP engagement and in building relationships with CCGs. Spire's hospitals have GP liaison staff tasked with ensuring that local GPs have all the information they need regarding our services and consultants. Regular seminars and briefings with consultants ensure that GPs are fully informed on the latest clinical developments.

Spire has strong relationships with GPs

91%

rated the quality of service they receive from Spire Healthcare 'excellent' or 'very good'

85%

rated the variety of services Spire Healthcare offers 'excellent' or 'very good'

90%

rated the quality of patient care 'excellent' or 'very good'

91%

rated the confidence GPs have in referring patients to Spire Healthcare 'excellent' or 'very good'

Results are from a survey Spire conducted of 700 GPs in March 2013

"The private sector offers quality healthcare without waiting lists. And some procedures just aren't available on the NHS. I always discuss the options with my patients."

Consultants

Experienced consultants, supported by skilled teams

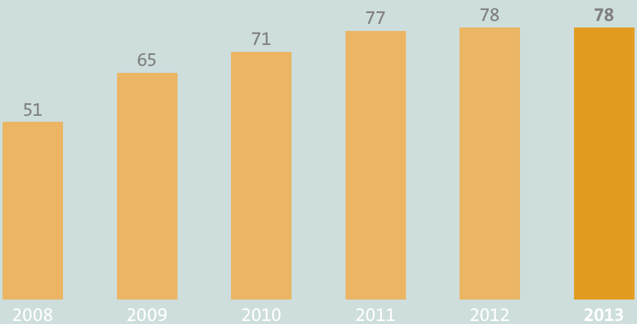
There are more than 7,000 consultants with practising privileges at our hospitals. These senior doctors typically base their work in hospitals and clinics and in the majority of cases GPs refer patients to them specifically.

Consultants working in the NHS are required to be included on the Specialist Register which is maintained by the General Medical Council (GMC). In general, consultants working in Spire's hospitals also hold an NHS consultant position and we require the same fitness to practise certification from the GMC as required by the NHS.

Consultants play a key role in the selection of the private hospital where a patient is admitted. Spire invests not only in clinical facilities and equipment, but also in developing the skilled teams of highly qualified staff that consultants require, giving them the confidence that their patients will receive high quality treatment and care, leading to the fastest possible recovery.

We see consultants as partners, and where we can, we want to help them to promote their services and build their practices.

Consultant satisfaction



The percentage of consultants that rate our quality of services as 'excellent' or 'very good' has improved significantly since 2008

Developing consultants' private practice

88%

of consultants are interested in working with Spire to develop their private practice

Recommendation

98%

of consultants would recommend their Spire hospital to friends and family

"I want the very best for my patients. Spire's facilities are state-of-the-art and I trust their staff to provide outstanding care throughout my patients' stay."

Diagnostics

Prompt, accurate diagnostics – the first step

Spire's hospitals offer a broad range of tests and scans such as X-ray, Magnetic Resonance Imaging (MRI) scans, Computed Tomography (CT) scans, mammography and ultrasound. These help consultants make accurate diagnoses and plan treatment. Tests also help to monitor progress for patients on their pathway.

In addition, Spire Pathology Services provides a wide range of services across all disciplines including cellular pathology and blood transfusion.

Spire has a continuous investment programme in diagnostics. We have 52 MRI and CT scanners in operation in our hospitals and clinics across the UK. In 2013 we brought on stream a new CT scanner at Spire Dunedin Hospital and replaced the old scanners at our Manchester, Gatwick, Bristol and Parkway hospitals with new scanners.

MRI and CT scanners

+5
2013

52
Total

Investing in new equipment, including scanners, is a focus at Spire Healthcare. Having diagnostic imaging on site means patients can have their tests and scans, and their results sooner. This helps patients receive the treatment they need faster than they might otherwise.

"I was really grateful that I could have all the tests and scans done right away so my consultant could start my treatment immediately."

Treatment

Providing a wide range of treatment and care – giving choice to patients

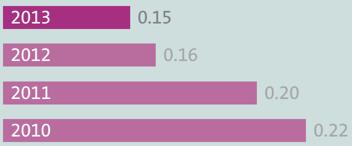
A wide range of treatments, including some of the most acute, complex and specialist procedures are available across our 38 hospitals nationwide, from orthopaedics and physiotherapy to chemotherapy and radiotherapy, day-case and in-patient, invasive and non-invasive surgery.

Orthopaedic procedures are our most common procedures. In 2013 we performed 7% of all joint replacements in the UK, and three of our hospitals – Hull, Washington and Leeds – are in the top 20 in the UK in terms of health gain after knee surgery, based on case-mix adjusted health gain and finalised NHS PROMS data for 2011/12.

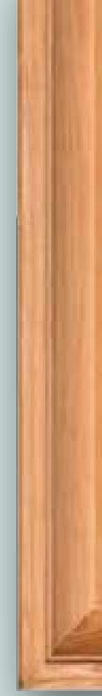
Delivering outstanding outcomes in areas of high acuity requires highly skilled teams and a range of high dependency and intensive care units.

We continue to invest in and build our services in areas of chronic or acute illness such as cancer, cardiac and neurology. In 2013 we started construction of our first wholly-owned, stand-alone radiotherapy and cancer treatment centre in Bristol (which opened in April 2014) and began constructing a £2.9 million specialised cardiac catheterisation suite at Spire Cardiff Hospital.

Unplanned returns to theatre (%)



"The World Health Organisation is forecasting that cancer cases will surge 57% over the next 20 years worldwide. We need advanced facilities and the best clinical teams to help our patients."





Recovery

Some of the most advanced procedures – faster recovery

Faster recovery comes after high quality clinical treatment. Procedures that used to require a hospital in-patient stay are increasingly performed as day-cases or as out-patients.

And the development of minimally invasive treatments such as keyhole surgery and more sophisticated procedures has led to faster recovery times for many of our patients.

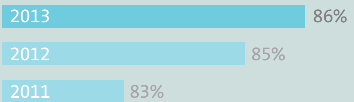
Over recent years the average length of stay in our hospitals for hip and knee replacement surgery, our most common procedures, has fallen from 7.5 days to 4.5 days, and as low as three days at some hospitals.

In 2013, procedures requiring an unplanned return to theatre fell to 0.15% and unplanned readmissions fell to 0.21%.

All our hospitals offer physiotherapy and rehabilitation services and we now have seven Perform centres which use some of the most advanced technologies and rehabilitation techniques to speed recovery.

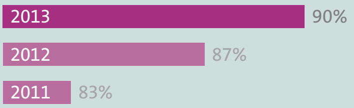
Individually tailored recovery and rehabilitation programmes help our patients return to health in the shortest possible time.

Patient information



Percentage of patients that rated the information they received about their recovery as 'excellent' or 'very good'

Support when at home



Percentage of patients that rated the support when they were at home as 'excellent' or 'very good'

"I couldn't believe how quickly they had me on my feet – I was home in two days!"

Market overview

In 2013, the value of the independent acute medical hospital and clinic sector was £4.5 billion.*

*Source: Laing and Buisson

This market only grew 0.6% in real terms between 2006 and 2012 reflecting the success of the NHS in cutting waiting lists under the Labour government's increased funding and in later years the impact of the economic downturn.

The medium to long-term general and private healthcare markets in the UK are forecast to grow steadily, driven by a number of factors including:

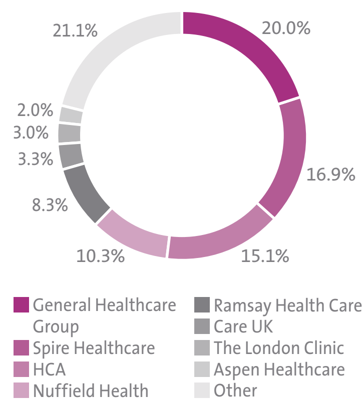
- the demographics of a growing and ageing population;
- growth of lifestyle influenced diseases and illnesses;
- healthcare inflation;
- financial constraints resulting from the widening gap between demand and the State's ability to fund care from general taxation;
- drives for service reconfiguration, consolidation, outsourcing and innovation aimed at improving the efficiency of service provision; and
- increasing competition as the Health and Social Care Act 2012 and the CMA remedies take effect.

The growth of a mixed market

The private healthcare market has traditionally been paid for by Private Medical Insurance (PMI) and patients paying for themselves (self-pay). Both these funding sources were impacted by the economic downturn, a shortfall that has been made up for by increased spending by the industry's other main source of funding, the NHS. Laing and Buisson estimate NHS spending on private acute medical care to have more than quadrupled in real terms between 2004 and 2012, enabled by the success of NHS Choose and Book and driven by commissioners seeking additional resource to meet rising demand and manage waiting lists. They estimate that the independent acute hospital sector is now some 27.5% funded by the NHS, up from 9% a decade ago.

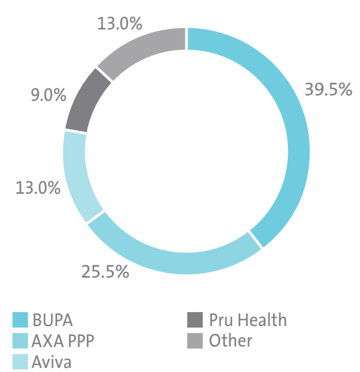
The market is set to grow further. Laing and Buisson project that NHS spending on acute medical care will continue to grow 5-10% pa in real terms. Assuming an increase in healthcare demand, driven by demographics, lifestyle issues and healthcare inflation, at even a modest rate of 5% pa, and given that NHS funding is unlikely to increase more than 2% pa in nominal terms under any UK government, there will be a large and growing supply deficit. At these constant annual growth rates the gap between NHS supply and overall demand could be as much as £27 billion by 2018 and over £50 billion by 2023.

UK private acute care providers



(Source: Laing and Buisson)

UK PMI providers



(Source: Laing and Buisson)

High quality, efficient private providers, with access to capital and the ability to grow capacity, are in a position to provide an increasing proportion of the UK's healthcare in an integrated public/private system.

Private providers

The private acute medical care sector is made up of hospitals and clinics owned and operated by companies and voluntary organisations, together with the private patient units (PPUs) and pay beds of NHS hospitals and other private acute services.

Within the UK, Laing and Buisson lists 465 independent hospitals and clinics and 83 NHS PPUs. Overnight care is offered by 201 of these hospitals with some 9,431 beds. Just over 70% of the market (by revenue) is accounted for by five independent hospital groups – General Healthcare Group, Spire Healthcare, HCA, Nuffield Health and Ramsay Health Care.

The CMA published their final report on 2 April 2014. The report seeks to improve market competition in London by requiring the divestiture by HCA of either the i) London Bridge and the Princess Grace hospitals or ii) the Wellington hospital. This may result in some service reconfiguration and changes in relative market share.

Private Medical Insurers

Over half (55%) of private acute medical care is paid for through private medical insurance. The market is closely linked to overall economic performance. After a period of sustained growth it started to flatten out in the early 2000s and declined sharply after 2008 (subscriber numbers reduced 4.4% in 2009, 3.4% in 2010 and 0.1% in 2011). In 2012 there was a small (1.1%) increase in subscriber numbers as the economy started to recover.

The UK PMI market is dominated by four main providers – Bupa, AXA PPP, Aviva and Pru Health – who together account for some 87% of premium income. The majority of cover, over 75%, is provided through corporate schemes. The proportion of individual private payors (24.5%) has fallen by a third from a high point in the 1990s, affected by the removal of tax relief on premiums and economic pressures.

Recent years have seen marked trends towards reduced spending on PMI cover by companies and individuals, reduced growth in claims paid and reduced average prices paid on cover (trading down by accepting less cover for lower premiums). However, the PMI market is forecast to return to meaningful growth over the next five years, driven by economic recovery, higher employment, greater product and pricing transparency and increasing pressure on NHS services. (Source: Laing and Buisson Private Acute Medical Care 2013.)

Self-pay

The other major source of private healthcare funding is by patients paying for their treatment (self-pay). While this sector was initially impacted by the recession, it has proved resilient and factors such as economic recovery and NHS rationing/increasing waiting times are likely to drive growth. Issues around the affordability of PMI are also encouraging individuals, particularly the older and more affluent, to 'self-pay'.

Spire Specialist Care Centre Bristol

Investing in acuity and growth

In 2013 building work started on Spire's **first £13 million specialist stand-alone cancer centre.** The Spire Specialist Care centre is located in Bristol and will house a linear accelerator, with plans to install a second at a later date. It is planned to become Spire's first Centre of Excellence for cancer care.

The centre will treat breast, prostate, rectal and lung cancers and will enable Spire to develop an end to end integrated cancer offering. It opened on schedule in April 2014.

With only 19 private linear accelerators currently in the UK and with a number of NHS linear accelerators due to be replaced within the next few years, this represents a good opportunity for Spire and the sector as a whole.

Chief Operations Officer's statement

The challenges we faced in 2013 required innovation and increased efficiency in every aspect of our work. Our staff rose to the challenge and continued to deliver high quality care to all our patients.

We treated 236,203 in-patients and day-case patients in 2013. The largest proportion of our in-patient and day-case revenue, some 48%, came from orthopaedic procedures. We carried out 6,064 hip and 6,460 knee procedures, representing 7% of all such joint replacements in the UK. Nearly 19% of our in-patient and day-case activity was neurology, cardiology, cardiothoracic and general surgery, and 34% from out-patient services.

Just over a quarter of our business relates to patients treated on behalf of the NHS at NHS tariff rates, in other words at no additional cost to the taxpayer. This use of our capacity enables NHS Trusts and commissioners to reduce waiting lists and relieve pressure on services during periods of peak demand such as the winter.

Our hospitals have considerable levels of local responsibility, and we have also developed a management framework of co-operation and best practice sharing, using regular monthly meetings of hospital directors in regional clusters.

