Spire Healthcare

Open to *everyone*

Spire Healthcare Group plc
Annual Report 2014

Independent healthcare – open to everyone

This Annual Report is also available on our website:
www.spirehealthcare.com/annualreport

Important Information:

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

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

Spire Healthcare Group plc is one of the UK's leading independent hospital groups. Our 39 hospitals and 13 clinics delivered care to more than 700,000 patients last year*, while maintaining high levels of patient, staff and consultant satisfaction.

We put patients at the heart of everything we do. Our 7,170 (full-time equivalent) staff and over 3,750 experienced consultants are committed to providing patients with the highest standards of healthcare, delivered with attentiveness, kindness and compassion, in modern, high-quality facilities.

Our care is open to everyone, whether funded by private medical insurance (PMI), patients self-paying or by the NHS.

A continuous programme of investment in our hospitals and in some of the latest medical technology, totalling more than £500 million (including acquisitions) since the Group was formed, is increasing our capacity to admit and treat patients, and broadening the services we offer.

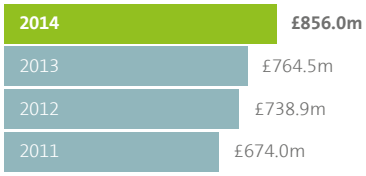
* Including out-patient, in-patient, daycase and individual patients treated at least once during the year.

Financial highlights

REVENUE (+12.0%)

£856.0m

2013: £764.5 million



OPERATING CASHFLOW BEFORE EXCEPTIONAL ITEMS* (+47.7%)**

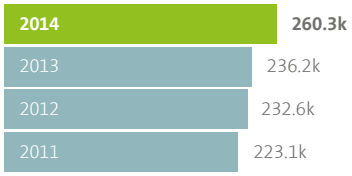
£164.2m

2013: £111.2m

PATIENT DISCHARGES (+10.2%) (IN-PATIENT AND DAYCASE)

260.3k

2013: 236.2k



ADJUSTED, DILUTED EARNINGS PER SHARE**

18.3p

ADJUSTED EBITDA* (+6.1%)

£159.2m

2013: £150.0 million

PROFIT FOR THE YEAR

£6.0m

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS (+2.7%)

£114.1m

2013: £111.1 million

PROPOSED FINAL DIVIDEND PER SHARE, PENCE

1.8p

Contents

* Operating profit, adjusted to add back depreciation and exceptional items and to adjust the comparator to conform the property rental base, referred to hereafter as 'Adjusted EBITDA'.

** Calculated as pro-forma profit after tax divided by the number of ordinary shares in issue on Admission. Pro-forma profit is calculated as earnings after tax adjusted for the capital restructuring, exceptional items and the profit on asset disposal (detailed on page 34).

*** Operating cashflow adjusted to add back the cashflow effect of exceptional items.

Spire at a glance

Spire Healthcare provides in-patient, daycase and out-patient care from 39 hospitals, 13 clinics and one Specialist Care Centre throughout the UK.

We also own and operate a sports medicine, physiotherapy and rehabilitation brand, Perform; a screening service, Lifescan, as well as national pathology services.

What we provide

Providing high-quality patient care is our top priority. To improve our patient offering, we invest consistently in a wide range of services and treatments at each stage of the 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 AND SURGERY
Offering a full range of treatment and surgery, including some of the most acute, complex and specialist procedures, across our 39 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.

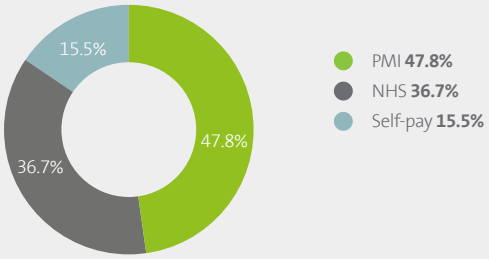
Key events

- Admitted to the London Stock Exchange following our successful Initial Public Offering (IPO)
- Acquisition of St Anthony's Hospital in Cheam
- New collaborative six-year agreement with Bupa starting 1 April 2015
- Opened our first standalone radiotherapy Specialist Care Centre in Bristol
- Submitted plans for a second radiotherapy centre to be built at Great Baddow, near Chelmsford, Essex, which were approved in 2015
- Opened a cardiac catheterisation laboratory in Cardiff
- Submitted plans for a new hospital in Manchester, in partnership with Siemens which were approved in 2015
- Submitted plans for a new hospital in Nottingham which were approved in 2015
- Recognised as Private Hospital Group of the Year in the HealthInvestor Awards