Number of Advanced Life Support courses run by Spire at our hospitals in Manchester, Roding and Cardiff

2013	11
2012	9

Consistent nursing care

2013	91%
2012	88%

91% of patients rated the consistency of their nursing care 'excellent' or 'very good'

10

Spire hospitals have received the Macmillan Quality Environment Mark for cancer services

3

Spire Healthcare operates three training centres accredited by the UK Resuscitation Council delivering training to both Spire and NHS candidates.

Andrew Gore

Andrew Gore has been a hospital manager since 1996, with Bupa and then Spire.

He managed Spire Bushey, one of our largest hospitals, for ten years, before taking up a central operations role. He became Chief Operations Officer in September 2012, charged with driving the performance of our businesses, ensuring the sharing of best practices and the achievement of our annual operating plans. Andrew lives in Northampton with his wife and nine year old daughter.

Chief Operations Officer's statement

The development and success of the detailed cost improvement and increased efficiency programmes enacted by all our hospitals during 2013 is testament to the effectiveness of this cooperative and supportive peer review approach.

One of the outcomes of our continuing efficiency drive has been further improvement in our purchasing. We started to develop a more robust and cost-effective supply chain in 2012 but during 2013 we accelerated our proactive drive for more efficient and centralised purchasing. Notable improvements have been made, for example, in the sourcing of medical consumables and prosthesis used in all our hospitals, ensuring that consumables are better matched to clinical needs.

Core private activity picked up significantly during the second half of the year and our full year outcomes were satisfactory.

Service quality

Pursuing cost efficiencies within our supply chain is only one measure on the Spire balanced scorecard. This is our inclusive approach to the way we run our business and also covers service quality, reputation, staff engagement and shareholder value.

The safety and wellbeing of our patients is always our first priority. All our patients, whether private or NHS, receive the exactly the same high levels of clinical expertise and care, reflecting the commitment and dedication of clinical teams across Spire to improving patient care pathways, and working in partnership with specialist consultants to deliver exceptional clinical care.

Our clinical quality is covered in detail by Dr Jean-Jacques de Gorter, our Group Medical Director in his statement. One area of note is that Spire's investment in critical care training, staff competencies and procedure-tailored care pathways has driven up compliance with our 'track and trigger' early warning system which now stands at 97% (compared with 53% in 2006). Spire's critical care training programme includes Basic and Advanced Life Support (ALS), complemented by a series of critical care competencies. We operate three training centres accredited by the UK Resuscitation Council – at Spire Manchester, Cardiff and Roding hospitals – delivering training to both Spire and NHS candidates. Our national resuscitation strategy group delivered seven ALS courses in Q1 and Q2 2013 including two at the new centre at Spire Roding. The group have also facilitated 23 Intermediate Life Support (ILS) courses and ten Paediatric Intermediate Life Support courses delivered in-house. In addition, a further 11 new ILS instructors were successfully trained, widening the instructor database within Spire and allowing basic level training to be facilitated locally.

The impact of our clinical quality strategy is most clearly reflected by the fact that in-patient surgical mortality has fallen from 0.85 to 0.33 over six years, reflecting our capability to care for patients with more complex nursing needs.

98%

of patients had confidence and trust in the nurses looking after them

88%

of staff get personal satisfaction from the work they do

Regulatory changes

Following the Francis Report into events at the Mid Staffordshire NHS Foundation Trust, care quality is now at the top of the national agenda. A number of regulatory changes have resulted from the Francis recommendations and the powers and remit of the Care Quality Commission (CQC) have been extended and strengthened. The number, length and depth of CQC inspections has been increased.

We had 39 standard inspections by the CQC in 2013 at 34 of our locations in England, and there were two inspections by Healthcare Improvement Scotland.

We believe that our clinical and non-clinical governance processes are of the highest standard and we are committed to meeting all regulatory requirements. We have recently initiated a training programme for our hospital directors, taking them off site to give them direct feedback and input from senior regulators and inspectors.

Our culture and values

Last year we referred to the extensive consultation process we undertook across the whole of Spire to re-examine and refine our vision, mission and values. Communicating the resultant vision and embedding the values in our culture has been a theme of the year since.

The process typically included rolling out the new vision, mission and values at dedicated management team meetings in each hospital. Teams discussed their view of the changes, what they meant for individuals and the business, and agreed how the values would be rolled out to the wider hospital. We utilised all the usual communication channels such as displaying posters, team meetings, staff forums, customer service training workshops, staff magazines, appraisals, consultant newsletters, Medical Advisory Committee meetings, one to one meetings and emails. Thereafter regular reference to the values and how they manifest into day to day work has helped embed them, reinforced by clear communication, goal setting and performance management.

Our vision, mission and values will continue to underpin everything we do.

New services

We continue to develop both the range and quality of our services.

In October 2013 Spire Parkway Hospital started offering a new treatment for uterine fibroids called MR guided Focused Ultrasound (MRgFUS).

Focused ultrasound concentrates beams of ultrasound energy on a target in the body so as to avoid harming healthy surrounding tissue. This technology offers a non-invasive day-case treatment option that although not suitable for all patients, can avoid the need for conventional open surgery. We are delighted to be at the forefront of this development in the UK.

Although there is ongoing research, the technology also offers the potential for future application in other disease conditions including various types of cancer.

As part of our strategy of increasing our higher acuity offering to consultants and patients alike we started constructing our first wholly-owned, stand-alone radiotherapy and cancer treatment centre in Bristol. The centre opened in April 2014, and is located near the M4/M5 motorway junction offering excellent road links throughout the region. The centre is equipped with the latest Elekta Versa HD Radiotherapy linear accelerator, offering the most advanced treatment available.

The number of cancer cases is increasing dramatically in the UK driven by improved diagnostics and an ageing population. We see the Bristol centre as an important component of our strategy to increase the complexity and breadth of work treated within our network.

Our hospitals in Bristol, Parkway, Gatwick Park and Manchester received new scanners to replace their old ones, and we installed a new CT scanner at Spire Dunedin Hospital.

We continue to develop our offering in Scotland, driven in part by the contribution of our Shawfair Park hospital in Edinburgh which opened in 2010. The additional capacity Shawfair provides has enabled us to greatly expand the range of services at our main hospital in the city, Spire Murrayfield. Major investments have been made in cardiac, ophthalmic, orthopaedic, paediatric, IVF, radiology and physiotherapy services.

Chief Operations Officer's statement

Spire Pathology Services
2013 saw the development of Spire Pathology Service's own logistic services across the south-east and north-west of the country. Our fleet of ten vans provide a high level of service to our customers and hospitals. We have plans to expand the coverage through 2014 and beyond.

Through continued investment in new analysers and techniques we have further expanded the range of tests performed within our business, significantly reducing reliance on external suppliers. This raises standards through reduced turnaround times and provides significant cost benefits.

We invested in a brand new laboratory at Spire Cardiff Hospital in August which was part of a major development at the hospital.

In association with Genomic Health we introduced the Oncotype DX test to our hospitals. This test can help patients with breast cancer and their doctors make better informed decisions about their individual treatment, potentially sparing women from unnecessary chemotherapy treatment.

Accreditation
Spire Dunedin Hospital became a Macmillan awarded Quality Environment when its Oncology team received Macmillan Quality Environment Mark (MQEM) accreditation. This is a detailed quality framework used for assessing whether cancer care environments meet the standards required by people living with cancer. The hospital achieved the highest score possible and joins the other Spire hospitals that already hold the accreditation.

Awards and recognition
Spire won several awards last year across a range of categories, illustrating the range and depth of our expertise. In 2013 Spire's legal team won In-house Commercial and Industry Legal Team of the Year at The Lawyer Awards, and Roberta Haji, a nurse from Spire Dunedin Hospital, won the Best Patient Support Initiative category at the Nursing Network awards for her work in setting up a nurse-led nipple/areola tattooing service for cancer patients.

Spire Murrayfield Hospital Edinburgh won Edinburgh Employer of the Year at the Chamber of Commerce awards and Spire Healthcare won Excellence in Training at the Independent Healthcare Awards for the range of training we provide for our staff.

We also have our own internal recognition programme called Inspiring People and this year approximately 2,380 awards were given to our staff in hospitals and central support teams.

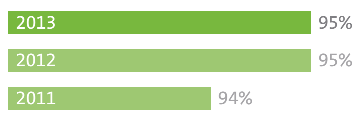
97%

of patients received the care and attention they wanted

92%

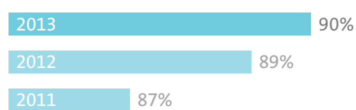
of patients rated the promptness of their admission as 'excellent' or 'very good'

Meeting expectations



95% of patients received the experience they expected from their hospital

Supporting patients



90% of patients rated the opportunity to ask questions about their treatment as 'excellent' or 'very good'

Conclusion

Spire has grown and transformed to become one of the leading private healthcare providers in the UK. We are proud to have talented and engaged clinical teams who go the extra mile when working alongside specialist consultants to deliver clinical care of high quality, and who try to exceed the expectations of our patients (and their GPs) in terms of customer service.

During 2013 we continued to improve our services and become more efficient in our delivery. We are well prepared and positioned to continue doing so in the future.

Andrew Gore
Chief Operations Officer

"We are proud to have talented and engaged teams who go the extra mile."

Corporate social responsibility

Corporate social responsibility is part of the fabric of Spire Healthcare. Our motto "looking after you" applies to patients, consultants, staff, and GPs alike reflecting our responsibilities to care for our local communities and our environment.

Training the medical community

Our hospitals provide continuing professional development programmes to primary care staff, including GPs, physiotherapists, optometrists, and GP practice staff. This is because they have an obligation to continue their professional development throughout their career so they can provide their patients with up-to-date care and advice. Hospitals provide a wide range of training; the majority of events are consultant led talks on their clinical specialty, however hospitals also provide training on other topics including basic life support, chaperoning awareness and infection control.

These training sessions usually take place in GP practices or at our hospitals. In 2013 over 11,500 GPs and other primary care staff attended education sessions held by a Spire hospital.

Charitable donations and supporting our local communities

Charity fundraising plays a significant role at hospitals with many staff doing a variety of activities to support a range of good causes. In 2013 we raised almost £65,000 for charities and local communities.

Highlights for the year include:
At the end of 2012 Spire Liverpool Hospital created a charity team and in their first full year raised over £4,500 for the NSPCC, Marie Curie, Woodlands charity, an autism charity, Cancer Research and Age UK.

Spire Cardiff Hospital had an extremely successful year raising money for worthy causes. During 2013 they held 23 events raising £7,317. Highlights included bucket shaking at the Cardiff Blues rugby game which raised £380, their annual staff ball raised £785, a Christmas raffle generated £500. However, it was fundraising at their GP events which had the most impact which produced £2,700.

Spire Fylde Coast Hospital's charity ball raised over £9,000 for two local charities; Trinity Hospice and the Swallows Head and Neck Cancer Support Group.

Spire's hospitals have long supported Macmillan, and in particular the Macmillan Coffee Morning. In 2013, 16 hospitals held coffee mornings raising over £4,300 for this worthy cause.

A 30 strong team of staff members and consultants from Spire Murrayfield and Shawfair Park Hospitals participated in the 2013 Caledonian Challenge where they raised £5,000 for the Scottish Community Foundation.

For the second year running Spire St Saviour's consultants, friends and family members took part in the Channel 50 Cycle Challenge. The ride was sponsored by the hospital and raised over £10,000 for the Kent Air Ambulance Trust and the Pilgrims Hospice.

Looking after our environment

Spire Healthcare understands we have a 'Duty of Care' to the environment as well as our patients and we continue to promote a low carbon culture across our hospitals. Continued monitoring and targeting of our buildings' energy consumption takes place through our 'Energy Remote Monitoring' system which we run with our partner Schneider Electric. We are pleased to report that we are ahead of our carbon reduction targets related to consumption of electricity and natural gas.

The profile of environmental awareness continues to be raised with our Carbon Reduction Award being presented for the second year in succession at the Spire Senior Management Conference in February 2013. This year's award went to Spire Portsmouth for the biggest reduction in electricity usage, kilowatt hours /m2 year on year.

We have now installed LED street and car park lighting at Spire Little Aston Hospital and proved the energy reduction benefited from this technology through direct measurement. We intend to invest further in this technology in 2014 to ensure we continue to reduce our electricity consumption. With the addition of a further Voltage Optimisation unit at Spire Washington, we now have this technology installed at three of our hospitals which is contributing towards our reduction target.

Capital investment in our central engineering plant continues to improve energy efficiencies. Modular condensing heating and hot water boilers were installed at Spire Bristol and Spire Liverpool in 2013, which will deliver a reduction in gas consumption at those sites in future years. Our theatre ventilation plant ensures rapid air exchange within our theatre suites to protect our patients from infection. By its nature these systems are energy hungry. We have replaced ageing systems at three of our sites in 2013 which now include high efficiency control and heat recovery systems that help deliver this critical air in the most efficient way.

Despite our business growth this year, and the opening of our new hospital in Brighton in December 2012, our absolute gas consumption has remained steady, demonstrating we can grow our business without increasing our carbon output.

Critical air conditioning units operating from the outlawed refrigerant R22 continue to be replaced on a rolling programme across our network.

Continuous proactive management of our waste streams has shown further improvements in 2013 with waste produced across the estate being systematically moved up the waste hierarchy. A 23% reduction in incinerated clinical waste (down 81 tonnes) was achieved by moving the waste into alternative waste treatment, which only increased by 2% (up 29 tonnes). Our recycling of cardboard and paper increased by 3% (up 59 tonnes).

Our annual waste pre-acceptance audit obligation was successfully completed on target and served as a useful measure of ongoing activity in this area.