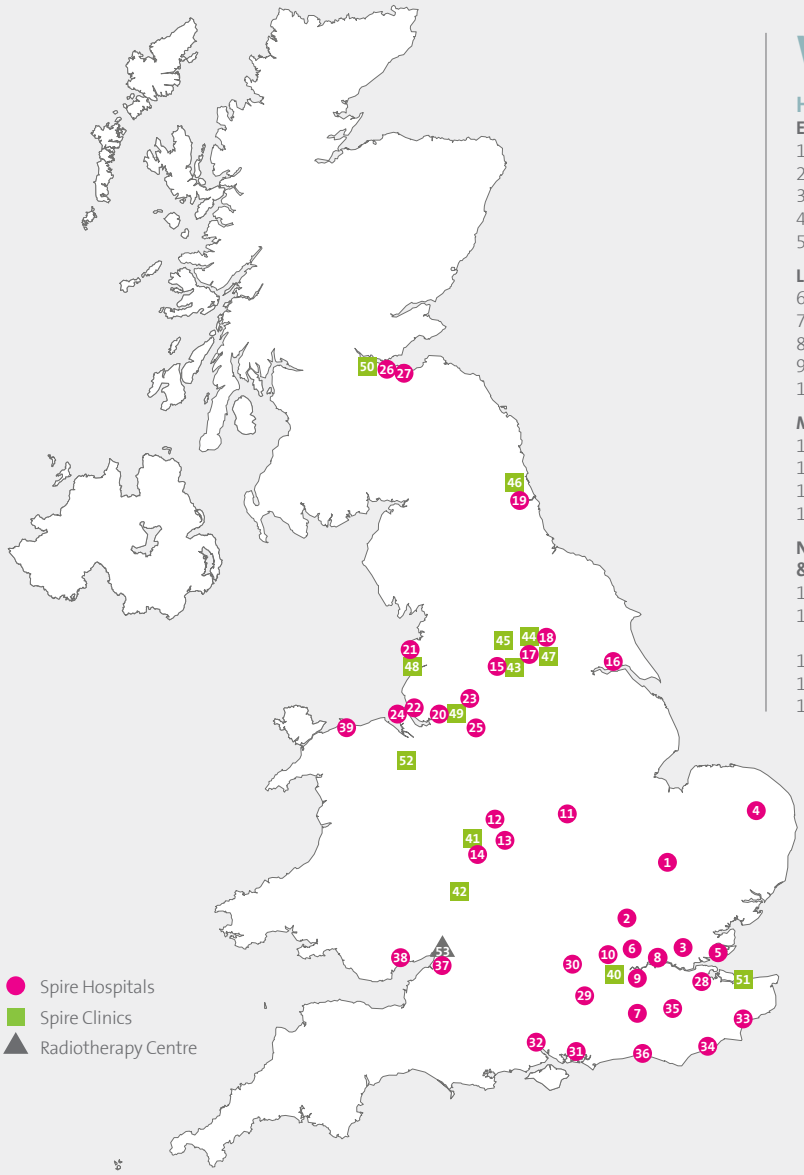
Who we serve

Our hospitals span the country, serving a diversified patient mix, made up of private medical insurance (PMI), self-pay and NHS patients.

PATIENT DISCHARGES



Source: Company – in-patient and daycase discharges.



Where we are

HOSPITALS

East of England
1 Cambridge Lea
2 Harpenden
3 Hartswood
4 Norwich
5 Wellesley

London
6 Bushey
7 Gatwick Park
8 Roding
9 St Anthony's
10 Thames Valley

Midlands
11 Leicester
12 Little Aston
13 Parkway
14 South Bank

North East & Yorkshire
15 Elland
16 Hull and East Riding
17 Leeds
18 Methley Park
19 Washington

North West
20 Cheshire
21 Fylde Coast
22 Liverpool
23 Manchester
24 Murrayfield
25 Regency

Scotland
26 Murrayfield
27 Shawfair Park

South East
28 Alexandra
29 Clare Park
30 Dunedin
31 Portsmouth
32 Southampton
33 St Saviour's
34 Sussex
35 Tunbridge Wells
36 Brighton

South West
37 Bristol Hospital

Wales
38 Cardiff
39 Yale

CLINICS

40 Windsor
41 Droitwich
42 Malvern
43 Dewsbury
44 Harrogate
45 Ilkley
46 Newcastle
47 Formby
48 Lytham
49 Hale
50 Livingston
51 Whitstable
52 Abergele

RADIOTHERAPY CENTRE

53 The Bristol Specialist Care Centre

Chairman's statement
A remarkable year

Garry Watts
Chairman

2014 was a remarkable year for Spire Healthcare. Not only did we become a public company, but we also bought a hospital in Cheam (Greater London), opened our first cancer treatment centre in Bristol, finalised a new agreement with Bupa and reached the end of the two year industry-wide investigation with the Competition and Markets Authority (CMA) – all while providing high-quality care to more patients than ever and achieving our highest patient and consultant satisfaction scores.

This is Spire Healthcare's first Annual Report following our successful Initial Public Offering (IPO) in July 2014. We have been well received as a public company; the combination of a growing market and award-winning clinical outcomes, coupled with our diversified payor mix and strong investment strategy, has led to a high and sustained degree of interest from UK and international investors.

FINANCIAL PERFORMANCE

Our financial performance in 2014 was strong. Our seventh full successive year of growth resulted in total revenue of £856.0 million and an operating profit of £114.1 million*. We continue to invest significantly in new services, treatments, hospitals and equipment. In the last year, we have invested £105.1 million across these areas, developing further our key role in the UK healthcare economy.

* Operating profit, adjusted to add back exceptional items.

93%
Patient satisfaction (2013: 92%)

92%
of staff believe what they do makes a positive difference (2013: 91%)

£105.1m
invested in 2014 (including St Anthony's acquisition) (2013: £53.7 million)

With the great team we have in place, we can look forward to the future with confidence.

GOVERNANCE

As part of the IPO, we appointed four experienced non-executive directors to our Board in June 2014. They have significantly strengthened the range of skills and expertise in the Boardroom and are helping to guide the Company through its inaugural phase as a public entity and into the future.

John Gildersleeve, our Deputy Chairman, has extensive retail and plc experience, having served on the Boards of Lloyds TSB Bank plc, Vodafone Group plc and as a director of Tesco plc for 20 years until he retired in 2004. He is the current Chairman of The British Land Company plc. John chairs our Nomination Committee.

Dame Janet Husband brings with her a vast range of clinical expertise. She is Emeritus Professor of Radiology at the Institute of Cancer Research and currently serves on the Boards of Royal Marsden NHS Foundation Trust and Nuada Medical Group. Janet chairs our Clinical Governance and Safety Committee.

Robert Lerwill, an experienced finance director, currently serves as a non-executive director of ITC Limited, a large Indian conglomerate, and DJI (Holdings) plc. His depth of experience across health and telecommunications means he brings a unique perspective on our business. Robert chairs our Audit and Risk Committee.

Tony Bourne is familiar with the healthcare sector, having served as CEO at the British Medical Association for nine years. He is currently a non-executive director at various companies, including Barchester Healthcare and Bioquell Plc. Tony chairs the Remuneration Committee.

Further information on our governance can be found on pages 56 to 92.

DIVIDEND

As indicated in our IPO prospectus, we intend to adopt a progressive dividend policy based on a payout ratio of around 20% of profit after taxation each financial year, in the approximate proportions of one-third interim and two-thirds final, respectively, of the total annual dividend.

Subject to shareholder approval, the Company will pay a final dividend in respect of the current financial year of 1.8 pence per ordinary share.

PEOPLE

I would like, on behalf of the Board, to extend a heartfelt thank you to everyone at Spire Healthcare for their extraordinary performance during 2014. Of particular note was the role of the management team during the flotation process. The float was achieved during tricky market conditions, and under strict timeframes. Their dedication reflects the distinct culture at Spire and supports our value of driving excellence.

Our hospital staff continued to deliver excellent care throughout the year, illustrated by further improvement in our patient satisfaction scores. It is our culture, supported by our values, that enables us to continue to deliver to those that matter most – our patients.

THE FUTURE

Our results this year have been strong. We have further developed and strengthened our relationships with insurers and the NHS, and we are confident of continued growth across all our payors. The success of the IPO has been pleasing; there will be challenges ahead, but I know, with the great team we have in place, we can look forward to the future with confidence.

Garry Watts
Chairman

Chief Executive Officer's statement
A key part of the UK's healthcare system

Rob Roger
Chief Executive Officer

Spire has again delivered excellent results for its patients, consultants and, with its strong financial performance in 2014, its investors. With our dedicated staff, and experienced management team, a track record of investment discipline and a focus on increasing productivity, we are well placed to build on our position as a market leader.

Spire Healthcare aims to be the UK's leading independent hospital group. In 2014, we delivered tailored, personalised care to over 260,000 in-patient and daycase patients, an increase of 10.2% on the prior year. In total, including out-patient visits, we saw over 700,000 patients. In June, our outstanding performance was recognised when Spire Healthcare was named Private Hospital Group of the Year at the 2014 HealthInvestor awards, the main awards for our industry.

PATIENT CARE – THE HEART OF OUR BUSINESS

We aim to deliver care and clinical outcomes of the highest quality for our patients. They are our first priority.

We had no incidents of MRSA and our MSSA and c.difficile infection rates, both at 0.30 per 10,000 bed days, were lower than the equivalent NHS rates of 0.79 and 1.47 respectively.

Across all our hospitals, our Care Quality Commission (CQC) compliance rate was 99.5%, compared to an independent health sector average of 90% and a national average of 85%.

The outstanding quality of our care is reflected in our patient surveys, where 93% of patients rated Spire as 'Excellent' or 'Very good', and in our survey of Consultant satisfaction, where 79% rated us as 'Excellent' or 'Very good' and 97% would recommend us to their friends and family.