Spire also considers its effect on CO_2 emissions from its company vehicle fleet. This is currently 124g/km, which has reduced by 14.4% from 2010 when it was 145g/km. The reduction has been achieved following continuous reviews of the company car fleet. The fleet is assessed regularly to ensure the most efficient and cost effective models available are being used.

In addition in 2013 our supply chain team successfully implemented an Environmental Management System which meant the National Distribution Centre achieved the ISO 140001 certification. The certification covers the provision of products for the delivery to the healthcare industry and collection of non-hazardous waste packaging.

Roberta Haji

Award winning

Spire won several awards in 2013 across a range of categories. Our hospital in Edinburgh beat off stiff competition to win Edinburgh Employer of the Year at the Chamber of Commerce awards. They won due to the range of initiatives they introduced to increase staff engagement including: regular meetings and updates, sharing information and feedback, introducing a social club, leadership training for staff and involving all staff in creating the hospital's goals and objectives.

In 2013 Roberta Haji, a nurse from Spire Dunedin Hospital set up a nurse-led nipple/areola tattooing service for cancer patients. Her impetus for this was when she realised there were no nurses practising or offering this service in the local area and patients were having to travel 15-20 miles to have the tattooing by a medical tattooist or go to the local tattoo parlour. This meant patients were taking more time off work, incurring travel expenses and having to go to a practitioner that they did not know, and had not built up a relationship with. Due to her work in this area Roberta won the Best Patient Support Initiative category at the Nursing Network awards.

Risk management

Spire Healthcare understands how important it is to manage risk across people, property, finances and reputation.

Corporate risk

Spire Healthcare recognises its responsibilities to manage effectively risks to people, property, information, finances and reputation that arise from the activities of our business. The approach to management of these risks is through a comprehensive and systematic analysis to understand:

- the nature of these risks;
- the potential harmful or loss outcomes;
- what measures are required to control these risks; and
- how we can monitor the effectiveness of our controls.

Within our individual business units senior managers are responsible for ensuring all staff are actively engaged in the risk management process, are adequately trained and have the time and resources to control risk. Our corporate management reporting structure allows information to flow from those people carrying out work activities to senior management groups and key stakeholders.

Spire maintains a corporate risk register which serves to bring together the key risks facing the organisation. This register uses a common grading mechanism so the degree of risk presented by our wide range of business activities can be viewed in relation to each other. Looking at risk in this integrated way means that we can focus on the areas of highest priority and monitor the effects of changes to activity on the risks that we are monitoring. Each risk is allocated to a member of the Executive Management Team (EMT) and the controls in place to those people who are responsible for their effective execution. This creates a high degree of visibility around personal responsibilities and accountability across the different corporate groups within which we operate.

Other business and financial risks

Further information relating to risks of a financial nature and a variety of other business risks is provided on pages 49-50 of the Chief Financial Officer's review.

The risk register is formally reviewed by the EMT on a bi-annual basis. The specific groups and committees that manage information, clinical and non-clinical risk feed into the risk register which ensures their activities are regularly recorded and the effect that they have over reducing risk is transparent.

Clinical risk

Spire's approach to clinical risk management is integrated into our overall clinical governance and quality framework. This aims to ensure that we are constantly aware of how our systems and processes affect clinical outcomes. The framework covers re-designing processes in order to remove unnecessary complexity; thoroughly analysing adverse events to improve constantly our delivery; and listening to the insights of those who know best: our patients, consultants and staff.

Adverse events and near misses are monitored in accordance with the Spire policy on Adverse Events. A central Incident Review Team reviews every Serious Adverse Event (SAE) and subsequent root cause analysis. The team recommends national actions – such as changes to policy, training or care pathways – arising from individual incidents or trends, and these are reported through to the National Clinical Governance Committee. Incidents and actions are tracked via the significant incidents register. Further assurance is also provided by the Clinical Governance and Risk sub-committee who scrutinise every reported SAE.

Clinical indicators are also monitored to assure clinical performance and data is submitted to the Care Quality Commission in England. Spire publishes a quarterly clinical governance report and a programme of proactive risk assessment is ongoing with actions reported in local risk registers and fed to the national risk register in accordance to the level of risk.

Each hospital develops quality improvement plans following the findings of the clinical governance report and other activities incorporated into our quality system (such as clinical indicators, incidents, complaints, claims, the findings of clinical audits and reviews from external bodies). These plans describe any review or re-audit requirements and which group or people will be responsible for reviewing these. At least every quarter hospitals review aggregated analysis of incidents, complaints and claims.

Health and safety risk

We set high standards for health and safety management and our hospitals and other units benefit from a range of tools, policies and guidelines to ensure that we constantly strive to drive up these standards. An audit and inspection programme ensures that we regularly check that all staff are doing their utmost to ensure the safety of our premises for patients, the public and each other. Audits are undertaken by an external specialist consultancy, RPS, a well trusted and respected partner in the field of health and safety managements. Each audit results in a score which is benchmarked against our internally set target and hospitals must meet this target to meet the requirements of the overall balanced scorecard.

Results of audits, and the learning from any incidents are reported on a monthly basis to senior managers and quarterly to the Board and relevant sub-committee. We actively encourage staff to report health and safety incidents and risks, and the learning from proactive monitoring and findings from incident reviews is used to improve further and refine our training programmes, policies and working practices.

Engineering risk

Hospitals present a complex environment in terms of facilities, equipment and building services. Although our individual sites are small in stature when compared with a typical NHS Trust, they contain similar services and systems for critical heating and ventilation, water quality and distribution, surgical instrumentation decontamination, piped medical gas services, fire protection and complex electrical services.

The condition of our engineering infrastructure is assessed not only by our insurers, but annually by our national engineering team utilising our professional system for property risk and compliance management across our estates. This is supplemented by a programme of external audits to ensure our statutory obligations for fire safety and water hygiene are met.

The resultant risk profile informs the business of future capital requirements, enabling us to manage our capital on a true risk basis and target it effectively. Our system is dynamic and constantly updated, helping to future-proof the business.

We invested £5.7 million of engineering capital in 2013 to ensure we continue to have a robust infrastructure at all of our hospitals. Highlights of completed projects include replacing the central ventilation plant supplying our theatre suites at Spire Murrayfield Hospital Edinburgh, Spire Manchester Hospital and Spire Fylde Coast Hospital. We have also replaced six ultraclean ventilation systems across our Group. Energy efficient central boiler and domestic hot water plants were installed at Spire Bristol Hospital and Spire Liverpool Hospital. These help to contribute to our continued commitment to reduce our carbon emissions.

Similar projects are on our three year rolling plan to ensure we continue to provide safe and compliant facilities across all of our sites.

Board of Directors

The Board of Spire Healthcare Group UK Limited hosts Spire's principal corporate governance functions.

01 Garry Watts
Chairman

02 Rob Roger
Chief Executive Officer

03 Simon Gordon
Chief Financial Officer

04 Simon Rowlands
Senior Adviser, Cinven and Non-Executive Director

05 Supraj Rajagopalan
Partner, Cinven and Non-Executive Director

06 Clare Hollingsworth
Non-Executive Director

07 Alex Leslie
Principal, Cinven and Non-Executive Director

08 Robert Wise
Non-Executive Director

09 Daniel Toner
Company Secretary

Garry Watts (aged 57)
Chairman, Spire Healthcare
Garry was for seven years CEO of SSL International plc (and before that its CFO). Garry is also Chairman of BTG plc, and of Foxtons Group plc, deputy chairman of Stagecoach Group plc and a non-executive director of Coca-Cola Enterprises, Inc. A chartered accountant and former partner at KPMG, Garry was previously an executive director of Celltech plc and of Medeva plc and a non-executive director of Protherics plc. Other roles have included 17 years as a member of the UK Medicines and Healthcare Products Regulatory Agency Supervisory Board.

Rob Roger (aged 53)
Chief Executive Officer, Spire Healthcare
Rob became CEO in May 2011, after first joining Spire in September 2007 as CFO. He brings with him 12 years of working with private equity backed companies. Most recently he was with Merlin Entertainments and prior to that he worked for First Choice plc and Pepsico Inc. Rob originally trained at Deloitte, Haskins and Sells.

Simon Gordon (aged 43)
Chief Financial Officer, Spire Healthcare
Simon joined Spire in July 2011 having spent eight years as Group Finance Director of Virgin Active. Simon has a wide range of experience of growing customer focused multi-site business both organically and by acquisition and worked with private equity firm Bridgepoint Capital as the majority owner of Virgin Active between 2002 and 2005. Prior to joining Virgin Active, Simon worked for KPMG on both audit and transaction advisory projects for both listed and private companies.

Simon Rowlands (aged 56)
Senior Adviser, Cinven and Non-Executive Director, Spire Healthcare
Simon has been with Cinven for over 20 years. He has been involved in a number of transactions including Spire Healthcare, Partnerships in Care, MediMedia, General Healthcare, Générale de Santé and Amicus Healthcare.

Prior to joining Cinven, Simon worked with an international consulting firm on multidisciplinary engineering projects in the UK and Southern Africa. Simon has an MBA, a degree in Engineering and is a chartered engineer.

Supraj Rajagopalan (aged 35)
Partner, Cinven and Non-Executive Director
Supraj joined Cinven in 2004 and is a member of the Healthcare sector team. He has worked on a number of transactions including Ahlsell, AMCo, CeramTec, Partnerships in Care, Phadia, Sebia and Spire Healthcare.

Previously he was at The Boston Consulting Group, where he worked on projects in the financial service and healthcare sectors. Prior to this, he was a doctor in the UK National Health Service.

Supraj graduated from Cambridge University with undergraduate and postgraduate degrees in Medical Sciences.

Clare Hollingsworth (aged 53)
Non-Executive Director
Clare is the Chairman of Eurostar International and a non-executive director of Virgin Healthcare, Molnlycke Healthcare, and Savills plc. She is a former Chief Executive of Spire Healthcare and Managing Director of Bupa Hospitals. Prior to joining Bupa she was Managing Director of Caledonian Airways.

Alex Leslie (aged 34)
Principal, Cinven and Non-Executive Director, Spire Healthcare
Alex joined Cinven in 2006 and has worked on a number of transactions including Spire Healthcare, Partnerships in Care, Amdipharm and Mercury Pharma. Prior to this, he worked at Morgan Stanley in the Investment Banking Division working primarily with real estate clients in the UK.

Robert Wise (aged 55)
Non-Executive Director, Spire Healthcare
Rob has accumulated extensive experience in management of both public and private healthcare, covering more than 25 years. His most recent role was as Spire Healthcare's CEO during its formative years of 2007 to mid-2011. His prior experiences include that of Chief Operating Officer of Australia's largest private hospital operator, Affinity Health, after its formation following a highly successful private equity funded buyout from Mayne Health in December 2003.

Robert Wise resigned from the Board on 20 March 2014.

Daniel Toner (aged 46)
Company Secretary
Daniel has been General Counsel and Company Secretary for Spire since its acquisition by Cinven in September 2007. He is a solicitor and previously held a variety of positions in industry and private practice.

Corporate governance

The principal corporate governance functions of the business are carried out by the Board of Spire Healthcare Group UK Limited.

Structure

The principal corporate governance functions of the business are carried out by the Board of Spire Healthcare Group UK Limited ('the Board') which has been invited by Spire Healthcare Limited Partnership to comment on the business performance and activities in this review.

Board constitution and procedures

During the reporting period the Board comprised of the Chairman, Garry Watts, the two executive directors and five non-executive directors. The directors have access to the advice and services of the Group Company Secretary. The Chief Executive is responsible for the day-to-day operations of the company and the development of strategic plans for consideration by the Board. Following the resignation of Robert Wise there are currently four non-executive directors on the Board.

Board committees

The Board has three principal committees: an Audit Committee, a Remuneration Committee and a Clinical Governance and Risk Committee, whose terms of reference are approved by the Board.

Audit Committee

The Audit Committee has four members: Garry Watts (the Committee Chairman), Simon Rowlands, Alex Leslie and Clare Hollingsworth. They meet at least twice during the financial year, or if requested by the external auditor. Only the Committee members have the right to attend meetings, though executive managers and/or external auditors can be invited to attend. The Committee's responsibilities include considering the appointment, resignation or dismissal of the external auditors, the company's annual statement on internal controls, and topics such as the company's policies for preventing or detecting fraud, its code of corporate conduct/business ethics, and policies for ensuring compliance with regulatory and legal requirements.

Remuneration Committee

The members of the Remuneration Committee are Simon Rowlands (Committee Chairman), Alex Leslie, Supraj Rajagopalan and Garry Watts. The Committee meets at least twice a year and only the members of the Committee have the right to attend. Other directors may be invited to attend but may not vote.

No executive director, including the Chief Executive, can attend when their own remuneration is being discussed. The Committee's duties include determining and agreeing with the Board the policy for the remuneration of the executive directors. The policy is to ensure that members of the Executive Group are offered appropriate incentives to encourage enhanced performance and are fairly rewarded for their contributions to the success of the company. The Committee also considers other elements of Executive Group remuneration, including performance related bonuses and equity allocation schemes.

Clinical Governance and Risk Committee

The Clinical Governance and Risk Committee was established by the Board in January 2012. The members of the Committee, supported by Group Medical Director, Dr JJ de Gorter, are Robert Wise* (the Committee Chairman) and Clare Hollingsworth. The Committee meets at least four times a year. Only the Committee members have the right to attend meetings, though other individuals may be invited to attend as appropriate and the Committee will liaise with relevant members of management, including the Group Medical Director. The Committee's duty is to monitor the Spire Group's non-financial risks including clinical performance, health and safety and facilities and plant.

*Garry Watts joined the Clinical Governance and Risk Committee following Robert Wise's resignation on 20 March 2014.

Spire Healthcare is considered a portfolio company as defined in Sir David Walker's Guidelines for Disclosure and Transparency in Private Equity (the Walker Report).

This annual report and accounts has been prepared in the context of the Walker Report recommendations.

Cinven

Cinven is a leading private equity firm, founded in 1977, with offices in Guernsey, London, Frankfurt, Paris, Milan, Luxembourg and Hong Kong. Funds managed and advised by Cinven acquire European-based companies that require an equity investment of €100 million or more.

The firm's European focus and sector expertise are complemented by an ability to capitalise on global growth opportunities through its Asian portfolio team.

It focuses on six sectors: Healthcare, Business Services, Consumer, Financial Services, Industrials and Technology, Media and Telecommunications (TMT).

Cinven seeks to invest in successful, high-quality companies and work with them to help them grow and develop, using its proven value creation strategies. It takes a responsible approach towards portfolio companies, their employees, suppliers and local communities, the environment and society.

Chief Financial Officer's review

Simon Gordon

Simon joined Spire in July 2011 having spent eight years as Group Finance Director of leading international health and fitness club business, Virgin Active.

During his time at Virgin Active the business grew from break-even to £150m EBITDA operating in five countries. Simon has a wide range of experience of growing customer focused multi-site business both organically and by acquisition and worked with private equity firm Bridgepoint Capital as the majority owner of Virgin Active between 2002 and 2005. Prior to joining Virgin Active, Simon worked for KPMG on both audit and transaction advisory projects for both listed and private companies.

Spire's results again this year reflect its pre-eminent position in the private hospital sector. Revenue of £764.5m increased £25.5m over 2012 generating a £3.5m improvement in EBITDAR, up 1.7% on 2012, to £207.9m.

Capital structure

During the year the Group made considerable progress in refinancing its loan liabilities, including the sale subject to leases of 12 hospital properties, the proceeds from which were used to pay down debt ahead of schedule. This transaction had a significant impact on the shape of the Group income statement and balance sheet, which is explained in the following pages.

Subsequent to the year end, the Group has agreed with its existing lenders to extend the repayment date of the remaining loan liabilities to 30 June 2015.

Key financial highlights for the Group for the year

- Revenue grew by £25.5m. The Group reported revenue increases in NHS and self-pay, offset by a small reduction in private medical insurance (PMI) in the year. Growth was supported by increases in surgical, out-patient and diagnostic activities linked to investment.
- PMI revenue decreased by 0.3% in 2013. Whilst the Group has been exposed to the pressure on claims of a contracting insured population, this has been mitigated by our investment in broadening our capabilities over the last six years.
- Self-pay revenue grew by 9.5% in 2013. As a consequence of the economic recovery and an increasing propensity for patients to take control of their healthcare requirements we have seen a significant increase in the number of self-pay patients undergoing clinically necessary procedures (as opposed to cosmetic procedures). This growth has, in part, been supported by actions to give patients improved visibility and confidence around the pricing of procedures.
- NHS revenue grew by 9.1% in 2013. The Group continues to look for opportunities to utilise spare capacity to drive marginal profitability. Our hospitals have welcomed the opportunity to work proactively with the newly formed CCGs to cement their position in their local healthcare economies.
- EBITDAR (pre-exceptional items) grew by £3.5m or 1.7% in the year. The business continued to focus on shaping its cost base to match the revenue opportunities in the market.
- EBITDA (pre-exceptional items) decreased by £47.8m to £153.9m, largely accounted for by an annual increase in rents payable of £51.3m, following the sale, subject to leases, of 12 hospital properties.
- Exceptional costs of £11.5m were incurred in the year (2012: £20.5m) including costs incurred in supporting the CMA enquiry.
- Capital investment of £53.7m for the year was substantially in line with prior year of £55.2m. The Group had a number of significant capital projects in progress at year end.
- Cash flow from operating activities was £87.8m and cash flow conversion from EBITDA (calculated as operating profit less depreciation) was 62% (2012: £177.0m and 98%). The increase of £51.3m in rent payable, following the sale of properties, subject to leases, had a significant impact on operating cash flows as compared with 2012. In 2012 the Group had a non-recurring benefit to cash flow from a change to the payment mechanics for NHS work conducted under the Standard Acute Contract.
- Borrowings under bank loan facilities reduced by £595m following the repayment of £606.4m debt and finance costs reduced year on year.
- As a result of the revised strategy for the future financing of the Group, the interest rate swap contracts no longer met the criteria for hedge accounting and therefore the non-cash fair value of swap losses of £68.8m, previously accumulated in the hedging reserve, were recycled to the income statement as an exceptional finance charge.
- Cash at bank and in hand at 2013 year end was £121.8m (2012: £156.0m).

Chief Financial Officer's review continued

The financial statements on pages 51 to 82 report the results of the business. The table below includes highlights of these statements.

Group results, operating profit and loss before tax

	2013* £m	2012 £m	Movement %
Revenue	**764.5**	739.0	3.5%
EBITDAR (pre-exceptional items)#	**207.9**	204.4	1.7%
EBITDAR margin %	**27.2%**	27.7%	(0.5%)
Rent	**(54.0)**	(2.7)	
EBITDA (pre-exceptional items)	**153.9**	201.7	(23.7%)
Corporate restructuring, refinancing and regulatory	**(8.5)**	(11.9)	
PIP	**–**	(6.0)	
Reorganisation and set up costs	**(3.0)**	(2.6)	
Depreciation	**(43.0)**	(51.5)	
Operating profit	**99.4**	129.7	
Profit on sale of fixed assets	**41.9**	0.5	
Finance income	**0.4**	0.4	
Finance costs	**(153.9)**	(190.3)	
Exceptional finance costs	**(42.2)**	(129.1)	
Loss before taxation	**(54.4)**	(188.8)	

#For year-on-year comparability in measuring operating performance, our primary measure is EBITDAR (earnings before interest, tax, depreciation, amortisation and hospital property rentals).
*Full income statement is presented on page 56.

Excluding the impact of exceptional items, EBITDAR was £207.9m compared with £204.4m in 2012.

Operating profit for the year reduced by £30.3m from £129.7m to £99.4m as a consequence of the:

- £3.5m increase in EBITDAR before exceptional costs;
- £51.3m increase in property rentals as a consequence of the sale, subject to leases, of the 12 properties concluded in January 2013;
- £11.4m reduction in depreciation on 12 properties that were sold, subject to leases; and
- £9.0m reduction in total operating exceptional costs in the year.

The loss before tax for the year was impacted by the following non-recurring items:

- a profit of £42.5m arising on the sale, subject to leases, of the 12 properties;
- exceptional finance costs of £42.2m, which comprise the non-cash fair value of swap losses of £68.8m, recycled to the income statement, and the net income associated with the early settlement of bank debt.

Exceptional costs

Exceptional costs of £11.5m incurred in the year (2012: £20.5m), included the remaining costs associated with the sale, subject to leases, of 12 properties, advisory costs in relation to the enquiry by the CMA and costs relating to the refinancing and reorganisation of the Group.

Cash flow

Cash flow from operating activities was £87.8m and cash flow conversion from EBITDA was 62% (2012: £177.0m and 98%).

Operating cash flow in 2013, as compared to 2012, was impacted by the following:

- the increase of £51.3m per annum in rent payable, with effect from 17 January 2013; and
- in 2012 the Group had a non-recurring benefit to cash flow from a change to the payment mechanics for NHS work conducted under the Standard Acute Contract.

Of this cash flow, £59.2m (2012: £92.4m) was used to meet the cash interest and other financing costs of Group indebtedness.

Financing cash flows include:

- proceeds of property disposals of £704m, together with internal funds, applied in the early settlement of £712m external debt;
- new bank borrowings of £80m utilised in repayment of £69m of bank debt, in consolidation of the loan facilities of the operating businesses.

Capital projects

Spire's targeted capital expenditure programme is aimed at investing in new equipment to increase capacity, improve service and drive additional growth by expanding our capabilities, particularly in relation to more complex procedures. In addition, capital has been invested in maintaining the infrastructure of our existing hospitals. All proposed capital projects are separately appraised, both operationally and financially, and Spire sets clear targets to help in assessing the viability and prioritisation of capital projects.

Financing initiatives during the year

On 17 January 2013, Spire completed the partial refinancing of its loan facilities through the sale, subject to leases, of the companies owning 12 hospital properties to a consortium of investors comprising Malaysia's Employees Provident Fund (EPF), Och-Ziff Capital Management Group and Moor Park Capital. The proceeds of the transaction, £704m, have been used to make an early settlement of external debt. As a result, bank debt leverage (on the total of net bank debt of £581.2m and derivative liabilities of £74.5m) reduced from 7.0 times EBITDA, before exceptional items, to 4.3 times EBITDA.

Consolidation of financing for operating companies

On 18 December 2013 part of the operating business of Spire was refinanced and bank loan liabilities owed to a separate banking syndicate were repaid in full. The refinancing was partly funded from a new £80m bank loan facility, following which the Spire operating businesses are financed by a single banking group.

Existing loan facilities

At the end of 31 December 2013, net bank debt was £581.2m (2012: £1,150.1m). This comprised senior bank debt of £703.0m (2012: £1,306.1m), partially offset by cash in hand of £121.8m (2012: £156.0m).

In addition, Spire has investor-funded loan notes of £846.8m (2012: £756.7m) and obligations under finance leases of £79.7m (2012: £79.6m).

Borrowings at the balance sheet date were drawn under a number of term loan facilities, including operating company facilities of £235.7m (2012: £264.0m) and property company facilities of £467.3m (2012: £1,076.9m) repayable over the period August to October 2014.

Loan facilities referred to above also include:

- revolving credit facilities totalling £30m (2012: £35m), which are available to finance working capital requirements and for general corporate purposes; and
- acquisition/capital investment facilities of £50m (2012: £56m)

As at 31 December 2013, £1.5m of the revolving credit facility had been utilised leaving a balance available of £28.5m (2012: £27.5m), and £50m drawn from the capital facilities, which were fully utilised at 31 December 2013 (2012: fully utilised).

Further detail on existing borrowings is set out in note 16 of the financial statements.

Extension of bank loan facilities

Since the balance sheet date, the Spire Group has agreed terms with its bank lenders to extend the repayment date under all of its remaining loan facilities to 30 June 2015. Incorporated within the agreement for this extension, terms have been pre-agreed for an additional loan facility of £40.0m which, at the date of this report, is not fully committed.

Property transactions

Since the balance sheet date, the long leasehold of the Spire Washington Hospital was sold for net proceeds of £32.3m with a lease term expiring on 20 December 2042.

Subsequently, the Group entered into a conditional contract for the acquisition of the St Anthony's Hospital in Sutton, Surrey. Terms of the financing for this transaction have been incorporated, on a provisional basis, as part of the extension of the Group's bank loan facilities.

Going concern

Cash flow forecasts prepared as at 31 December 2013, covering the period from the date of the approval of the financial statements to the maturity of the bank loan facilities in June 2015, show that the anticipated trading performance will generate funds sufficient to meet the Group's liabilities as they fall due and that the Group will be compliant with the covenants imposed by the bank loan facilities, as amended, having considered appropriate trading and cash flow sensitivities to the forecasts.

Following the reduction in debt achieved during the year, there are a number of achievable options available within prevailing markets for the refinancing of the residual debt on a timely basis, with sufficient headroom on leverage multiples of 4.3 times EBITDA to enable it to be concluded within the period prior to debt maturity. Accordingly, the financial statements have been prepared on a going concern basis.

Interest rate swap contracts

As a result of the revised strategy for the future financing of the Group, the interest rate swap contracts no longer met the criteria for hedge accounting and therefore the non-cash fair value of swap losses of £68.8m previously accumulated in the hedging reserve were recycled to the income statement. This charge is included in the exceptional finance cost of £42.2m in the income statement.

Principal risks and uncertainties

In addition to the risks described on pages 40-41, there are a number of risks of a financial nature as follows:

(a) Market risk

Spire is reliant upon key commercial relationships with stakeholders; the relationships are subject to continual

"Our focus continues to be on investing for growth in 2014 and beyond."

Chief Financial Officer's review continued

review based on financial and contractual criteria. The business has developed a flexible cost approach model that enables it to manage such risk.

(b) Health reform risk
The government's programme of healthcare reform, including its Health and Social Care Act 2012 and associated restructuring of the commissioning and provider landscape, continues to have a significant impact on the way in which the NHS procures and provides healthcare services. This has created uncertainty around the nature of our future provision of NHS funded services. However, Spire continues to closely monitor developments in this area to identify and prepare for the risks and opportunities that arise from these reforms.

(c) Medical/regulatory risk
Spire is subject to the risk of litigation as a result of medical malpractice suits. Spire has insurance policies in place to cover such instances and the directors are of the view that these policies adequately protect the business from this risk. Spire operates in the healthcare sector, one of the most closely monitored and regulated areas of business. Our services are subject to external inspection by regulators and other authorities, which are followed by publicly available reports. We also conduct our own internal inspections.

(d) Competition and Markets Authority (successor to the Competition Commission) investigation
In 2012 the Office of Fair Trading made a market investigation reference to the Competition Commission regarding privately funded healthcare services in the UK. The Competition Commission issued the provisional findings of this investigation in August 2013 and its provisional decision on remedies in January 2014. The Competition and Markets Authority (successor to the Competition Commission) issued its final report on 2 April 2014, in which it concluded that there are certain features of the market that are harming competition and in which it proposed a number of remedies. The remedies that are expected to have a direct effect on the Group are those concerning restrictions on the payment of benefits and incentives to clinicians and the measures to improve the public availability of information relating to the performance of private hospitals and consultants and fees paid to consultants.

(e) Credit risk
Credit risk arises principally from receivables from customers and cash deposits. Exposure to credit risk from trade receivables is considered to be low because of the nature of Spire's customers. The credit risk relating to bank deposits is managed by only investing with major financial institutions, which in accordance with Spire policy must be rated at least Investment Grade by key rating agencies.

(f) Liquidity risk
Spire ensures that sufficient cash on demand is held to meet expected operational expenses for a period of 90 days, including the servicing of financial obligations. In addition to cash at bank of £121.8m, the business maintains financing lines of credit, including £30m revolving facilities, of which £28.5m was undrawn as at 31 December 2013 and £50m acquisition/capital investment facilities, which was fully utilised (2012: fully utilised). As referred to above, the bank loans contain various covenants which are regularly monitored by management.

(g) Interest rate risk
Spire is exposed to interest rate risk arising from fluctuations in market rates. This affects the future cash flows from money market investments and the cost of floating rate borrowings. Spire has entered into interest-rate swaps to fix interest payable on its bank loans, therefore minimising its exposure to interest-rate risk. Taking account of these swaps as at 31 December 2013, 63% of the business' borrowings were fixed rate loans.

Essential arrangements
Spire has arrangements with all the major private medical insurers operating in the United Kingdom, as well as contracts with various NHS Acute Trusts and Foundation Trusts, Primary Care Trusts in addition to contracts with the CCGs. Many of these contracts can be considered essential to Spire's business. Spire also has material contracts with a range of suppliers.

Our consultants are key stakeholders in Spire's business and such arrangements are essential to Spire's business.

Properties
As at the balance sheet date Spire owned freehold interests in 20 properties and 18 properties were held under long leasehold interests. Material rent is payable for the long leasehold hospitals, including 12 properties which were sold, subject to leases, in the year at an annual rent of £51.3m, three former Classic sites (Clare Park, Fylde Coast and Hull), the Spire Shawfair, Montefiore and Spire Sussex hospitals.

Summary
We are delighted to have completed our sixth full year of this expanded business with an improvement in underlying earnings over 2012 in difficult trading conditions, whilst also improving our stakeholder measures. Our focus continues to be on investing for growth in 2014 and beyond – both in existing facilities and new ventures.

Simon Gordon
Chief Financial Officer, April 2014

General Partner's Report
For the year ended 31 December 2013

The General Partner presents the report and the audited consolidated financial statements of Spire Healthcare Limited Partnership (the 'Partnership') for the year ended 31 December 2013. These financial statements include the results of Spire Healthcare Limited Partnership and its significant subsidiaries, as listed in note 12 to these accounts (the 'Group').

1. Principal activity and results for the year

The principal activity of the Group is the ownership and operation of private hospitals and the provision of private healthcare facilities. In 2013 the business comprised 38 hospitals in the UK and 12 clinics.

Results

The operating profit before rent, depreciation and exceptional items ('EBITDAR') amounted to £207.9 million (2012: £204.4 million).

The operating profit for the year amounted to £99.4 million (2012: £129.7 million).

Operating profit is after an increase of £51.3 million in the annual charge for lease rentals payable, following sale of twelve property owning companies, subject to leases, on 17 January 2013 and a reduction of £11.4 million in depreciation charged on the related properties. Finance costs also reduced, following the repayment or waiver of £745 million of bank loans and interest rate swap liabilities on the same date.

The profit for the year, after taxation, amounted to £99.7 million (2012: loss of £130.5 million).

Profit for the year after taxation is impacted by a number of non-recurring items, including the profit of £42.5 million arising on the disposal of property assets on 17 January 2013 and exceptional finance costs of £42.2 million. Exceptional finance costs comprise the non-cash fair value of swap losses previously accumulated in the hedging reserve of £68.8 million, which were recycled to the income statement, as they no longer met the criteria for hedge accounting and a net credit to the income statement of £26.6 million in respect of debt waived on the settlement of loans, net of unamortised loan costs. Further details of exceptional finance charges are contained in note 7.

The Group has total assets of £1,617.1 million (2012: £2,250.5 million) and total liabilities of £1,872.6 million (2012: £2,689.2 million).

Refinancing and the consolidation of bank loan facilities

On 17 January 2013, the Group completed the partial refinancing of its loan facilities through the sale of companies owning twelve hospital properties, such properties being subject to long leases, to a consortium of investors, including Malaysia's Employees Provident Fund (EPF), affiliated funds of Och-Ziff Capital Management Group and Moor Park Capital.

On 18 December 2013 one of the Spire operating groups was refinanced, following which all of the liabilities outstanding under its bank facilities were repaid. The refinancing was funded from a combination of existing cash reserves within the Spire Group and drawings of £80 million under new bank loan facilities, following which the borrowings of the operating companies became consolidated under one syndicate of banks. Further details are contained in note 16.

Events after the reporting period
Refinancing

At the balance sheet date, borrowings of £703 million were drawn under senior bank debt facilities which were due for repayment in 2014. Since the balance sheet date, revised terms have been agreed with lenders for the extension of the repayment dates to 30 June 2015. Further details are provided in notes 16 and 28.

Property transactions

On 24 January 2014 a subsidiary undertaking of Spire Healthcare Limited Partnership entered into a contract for the sale of a long leasehold interest in the land and property of the Spire Washington Hospital, Washington, Tyne and Wear for a consideration of £32.3 million.

On 31 March 2014 a subsidiary undertaking of Spire Healthcare Limited Partnership entered into an exchange of contracts for the purchase of the St Anthony's Hospital, a 92-bed private hospital located in Sutton, Surrey. On the date of the approval of these accounts the purchase contract was subject to the approval of the Care Quality Commission.

Further details of events after the balance sheet date are contained in note 28.

General Partner's Report
For the year ended 31 December 2013

2. Business and market reviews

The business and market reviews of the Group are contained on pages 30 to 37 of this Annual Review.

3. Principal risks and uncertainties

The Group's activities expose it to a variety of business and financial risks and uncertainties. These are discussed on pages 49 to 50 of the Chief Financial Officer's Review.

4. Ownership structure

Spire Healthcare Limited Partnership is the parent undertaking of a number of group undertakings trading under the Spire Healthcare brand.

The Board of Spire Healthcare Group UK Limited, one of the principal holding companies of the Spire Group, has been invited by Spire Healthcare Limited Partnership to comment on the Group's performance in this report. Spire Healthcare Group UK Limited also hosts Spire's principal corporate governance functions, including Spire's audit and remuneration committees.

Spire Healthcare Limited Partnership is controlled by funds managed or advised by Cinven, further details of which are contained in note 2 to these financial statements. Details of the current partners in Spire Healthcare Limited Partnership are given in Section 6 of this General Partner's Report. Spire's senior management and certain employees hold units in Spire Healthcare Limited Partnership through one of the partners, the Rozier Employee Benefit Trust.

The General Partner of Spire Healthcare Limited Partnership is Spire Healthcare (GP1) Limited, which has sole responsibility for the conduct and management of the business of Spire Healthcare Limited Partnership.

5. Going concern

The Group's activities, together with the factors likely to affect its future developments, performance and position are set out in the market and Chief Operations Officer's reviews on pages 30 to 37. The financial position of the Group, its cash flows, liquidity position and borrowings facilities are described in the Chief Financial Officer's Review on pages 46 to 50 and further information concerning the assessment of going concern is contained in note 1 to the Financial Statements.

At the balance sheet date there were amounts outstanding under bank loan facilities totalling £703 million with a maturity dates in the period August to October 2014, which are classified as current liabilities in the balance sheet. Since the balance sheet date the Spire Group agreed revised terms with its lenders, which included an extension of the repayment date to 30 June 2015. As disclosed in note 16, the margin over LIBOR on interest rates payable was increased by 162 basis points and, under the operating facilities only, loan covenants ratios were amended to levels considered by the General Partner to be appropriate.

Cash flow forecasts prepared as at 31 December 2013, covering the period from the date of the approval of the financial statements to the maturity of the bank loan facilities in June 2015, show that the anticipated trading performance of the Group will generate funds sufficient to meet its liabilities as they fall due for the foreseeable future and that the Group will be compliant with the covenants imposed by the bank loan facilities, as amended. In arriving at this conclusion, the General Partner has considered appropriate trading and cashflow sensitivities to the forecasts.

The General Partner is also of the view that, following the reduction in debt achieved during the year, there are a number of achievable options available within prevailing markets for the refinancing of the residual debt on a timely basis, with sufficient headroom on leverage multiples to enable it to be concluded in the period prior to debt maturity. Accordingly, the financial statements have been prepared on a going concern basis.

6. Partners

The partners with a significant interest in the partnership (in excess of 1%) are as follows:

Spire Healthcare Co-Invest Limited Partnership
Rozier (Guernsey) Limited
Rozier Employee Benefit Trust

As described in note 2 to these financial statements, Spire Healthcare Co-Invest Limited Partnership is the immediate parent undertaking of Spire Healthcare Limited Partnership. The partners in Spire Healthcare Co-Invest Limited Partnership are funds managed or advised by Cinven Limited; those which hold a significant interest are as follows:

Fourth Cinven Fund (No. 1) Limited Partnership
Fourth Cinven Fund (No. 2) Limited Partnership
Fourth Cinven Fund (No. 3 – VCOC) Limited Partnership
Fourth Cinven Fund (No. 4) Limited Partnership
Fourth Cinven Fund (UBTI) Limited Partnership

7. Employees and remuneration

Details of the number of persons employed and their gross remuneration are contained in Note 3 to the financial statements.

Every effort is made by management to inform, consult and encourage the full involvement of staff on matters concerning them as employees and affecting the Group's performance.

The Group pursues a policy of giving every consideration to the employment of disabled persons. Employees who are registered disabled persons are, to the greatest possible extent, treated on the same basis as all other employees and given every opportunity to develop their full working potential within the Group, through training, career development and promotion. Where employees have become disabled whilst in the service of the Group, every effort is made to rehabilitate them in their former occupation or some suitable alternative.

8. Auditor

Ernst & Young LLP has been appointed as the Group's auditor for the accounting period and offers itself for re-appointment.

Registered Office :

Elizabeth House
1st & 2nd Floors
Les Ruettes Brayes
St Peter Port
GY1 1EW

16 April 2014

For and on behalf of the General Partner:

Alternate Directors

Spire Healthcare (GP1) Limited

Statement of the General Partner's responsibilities in respect of the General Partner's report and the financial statements for the year ended 31 December 2013

The General Partner is responsible for preparing the Annual Report and the consolidated financial statements in accordance with those International Financial Reporting Standards ("IFRSs") as adopted by the European Union.

The General Partner is required to prepare consolidated financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the financial performance and cash flows of the Group for that period.

In preparing those financial statements, the General Partner is required to:

- select suitable accounting policies in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance; and
- state that the Group has complied with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the Group financial statements.

The General Partner is responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, and enable them to ensure that the Group financial statements comply with the Limited Partnership Agreement. The General Partner is also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The General Partner is responsible for the maintenance and integrity of the corporate and financial information on the Spire Healthcare website.

Independent auditor's report to the partners of Spire Healthcare Limited Partnership

We have audited the Group financial statements of Spire Healthcare Limited Partnership for the year ended 31 December 2013 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the partners, as a body, in accordance with the terms of our engagement letter and the Limited Partnership Agreement. Our audit work has been undertaken so that we might state to the partners 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 partners, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the General Partner and auditor

The General Partner is responsible for the preparation and presentation of these financial statements in accordance with the Limited Partnership Agreement, International Financial Reporting Standards and for being satisfied that the financial statements give a true and fair view as set out in the Statement of General Partner's Responsibilities. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and to making accounting estimates that are reasonable in the circumstances.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with International Financial Reporting Standards. We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive's Statement, the Business Review, the Corporate Social Responsibility Report, the Board of Directors, the Corporate Governance Report, the Chief Financial Officer's Review and the General Partner's Report. We consider the implications for our report if we become aware of any apparent misstatements within it or any material inconsistencies with the Group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the General Partner in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements.

Opinion

In our opinion:

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

Ernst & Young LLP
London

16 April 2014

Consolidated income statement For the year ended 31 December 2013

	Notes	2013 £000	2012 £000
Revenue		**764,478**	738,971
Operating expenses			
Staff costs		**(226,006)**	(217,854)
Direct costs		**(248,195)**	(229,978)
Property costs		**(20,607)**	(20,539)
Other expenses		**(61,797)**	(66,210)
Operating expenses (excluding exceptional items, depreciation & rent)		**(556,605)**	(534,581)
Depreciation		**(42,971)**	(51,436)
Rent		**(53,969)**	(2,714)
Exceptional operating items	4	**(11,539)**	(20,527)
Total operating expenses		**(665,084)**	(609,258)
Operating profit (excluding exceptional items, depreciation & rent – 'EBITDAR')		**207,873**	204,390
Depreciation		**(42,971)**	(51,436)
Rent		**(53,969)**	(2,714)
Exceptional operating items	4	**(11,539)**	(20,527)
Operating profit		**99,394**	129,713
Profit on disposal of property, plant and equipment	5	**41,885**	462
Finance income	6	**415**	448
Finance costs	7	**(153,902)**	(190,341)
Exceptional finance costs	7	**(42,186)**	(129,123)
Loss before taxation		**(54,394)**	(188,841)
Taxation	9	**154,107**	58,341
Profit/(loss) for the year		**99,713**	(130,500)
Attributable to:			
Owners of the parent		**99,713**	(130,095)
Non-controlling interests		**–**	(405)
		99,713	(130,500)

The operating profit is all derived from continuing operations.

Consolidated statement of comprehensive income For the year ended 31 December 2013

	2013 £000	2012 £000
Profit/(loss) for the year	**99,713**	(130,500)
Other comprehensive surplus/(deficit) for the year		
Net gain/(loss) on cash flow hedges	**39,400**	26,362
Deferred tax on cash flow hedges taken to hedge reserve in the year	**(11,126)**	(11,336)
Hedge loss recycled to income statement (note 7)	**68,815**	129,123
Deferred tax on recycled cash flow hedges	**(13,763)**	(29,700)
Other comprehensive income/(deficit) net of tax	**83,326**	114,449
Total comprehensive surplus/(deficit) for the year	**183,039**	(16,051)

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

Consolidated statement of changes in equity For the year ended 31 December 2013

	Partners' capital £000	Cash flow hedge reserve £000	Retained earnings £000	Total £000	Non-controlling interests £000	Total equity £000
As at 1 January 2012	30,200	(197,775)	(255,583)	(423,158)	(95)	(423,253)
Loss for the year	–	–	(130,095)	(130,095)	(405)	(130,500)
Other comprehensive deficit	–	114,449	–	114,449	–	114,449
Total comprehensive deficit	–	114,449	(130,095)	(15,646)	(405)	(16,051)
Employee benefit trust (note 22)	–	–	129	129	–	129
Other movements	–	–	–	–	500	500
Balance at 31 December 2012	30,200	(83,326)	(385,549)	(438,675)	–	(438,675)
Profit for the year	–	–	99,713	99,713	–	99,713
Other comprehensive income	–	83,326	–	83,326	–	83,326
Total comprehensive income	–	83,326	99,713	183,039	–	183,039
Employee benefit trust (note 22)	–	–	164	164	–	164
Balance at 31 December 2013	**30,200**	**–**	**(285,672)**	**(255,472)**	**–**	**(255,472)**

Consolidated balance sheet
As at 31 December 2013

	Notes	2013 £000	2012 £000
ASSETS			
Non-current assets			
Intangible assets	10	**514,882**	515,782
Property, plant and equipment	11	**813,998**	1,463,045
Investments	12	**9**	9
Deferred tax asset	18	**20,918**	16,102
		1,349,807	1,994,938
Current assets			
Inventories	13	**26,138**	25,462
Trade and other receivables	14	**119,339**	74,044
Cash and cash equivalents	15	**121,838**	156,045
		267,315	255,551
Total assets		**1,617,122**	2,250,489
EQUITY AND LIABILITIES			
Equity			
Capital accounts	21	**30,200**	30,200
Hedging reserve		**–**	(83,326)
Retained earnings		**(285,672)**	(385,549)
Equity attributable to owners of the parent		**(255,472)**	(438,675)
Non-controlling interests		**–**	–
Total equity		**(255,472)**	(438,675)
Non-current liabilities			
Borrowings	16	**882,390**	2,092,837
Derivative financial instruments	19	**52,376**	196,051
Deferred tax liability	18	**81,183**	198,227
		1,015,949	2,487,115
Current liabilities			
Provisions	17	**3,228**	3,594
Borrowings	16	**746,815**	40,693
Derivative financial instruments	19	**22,124**	54,531
Trade and other payables	20	**84,478**	103,231
		856,645	202,049
Total liabilities		**1,872,594**	2,689,164
Total equity and liabilities		**1,617,122**	2,250,489

These financial statements were approved and authorised for issue by the General Partner on 16 April 2014 and were signed on its behalf by:

For and on behalf of the General Partner

Alternate Directors
Spire Healthcare (GP1) Limited

Consolidated statement of cash flows
For the year ended 31 December 2013

	2013		2012	
	£000	£000	£000	£000
Cash flows from operating activities				
Loss before taxation	(54,394)		(188,841)	
Adjustments for:				
depreciation	42,971		51,436	
goodwill impairment	900		423	
share-based payments	10		45	
profit on disposal of property, plant and equipment	(41,885)		(462)	
finance income	(415)		(448)	
finance costs	153,902		190,341	
exceptional finance costs	42,186		129,123	
	143,275		181,617	
Movements in working capital:				
(increase)/decrease in trade and other receivables	(43,619)		(818)	
increase in inventories	(676)		(1,067)	
(decrease)/increase in trade and other payables	(10,829)		(5,007)	
(decrease)/increase in provisions	(366)		2,318	
Cash generated from operations	87,785		177,043	
Income taxes paid	–		–	
Net cash from operating activities		87,785		177,043
Cash flows from investing activities				
Purchase of property, plant and equipment	(53,715)		(55,161)	
Proceeds from disposal of property, plant and equipment	700,411		19,957	
Interest received	415		448	
Net cash generated from/used in investing activities		647,111		(34,756)
Cash flows from financing activities				
Acquisition of minority interest	(580)		–	
Interest paid	(59,207)		(92,427)	
Repayments of borrowings	(789,316)		(15,378)	
Proceeds from issue of equity to non controlling interests	–		500	
Proceeds from long-term borrowing	80,000		3,681	
Net cash used in financing activities		(769,103)		(103,624)
Net (decrease)/increase in cash and cash equivalents		(34,207)		38,663
Cash and cash equivalents at beginning of year		156,045		117,382
Cash and cash equivalents at end of year		121,838		156,045

Notes to the financial statements
For the year ended 31 December 2013

1. Accounting policies

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis of preparation

The financial statements are prepared on the historical cost basis, as modified by the revaluation of derivative financial instruments.

Going concern

As at 31 December 2013, the Group showed net current liabilities of £589.3 million, net liabilities of £255.5 million and reported a loss before taxation of £54.4 million. Therefore the General Partner has considered whether this could impact the preparation of these financial statements and in particular the adoption of the going concern basis of accounting.

As set out in note 16, the Group is financed by long-term loans from parent undertakings and bank loans. These include:

(i) loans from parent undertakings of £846.8 million, which are not repayable until the earlier of the sale of the business and 2037-2038. Interest costs arising thereon, which totalled £90.7 million in 2013, are rolled up and are not required to be cash settled in the foreseeable future;

(ii) bank loans of £702.7 million, which at the balance sheet date had maturity dates in the period August to October 2014 and were therefore classified as current liabilities in the balance sheet; and

(iii) finance lease liability of £79.7 million, of which £74.9 million is not due for repayment until 2015-2040.

Balances outstanding under bank loans and interest rate swap liabilities reduced by £745 million in the year, following the completion of the sale, subject to leases, of 12 property owning companies.

Although there were £702.7 million liabilities outstanding under bank loan facilities which were classified as current liabilities, since the balance sheet date the Spire Group agreed with its lenders to extend the repayment date to 30 June 2015. At the same time there were a number of other changes agreed to the terms under the facilities, including an increase of 162 basis points in the margin over LIBOR on interest rates payable and, under the operating facilities only, loan covenants ratios were amended to levels considered by the General Partner to be appropriate.

Cash flow forecasts prepared as at 31 December 2013 covering a period from the date of the approval of the financial statements to the maturity of the bank loan facilities in June 2015, show that the anticipated trading performance of the Group will generate funds sufficient to meet its liabilities as they fall due for the foreseeable future and that the Group will be compliant with the covenants imposed by the bank loan facilities, as amended. In arriving at this conclusion, the General Partner has considered appropriate trading and cashflow sensitivities to the forecasts.

The General Partner is also of the view that, following the reduction in debt achieved during the year, there are a number of achievable options available within prevailing markets for the refinancing of the residual debt on a timely basis, with sufficient headroom on leverage multiples to enable it to be concluded in the period prior to debt maturity. Accordingly, the financial statements have been prepared on a going concern basis.

New and amended standards and interpretations adopted by the Group

In preparing the consolidated financial statements for the year, the Group noted the following new IFRS and IFRIC interpretation effective for the year ended 31 December 2013.

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

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

Notes to the financial statements
For the year ended 31 December 2013

1. Accounting policies – continued

Standards and interpretations issued but not yet applied

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

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

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

Consolidation

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

The accounts of all Group undertakings are made up to 31 December.

Accounting conventions

A summary of the more significant accounting policies is set out below:

Consolidated income statement

In the consolidated income statement, operating profit is reported excluding exceptional items, depreciation and rent. This presentation is utilised in order to calculate the Key Performance Indicator 'EBITDAR', which is adopted as a primary measure in order to facilitate the measurement of performance year-on-year.

Revenue

Revenue represents the amounts derived from the provision of private healthcare services in the UK, after deducting trade discounts and value added tax. Revenue from charges to patients is recognised when the treatment is provided.

Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities of the acquired subsidiary company at the date of acquisition.

Goodwill on the acquisition of subsidiary companies is capitalised and presented as part of intangible assets in the consolidated balance sheet. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment, or more frequently if there is an indication that the value of the goodwill may be impaired.

Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost means purchase price, less trade discounts, calculated on an average basis. Net realisable value means estimated selling price, less trade discounts, and less all costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

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

Property, plant and equipment

Freehold and leasehold properties and other tangible assets are stated at cost less accumulated depreciation.

Depreciation
No depreciation is charged on freehold land or properties under construction.

Other assets are depreciated so as to write off the carrying amounts of the assets over their expected useful lives as follows:

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

The expected useful lives of property, plant and equipment are reviewed annually and revised as appropriate. The review of the asset lives 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.

Exceptional items
Exceptional items are those items which, in the opinion of the General Partner, by virtue of their size or incidence, either individually or in aggregate, need to be disclosed separately if the financial statements are to give a true and fair view.

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.

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.

Pensions
The Group operates the Spire Healthcare Pension Plan and The London Gynaecology and Fertility Centre Pension Plan, two defined contribution schemes. The assets of the schemes are held separately from those of Spire Healthcare Limited Partnership in independently administered funds.

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

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

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

Leases
Leasing arrangements which transfer to the Group substantially all the risks and rewards of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in tangible assets and depreciated over their estimated economic lives or over the term of the lease, whichever is the shorter. The capital element of the leasing commitments is included in liabilities as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligation and the interest element is charged to the income statement in proportion to the capital element outstanding.

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

Notes to the financial statements
For the year ended 31 December 2013

1. Accounting policies – continued

Taxation including deferred taxation

Income tax on the result for the period 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 period, 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 recognised in full using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not recognised: goodwill not deductible for tax purposes and 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.

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.

Deferred tax is recognised on temporary differences arising on investments in subsidiary companies, except 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.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be used.

Derivative financial instruments

The Group has entered into various derivative financial instrument arrangements to manage its exposure to interest rate risk. Further information is contained in note 26.

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

Hedge accounting

The Group applies cash flow hedge accounting. The Group formally documents the hedging relationship between a hedging instrument and a hedged item. Documentation includes the risk management objectives and the strategy in undertaking the hedge transaction.

Cash flow hedges

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

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

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in other comprehensive income and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

Significant judgements and estimates

In preparing these financial statements, the General Partner has made the following significant estimates and 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 of £51.3m over the remainder of the lease term and of the useful economic life of the hospitals. Further information about commitments under these leases is given in note 23.

- Goodwill
  Assumptions have been made when reviewing goodwill for impairment. The key assumptions are shown in note 10.

- Fair value of interest rate swaps
  The Group uses the Sterling zero coupon curve as at the balance sheet date to discount financial instruments where the fair value cannot otherwise be found from quoted market values. In addition, from 2013, as required under IFRS 13, credit risk of counterparties is included. Further information is contained in note 26.

2. Immediate and ultimate parent undertakings and controlling party

The immediate parent undertaking of Spire Healthcare Limited Partnership is Spire Healthcare Co-Invest Limited Partnership, a limited partnership registered in Guernsey. The ultimate parent undertakings of Spire Healthcare Limited Partnership are Fourth Cinven Fund (No.1) LP, Fourth Cinven Fund (No.2) LP, Fourth Cinven Fund (No.3 – VCOC) LP, Fourth Cinven Fund (No.4) LP, Fourth Cinven Fund (UBTI) LP, Fourth Cinven Fund Co-Investment Partnership and Fourth Cinven (MACIF) LP (together the 'Cinven Funds'), being funds managed or advised by Cinven Limited, a company incorporated under the laws of England and Wales. Accordingly, the General Partner considers that the Partnership's ultimate controlling party is Cinven Limited, the manager of or advisor to the Cinven Fund.

3. Staff costs

Employees

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

	2013 No.	2012 No.
Clinical	**3,650**	3,596
Non-clinical	**3,294**	3,136
	6,944	6,732

The aggregate payroll costs of these persons were as follows:

	2013 £000	2012 £000
Wages and salaries	**180,929**	176,054
Social security costs	**15,799**	15,865
Other pension costs	**14,155**	10,243
	210,883	202,162

Other pension costs are in respect of the defined contribution scheme; unpaid contributions at 31 December 2013 were £1,282,000 (2012: £958,000).

4. Exceptional costs

	2013 £000	2012 £000
Business reorganisation and hospital set up costs	**3,048**	2,643
PIP patient recalls	**–**	6,000
Corporate restructuring and financing costs	**3,461**	9,321
Regulatory costs	**5,030**	2,563
	11,539	20,527

Reorganisation and set up costs were mainly associated with the dual running IT costs following the implementation of SAP and an onerous tenancy contract for the London office. PIP related to costs associated with PIP implants, including the removal and replacement of the PIP brand of breast implants. Corporate restructuring, refinancing and regulatory costs related to advisors' fees associated with the sale of 12 properties subject to leases, refinancing activity and the Competition and Markets Authority (the successor to the Competition Commission) enquiry.

Notes to the financial statements
For the year ended 31 December 2013

5. Profit on disposal of property, plant and equipment

Profit on disposal of property, plant and equipment includes a profit of £42.5 million arising on the sale of property owning companies on 17 January 2013, under which property assets were disposed of for £704 million.

6. Finance Income

	2013 £000	2012 £000
Interest income on bank deposits	**415**	448

7. Finance costs

	2013 £000	2012 £000
Interest on loans from ultimate undertaking and management	**90,726**	81,204
Interest on bank facilities	**56,615**	102,820
Finance charges payable under finance leases	**7,502**	7,255
Change in fair value of interest rate derivatives	**(162)**	(133)
	154,681	191,146
Finance costs capitalised in the year	**(779)**	(805)
	153,902	190,341
Exceptional finance costs	**42,186**	129,123

Exceptional finance costs

Following the extension of the loan facilities as described in note 28, and reflecting the revised strategy for the future financing of the Group, the remaining interest rate swap contracts no longer met the criteria for hedge accounting and therefore the non-cash fair value of swap losses of £68.8 million, previously accumulated in the hedging reserve, were recycled to the income statement.

Other items arising in the year include a credit to the income statement arising on the partial waiver of bank debt and interest rate swap liabilities on settlement, net of the unamortised debt costs, a total net credit of £26.6 million.

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

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

8. Auditor's remuneration

	2013 £000	2012 £000
Amounts receivable by auditors and their associates in respect of:		
Audit of the Group financial statements and subsidiaries	**438**	424
Other services*	**81**	164
	519	588

* Other services relates to financial and accounting advice.

9. Tax on loss

(i) Analysis of tax credit in the year

	2013 £000	2012 £000
Current tax		
UK Corporation tax arising in subsidiaries on loss for the year	–	827
Adjustments in respect of prior years	(7,358)	(89)
Total current tax	(7,358)	738
Deferred tax		
Origination and reversal of temporary differences	(13,413)	(31,590)
Released on disposal of property owning subsidiaries	(102,280)	–
Change in tax rates	(15,537)	(527)
Adjustments in respect of prior years	(1,756)	2,738
Total deferred tax	(132,986)	(29,379)
Recycling of deferred tax relating to ineffective hedge	(13,763)	(29,700)
Tax on loss	(154,107)	(58,341)

(ii) Factors affecting the tax credit

The effective tax assessed for the year, all of which arises in the UK, differs from the standard weighted rate of corporation tax in the UK of 23.25%. The differences are explained below.

	2013 £000	2012 £000
Loss before taxation	(54,394)	(188,841)
Tax credit on loss at 23.25% (2012: 24.5%)	(12,647)	(46,266)
Effects of:		
Release of deferred tax previously provided on property assets, following disposal	(130,835)	–
Expenses not deductible for tax purposes	20,195	14,568
Capital allowances for the year in excess of depreciation	–	499
Deferred tax credit on property assets	(12,218)	(30,338)
Non taxable profit on disposal of property, plant and equipment	(10,280)	–
Difference in tax rates	2,332	(527)
Adjustments to prior years	(9,114)	2,649
Losses brought forward (utilised) and other items not recognised as deferred tax assets	(1,540)	1,074
Total tax credit for the year	(154,107)	(58,341)

Subsidiary undertakings of the Group have unused capital allowances totalling £237.6 million (2012: £197.5 million) to offset against future trading profits.

Subsidiary undertakings of the Group have losses carried forward totalling £117.2 million (2012: £63.5 million) to offset against future profits. Subsidiary undertakings have unpaid interest that will generate taxable deductions of £33.2 million when paid.

Deferred tax assets have been recognised in respect of the capital allowances, trading losses and unpaid interest to the extent they will be utilised in the next year or can be matched against appropriate deferred tax liabilities.

Notes to the financial statements
For the year ended 31 December 2013

10. Intangible assets

	Goodwill £000
Cost	
At 1 January 2012	516,205
Amounts recognised from business combinations occurring in the year	–
At 31 December 2012	516,205
At 1 January 2013	516,205
Amounts recognised from business combinations occurring in the year	–
At 31 December 2013	**516,205**
Impairment	
At 1 January 2012	–
Charge for the year	423
At 31 December 2012 and 1 January 2013	423
Charge for the year	900
At 1 January and 31 December 2013	**1,323**
Net Book Value	
At 31 December 2013	**514,882**
At 31 December 2012	515,782

The goodwill arising on acquisitions is reviewed annually for impairment or when there is an event that may indicate impairment. In the year the Group's goodwill in London Fertility Clinic Limited was impaired by £0.9 million. The directors do not believe that any further impairment is required in the financial period.

Impairment testing

Goodwill relates principally to two separate acquisitions and has been allocated to two cash-generating units; £422.5 million was allocated to Spire 1 in 2007 and in 2008 £82.6 million was allocated to Spire 2. In 2008 a further £6.0 million was allocated to Spire Thames Valley Hospital and other goodwill of £4.7 million arose on subsequent acquisitions.

The recoverable amount of each cash-generating unit was calculated as at 31 December 2013 by reference to its value in use.

In order to evaluate the value in use, management utilised the cash flows from the five-year plan approved by the Board of Directors, which covered the period 2014-2018.

Management identified a number of key assumptions over the period of the forecasts which determine the run rate of earnings before interest, tax, depreciation and amortisation (EBITDA). Revenue growth is projected to average 6.5% (2012: 5.5%) for the five year period and 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. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends. Cost assumptions are consistent with the Group's historic track record, after taking account of a conservative level of inflationary increase, assuming that headline inflation is at 3.3% (2012: 2.5%) and delivering further efficiencies that can be achieved as the Group continues to build scale and volume.

A long-term growth rate of 2.25% (2012: 2.25%) has been applied to cash flows beyond 2018, which is based on historic growth rates achieved by the sector, which have typically exceeded RPI. Pre-tax discount rates were based on the capital asset pricing model, utilising a sector specific Beta in arriving at the equity premium and cost of debt based on current bank lending rates. For each cash-generating unit, a specific pre-tax discount rate was calculated to reflect the profile of cash flows inherent to that specific cash-generating unit and these were in the range of 9.75%-10.50% (2012: 10.25%-10.5%).

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

11. Property, plant and equipment

	Freehold property £000	Long leasehold property £000	Equipment £000	Assets in the course of construction £000	Total £000
Cost					
At 1 January 2012	1,195,085	280,191	179,899	–	1,655,175
Additions	280	15,164	40,491	32	55,967
Reclassifications	3,158	(3,183)	(5)	31	1
Disposals	(20,168)	–	(3)	–	(20,171)
At 31 December 2012 and 1 January 2013	1,178,355	292,172	220,382	63	1,690,972
Additions	139	11,054	37,070	6,231	54,494
Reclassifications	–	(31)	–	31	–
Disposals	(610,812)	(116,686)	(22,997)	–	(750,495)
At 31 December 2013	**567,682**	**186,509**	**234,455**	**6,325**	**994,971**
Depreciation					
At 1 January 2012	101,639	22,483	53,180	–	177,302
Charge for the year	18,781	9,044	23,611	–	51,436
Reclassifications	236	(236)	–	–	–
Disposals	(811)	–	–	–	(811)
At 31 December 2012 and 1 January 2013	119,845	31,291	76,791	–	227,927
Charge for the year	12,685	4,714	25,572	–	42,971
Reclassifications	–	–	–	–	–
Disposals	(63,961)	(7,422)	(18,542)	–	(89,925)
At 31 December 2013	**68,569**	**28,583**	**83,821**	**–**	**180,973**
Net Book Value					
At 31 December 2013	**499,113**	**157,926**	**150,634**	**6,325**	**813,998**
At 31 December 2012	1,058,510	260,881	143,591	63	1,463,045

On 17 January 2013 following the sale of 12 property owning companies, hospital properties with a net book value of £661 million were disposed of. Further details are contained in note 5.

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

12. Investments

	Available-for-sale investments £000
At 1 January 2012	9
Additions	–
At 31 December 2012 and 1 January 2013	9
Additions	–
At 31 December 2013	**9**

Available-for-sale investments

The available for sale investments are shares listed on the London Stock Exchange.

Notes to the financial statements
For the year ended 31 December 2013

12. Investments – continued

Subsidiary undertakings of the Spire Healthcare Limited Partnership

At the balance sheet date, the significant subsidiary undertakings of the Partnership, which were wholly owned unless otherwise stated and that were consolidated in the Group financial statements were as follows:

Registered in Guernsey	Principal activity	Equity investment
Rozier (GP1A) Limited *	General Partner	Ordinary
Rozier (GP2) Limited	General Partner	Ordinary
Rozier No. 1A Limited Partnership *	Investing partnership	Units
Rozier No. 2 Limited Partnership	Investing partnership	Units
Rozier Finco Limited	Financing company	Ordinary
Rozier Finco 2 Limited *	Financing company	Ordinary

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

During the year the Group disposed of its investment in The London Cognitive Behaviour Therapy Centres Limited.

* Direct holdings of Spire Healthcare Limited Partnership
† Ownership interest is 50.1%

13. Inventory

	2013 £000	2012 £000
Prosthesis, drugs, medical and other consumables	**26,138**	25,462

Direct costs include inventories recognised as an expense amounting to £134.1 million (2012: £126.0 million).

14. Trade and other receivables

	2013 £000	2012 £000
Amounts falling due within one year:		
Trade receivables	**87,899**	55,867
Other receivables	**9,056**	7,518
Prepayments	**22,384**	10,659
	119,339	74,044

The ageing of trade receivables at the reporting date was:

	2013 £000	2012 £000
Not past due	**55,116**	31,235
Past due 0-30 days	**17,237**	11,204
Past due 31-90 days	**11,766**	7,192
More than three months	**3,780**	6,236
Total	**87,899**	55,867

Trade receivables comprise the following customer groups:

	2013 £000	2012 £000
Insured customers	**39,287**	23,552
NHS	**37,518**	19,257
Patient debt	**826**	1,909
Other	**10,268**	11,149
Total	**87,899**	55,867

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

	2013 £000	2012 £000
At 1 January	**3,508**	5,637
Movement for the year	**490**	(2,129)
At 31 December	**3,998**	3,508

15. Cash and cash equivalents

	2013 £000	2012 £000
Cash on hand and balances with banks	**44,264**	28,022
Short-term investments	**77,574**	128,023
	121,838	156,045

Notes to the financial statements
For the year ended 31 December 2013

16. Borrowings

	2013 £000	2012 £000
Unsecured borrowings at amortised cost		
Amount due to ultimate parent undertaking and management	**846,780**	756,718
Secured borrowings at amortised cost		
Bank loans	**702,693**	1,297,187
Obligations under finance leases	**79,732**	79,625
	782,425	1,376,812

The bank loans and finance leases are secured on fixed and floating charges over the assets of certain subsidiary undertakings.

	2013 £000	2012 £000
Total borrowings		
Amount due for settlement within 12 months	**746,815**	40,693
Amount due for settlement after 12 months	**882,390**	2,092,837
	1,629,205	2,133,530

Note
As at the balance sheet date there were £703 million of liabilities outstanding under bank loan facilities with a repayment date in 2014. Since the balance sheet date, the repayment date of all of the bank loan facilities was extended to 30 June 2015.

Obligations under finance leases

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

	2013		2012	
	Minimum payments £000	**Present value of payments £000**	Minimum payments £000	Present value of payments £000
Within one year	**7,704**	**4,886**	7,584	4,259
After one year but not more than five years	**31,425**	**17,183**	34,336	16,993
More than five years	**177,434**	**57,663**	181,288	58,373
Total minimum lease payments	**216,563**	**79,732**	223,208	79,625
Less amounts representing finance charges	**(136,831)**	**–**	(143,583)	–
Present value of minimum lease payments	**79,732**	**79,732**	79,625	79,625

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

Terms and debt repayment schedule

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

a) The terms and conditions of bank facilities on which there are balances outstanding are as follows:

	Maturity	Margin over LIBOR	Principal drawn 2013 £000	Carrying amount after issue costs & including interest accrued 2013 £000	Carrying amount after issue costs & including interest accrued 2012 £000
Spire 1					
Term loan – operating companies	August 2014	1.75%-3.0%	105,700	**104,530**	105,643
Term loan C	August 2014	3.0%	80,000	**80,107**	–
Capex loan	August 2014	1.75%	50,000	**50,003**	50,003
Term loan – property companies	October 2014	1.25%-2.35%	421,228	**421,364**	973,890
PIK loan	October 2014	7.05%	46,090	**46,689**	98,668
Spire 2					
Term loan	March 2015-2017	1.75%-3.5%	–	**–**	38,263
Mezzanine loan	March 2018	9.75%	–	**–**	25,019
Capex loan	March 2015	1.75%	–	**–**	5,701
			703,018	**702,693**	1,297,187

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

On 18 December 2013 one of the Spire operating groups was refinanced, following which all of the liabilities outstanding under its bank facilities were repaid. The repayment was financed by a combination of the existing cash balances of the Spire Group and borrowings of £80 million under a new term loan.

Since the balance sheet date the Spire Group agreed terms with its remaining lenders covering all facilities, to include an extension of the repayment date to 30 June 2015. Other terms were largely unchanged, with the exception of an increase of 162 basis points in the margin over LIBOR payable and a number of amendments to covenant ratios applicable to the operating facilities, which are to levels that the directors consider to be manageable relative to forecast trading performance.

Notes to the financial statements For the year ended 31 December 2013

16. Borrowings – continued

b) The terms and conditions of loans from the ultimate parent undertaking and management are as follows:

	Maturity	Interest rate	Principal drawn 2013 £000	Carrying amount after issue costs & including interest accrued 2013 £000	Carrying amount after issue costs & including interest accrued 2012 £000
Ultimate parent undertaking	August 2037	12%	680,342	**707,854**	632,012
Ultimate parent undertaking	March 2038	12%	126,833	**138,926**	124,706
			807,175	**846,780**	756,718

On 18 December 2013, as part of the refinancing of Spire 2, £74.1 million of the Spire 2 loan liabilities outstanding were repaid and the balance was assigned to a fellow subsidiary undertaking of Spire Healthcare Limited Partnership, Spire UK Holdco 6. On the same date new loan notes with a value of £74.1 million were issued by a fellow group undertaking of Spire Healthcare Limited Partnership, so that the amounts owed to the ultimate parent undertaking on that date were unchanged.

The Group has available the following lines of bank credit:

- £50 million acquisition/capex facilities, which were fully utilised as at 31 December 2013.
- £30 million of revolving credit facilities, of which £28.5 million was undrawn as at 31 December 2013.

17. Provisions

	2013 £000	2012 £000
At 1 January 2013	**3,594**	1,280
Charge for the year	**24**	5,911
Utilised during the year	**(390)**	(3,597)
At 31 December 2013	**3,228**	3,594

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

18. Deferred taxation

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

	2013 £000	2012 £000
Temporary differences on:		
Property, plant and equipment	**99,881**	250,851
Derivative financial instruments	**(14,907)**	(54,588)
Losses and other	**(24,709)**	(14,138)
	60,265	182,125
Presented as:		
Deferred tax asset	**(20,918)**	(16,102)
Deferred tax liability	**81,183**	198,227
	60,265	182,125

Deferred tax on property, plant and equipment has arisen on differences between the carrying value of the relevant assets and the tax base.

Deferred tax assets are recognised where the Group has trading or non trading losses or unclaimed writing down allowances to the extent that they are likely to be utilised within the next year.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date. Finance Bill 2013, which includes reductions in the UK corporate tax rate to 21% from 1 April 2014 and to 20% on 1 April 2015, was substantively enacted on 2 July 2013 and so UK deferred tax assets and liabilities have been calculated at these rates.

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

	Property, plant and equipment £000	Derivative financial instruments £000	Losses and other £000	**Total £000**
At 1 January 2012	282,471	(65,924)	(16,379)	**200,168**
Recognised in income statement	(31,620)	(29,700)	2,241	**(59,079)**
Recognised in other comprehensive income	–	41,036	–	**41,036**
At 1 January 2013	250,851	(54,588)	(14,138)	**182,125**
Recognised in income statement	(150,970)	14,792	(10,571)	**(146,749)**
Recognised in other comprehensive income	–	24,889	–	**24,889**
At 31 December 2013	**99,881**	**(14,907)**	**(24,709)**	**60,265**

19. Derivative financial instruments

	2013 £000	2012 £000
Amounts arising within 12 months	**22,124**	54,531
Amounts arising after 12 months	**52,376**	196,051
	74,500	250,582

On 17 January 2013, interest rate swap liabilities with a value of £138.6 million were either repaid or waived and the related instruments were terminated.

Further information regarding derivative liabilities is provided in note 26.

20. Trade and other payables

	2013 £000	2012 £000
Trade payables	**38,003**	36,311
Other payables	**7,042**	17,209
Other taxation and social security	**5,178**	4,264
Accruals	**34,255**	45,447
	84,478	103,231

21. Partners' accounts

	2013 £000	2012 £000
A units issued	**26,576**	26,576
B units issued	**3,624**	3,624
	30,200	30,200

The A units are owned by members of the management team and Cinven Funds and the B units are owned by the Rozier Employee Benefit Trust. The A and B units rank pari passu.

Notes to the financial statements
For the year ended 31 December 2013

22. Employee Benefit Trust

Spire Healthcare Limited is the sponsoring company for the Rozier Employee Benefit Trust, under which certain employees of companies that are under the ownership of the Spire Healthcare Limited Partnership are invited to become members. The Employee Benefit Trust distributes B Units in the Spire Healthcare Limited Partnership to members in exchange for cash consideration equal to the market value of the units as at the date of distribution and holds other units to provide for future obligations under employee equity schemes.

During the year the consideration paid by employees for B units in the Spire Healthcare Limited Partnership, after deducting amounts relating to units repurchased from leavers, was £77,000 (2012: £42,000). The price paid of £1 per B unit was considered to represent their fair value, as it was equivalent to that paid by external investors. The number of units that have not yet been vested in employees is 651,000 (2012: 728,000).

Of those units, 522,000 have been reserved to make awards to certain employees in the event of a future sale of the business. The intention is that payments will be made to those employees provided that they continue in service with the Group up to the point of sale. The fair value of the units on the date on which the units were reserved was £1 per share.

The share-based payment charge for the year is £0.1 million (2012: £0.1 million).

23. Commitments

a) Operating leases

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

	Land and buildings 2013 £000	**Other 2013 £000**	Land and buildings 2012 £000	Other 2012 £000
Not later than one year	**56,296**	**–**	3,866	701
Later than one year and not later than five years	**229,734**	**737**	18,166	1,402
Later than five years	**1,340,862**	**2,210**	78,488	–
	1,626,892	**2,947**	100,520	2,103

On 17 January 2013, following the sale by the Spire Group of twelve of its property owning companies to a consortium of investors, comprising Malaysia's Employees Provident Fund (EPF), affiliated funds of Och-Ziff Capital Management Group and Moor Park Capital, the Group (by way of varying existing long term leases with a term expiring in 2042), has annual commitments to third parties in relation to lease rentals. With effect from 17 January 2013, the total annual commitments under these operating leases then increased by £51.3 million per annum.

b) Consignment stock

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

c) Capital expenditure

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

	2013 £000	2012 £000
Contracted but not provided for	**24,953**	1,551

24. Contingent liabilities
The Group had provided the following guarantees at 31 December 2013:

- The guarantees provided to the Spire 1 Group bankers on behalf of Spire Healthcare (Holdings) Limited relating to performance on NHS contracts expired during the year (2012: £6.2 million).
- Spire UK Finance Limited and certain of its subsidiary undertakings have guaranteed the Senior Facilities Agreement (Opco) entered into by Spire Healthcare Group Limited on 25 September 2008. The loan amounts outstanding at the balance sheet date were £235.7 million (2012: £158.2 million).
- Spire Healthcare Limited has entered into an Authorised Guarantee Agreement (AGA) with regard to the premises of the former customer contact centre at Victoria Harbour City, Manchester. Under the AGA, Spire Healthcare Limited will act as a guarantor to the new tenants until the end of the lease term, January 2016. The maximum contingent liability at the balance sheet date was £1.3 million (2012: £1.8 million).
- The bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2012: £1.3 million) in relation to contractual pension obligations and statutory insurance cover.
- Under the lease agreements entered into on 26 January 2010 by Classic Hospitals Limited, the Group has given certain undertakings relating to obligations in the lease documentation and the assets of the Group are subject to a fixed and floating charge.

25. Capital management
The General Partner considers that capital is represented by partners' capital employed and borrowings, as follows:

	2013 **£000**	2012 £000
Partners' capital	**30,200**	30,200
Loans from the ultimate parent undertaking	**846,780**	756,718
Bank loans	**702,693**	1,297,189
Obligations under finance leases	**79,732**	79,625
	1,659,405	2,163,732

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

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

26. Financial risk management
The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

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

The General Partner has overall responsibility for the establishment and oversight of the Group's risk management framework.

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

Notes to the financial statements
For the year ended 31 December 2013

26. Financial risk management – continued

Credit risk

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

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

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

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

Note 14 shows the ageing and customer profiles of trade receivables outstanding at the period end.

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

Liquidity risk

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

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

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

- £50 million acquisition/capex facilities, which were fully utilised at 31 December 2013.
- £30 million of revolving credit facilities, of which £28.5 million was undrawn as at 31 December 2013

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

At 31 December 2013	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	More than 2 years £000
Non-derivative financial liabilities					
Amount due to ultimate parent undertakings	846,780	926,898	–	–	926,898
Secured bank facilities	702,693	721,298	721,298	–	–
Obligations under finance leases	79,732	216,563	7,704	31,425	177,434
Trade and other payables	51,737	51,737	51,737	–	–
Derivative financial liabilities					
Interest rate swaps	74,500	81,745	24,275	23,062	34,408
	1,755,442	**1,998,241**	**805,014**	**54,487**	**1,138,740**

At 31 December 2012	Carrying amount £000	Contractual cash flows £000	1 year or less £000	1-2 years £000	More than 2 years £000
Non-derivative financial liabilities					
Amount due to ultimate parent undertakings	756,718	926,898	–	–	926,898
Secured bank facility	1,297,187	1,394,764	46,552	1,270,891	77,321
Obligations under finance leases	79,625	223,208	7,584	34,336	181,288
Trade and other payables	59,811	59,811	59,811	–	–
Derivative financial liabilities					
Interest rate swaps	250,582	252,624	54,975	53,862	143,787
	2,443,923	**2,857,305**	**168,922**	**1,359,089**	**1,329,294**

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

Fair Value Hierarchy

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

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

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

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

The General Partner is of the opinion that for all remaining assets and liabilities the carrying value in the accounts at the balance sheet date is an approximation of fair value.

Notes to the financial statements
For the year ended 31 December 2013

26. Financial risk management – continued

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

Liabilities measured at fair value

	Value as at 31 December 2013 £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial liabilities at fair value through profit and loss				
Interest rate swaps	**74,500**	–	74,500	–
Financial liabilities at fair value using hedge accounting				
Interest rate swaps	**–**	–	–	–
	74,500	–	74,500	–

During the reporting period ending 31 December 2013, there were no transfers between the levels in the fair value hierarchy.

Valuations of interest rate swaps are based on market interest rate curves.

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

Liabilities measured at fair value

	Value as at 31 December 2012 £000	Level 1 £000	Level 2 £000	Level 3 £000
Financial liabilities at fair value through profit and loss				
Interest rate swaps	136,329	–	136,329	–
Financial liabilities at fair value using hedge accounting				
Interest rate swaps	114,253	–	114,253	–
	250,582	–	250,582	–

During the reporting period ending 31 December 2012, there were no transfers between the levels in the fair value hierarchy.

Market risk

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

In the opinion of the General Partner the carrying value of the financial instruments is approximately equal to their fair value, except for floating rate debt which is after the deduction of £1 million (2012: £14 million) of issue costs.

- 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. As at 31 December 2013, 63% of the Group's borrowings were hedged by interest rate swaps and caps, although the caps did not qualify for hedge accounting. Money market investments, held at floating rates of interest, represented 7% of total assets held by the Group.

Generally the Group seeks to apply hedge accounting in order to manage volatility in the Income Statement.

The Group has entered into a number of interest rate swaps in order to fix the interest payable on its bank loans, therefore minimising its exposure to interest rate risk.

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 £000	Fixed £000	Total £000	Undrawn facility £000
31 December 2013	260,804	442,214	703,018	28,455
Effective interest rate	3.06%	7.97%	6.15%	
31 December 2012	229,171	1,076,895	1,306,066	27,506
Effective interest rate	3.17%	7.67%	6.88%	

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

	Interest rate	Maturity date	Notional amount £000	Carrying value £000
Interest rate swaps	5.9735%	August 2017	442,214	74,500
				74,500

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

	Interest rate	Maturity date	Notional amount £000	Carrying value £000
Interest rate cap	2.0%	October 2013	105,000	-
Interest rate swaps	2.5%	April 2013	40,000	-
Interest rate swaps	5.9735%	August 2017	1,015,512	250,582
				250,582

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	
	25 bp increase £000	25 bp decrease £000	25 bp increase £000	25 bp decrease £000
At 31 December 2013				
Variable rate instruments	(439)	439	(439)	439
Interest rate swaps	276	(276)	4,351	(4,652)
Interest rate caps	–	–	–	–
Sensitivity (net)	(163)	163	3,912	(4,213)

	Profit or loss		Equity	
	25 bp increase £000	25 bp decrease £000	25 bp increase £000	25 bp decrease £000
At 31 December 2012				
Variable rate instruments	(816)	816	(816)	816
Interest rate swap	635	(635)	13,651	(13,651)
Interest rate caps	91	(91)	91	(91)
Sensitivity (net)	(90)	90	12,926	(12,926)

Notes to the financial statements For the year ended 31 December 2013

27. Related party transactions

Trading transactions

During the year, Group companies entered into the following transactions:

		2013 £000	2012 £000
Rozier S.ar.l	Interest payable	**90,254**	80,782
Management	Interest payable	**472**	422
Montefiore House Limited	Management services	**309**	202
Montefiore House Limited	Property rental	**1,669**	441

Amounts owed by related parties

	2013 £000	2012 £000
Montefiore House Limited	**18,576**	9,146
The London Cognitive Behaviour Therapy Centres Limited	**–**	283

Loans due to related parties

	2013 £000	2012 £000
Rozier S.ar.l	**842,378**	752,788
Management	**4,402**	3,930

Amounts payable to Rozier S.ar.l and Management carry interest of 12% (2012: 12%) per annum.

Other transactions with Cinven

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

Transactions with key management personnel

The Group made payments to key management personnel comprising of Directors of Spire Healthcare Limited, the main operating company, Chairman and Chief Operations Officer for services provided to the Group. The total remuneration to key management personnel is £1.7 million (2012: £2.0 million), which includes pension costs of £0.2 million (2012: £0.2 million).

28. Events after the reporting period

Refinancing

A full description of the borrowing facilities of the Group is included in note 16 of the financial statements. As described in note 16, borrowings outstanding at the balance sheet date were drawn under senior bank loan facilities which mature in 2014. Since the balance sheet date the Spire Group has agreed terms with the existing lenders under which the repayment date of the Group's bank borrowings was extended to 30 June 2015. Incorporated within the agreement for the extension of the Group's bank loan facilities, terms have been pre-agreed for an additional loan facility of £40 million, which at the date of these accounts was not yet fully committed.

Property transactions

On 24 January 2014 a subsidiary undertaking of Spire Healthcare Limited Partnership entered into a contract for the sale of a long leasehold interest in the land and buildings of the Spire Washington Hospital, Washington, Tyne and Wear, which had a net book value at the balance sheet date of £12.3 million, for a consideration of £32.3 million.

On 31 March 2014 a subsidiary undertaking of Spire Healthcare Limited Partnership entered into an exchange of contracts for the purchase of the St Anthony's Hospital, a 92-bed private hospital located in Sutton, Surrey. On the date of the approval of these accounts the purchase contract was subject to the approval of the Care Quality Commission. Terms for the financing for this transaction have been incorporated on a provisional basis as part of the extension of the Spire Group's bank loan facilities.

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