Our reputation is built on our clinical performance and these results are a testament to the leadership of our clinical team and the work of our staff. It is their skills, care and commitment, delivered day and night, that makes Spire what it is today.

Further details of our clinical performance can be found in the Clinical and Operating Reviews on pages 38 to 41, and a review of the Board's Clinical Governance and Safety Committee's oversight can be found on pages 70 to 71.

STRONG PERFORMANCE

Overall revenue for the year grew 12.0% to £856.0 million (2013: £764.5 million), with positive contributions from all three of our major payor groups – PMI, self-pay and NHS. Even though we had a higher NHS mix, which traditionally has a lower margin, with continued productivity and cost-efficiency improvements, this growth generated an increase of 6.1% in Adjusted EBITDA to £159.2 million (2013: £150.0 million). Operating profit before exceptional items increased 2.7% to £114.1 million (2013: £111.1 million) and cash conversion reached 103.1%.

While we invested £105.1 million during the year across the business, including the acquisition of St Anthony's Hospital, capital restructuring at the time of the IPO reduced net debt to £424.3 million at year end, with a further £100 million committed, undrawn loan facility, we are well positioned to invest in the next phase of our development.

Further details of our financial performance can be found in Simon Gordon's financial review on pages 28 to 35.

OUR YEAR IN BRIEF

Spire's IPO in July 2014 marked a significant step forward in our corporate development.

While the IPO involved considerable management time, the strength in depth of our team meant that the business continued to develop positively across all our areas of strategic focus.

INVESTING IN OUR CORE BUSINESSES

Investment in increased capacity continued throughout the year.

Most significantly, in May, we completed the acquisition of St Anthony's, a 92-bed, four theatre private hospital, located in Cheam. With room for further expansion, St Anthony's will be a central platform for Spire's continued growth in cardiology and other areas of acute care and is another step in our strategy to build services in and around Greater London. The acquisition received CMA approval in September.

Spire Southampton Hospital's new £2 million Perform sports medicine centre opened in June. Including the flagship facility at St George's Park, we now have 10 Perform centres nationwide.

Also in June, Spire Cheshire Hospital opened a new Orthopaedic Centre, including on-site MRI and CT scanning and upgraded out-patient waiting areas, while Spire Cambridge Lea Hospital opened a new £1.4 million state-of-the-art reception and out-patient suite.

New operating theatres were opened at Spire Cardiff, Harpenden and South Bank hospitals in the year, significantly increasing our capacity in these hospitals.

2014 highlights:

ST ANTHONY'S – OUR LATEST HOSPITAL

Acquired in 2014, St Anthony's is the next step in extending our coverage in and around London

See pages **10 and 11**

BRISTOL – OUR FIRST STANDALONE RADIOTHERAPY CENTRE

Our Bristol radiotherapy Specialist Care Centre is Spire's first end-to-end cancer pathway facility

See pages **22 and 23**

HARPENDEN – INVESTING IN NEW CAPACITY TO MEET DEMAND

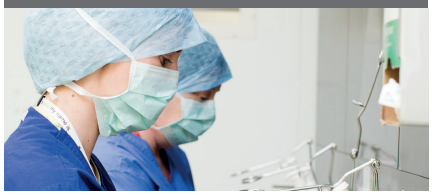
New theatre and out-patient areas opened in 2014 in response to local demand

See pages **36 and 37**

HULL AND EAST RIDING – WORKING WITH THE NHS

A chronic pain infusion service and a specialist team of pain consultant anaesthetists built up to meet specific NHS requirements

See pages **46 and 47**



Chief Executive Officer's statement *continued*

DEVELOPING OUR SERVICE OFFERING

We continued to develop our higher acuity services, particularly in oncology and cardiology.

Our first dedicated radiotherapy centre, the £13.1 million Specialist Care Centre in Bristol, opened in April and our £2.9 million cardiac catheterisation lab in Cardiff was completed in May.

The launch of a new cataracts pathway enabled us to reduce the cost of treatment, with the result that 9.3% more patients were attracted to our facilities during the year.

We continue to offer fertility treatment at some of our hospitals, but in line with our strategic focus, we sold our interest in the standalone London Fertility Clinic in August.

We have taken steps to further strengthen our operational management, with the appointment of four Operations Directors, Rob Anderson, Karen Newton, Paul O'Conor and Nicola Amery, to replace the single role of Chief Operations Officer, formerly held by Andrew Gore. Further details of our operating performance can be found in my Operating Review on pages 40 and 41.

DEVELOPING RELATIONSHIPS WITH KEY STAKEHOLDERS

In November, we concluded a new, long-term agreement with Bupa, the UK's leading private medical insurer. Following the conclusion of the CMA review of the independent healthcare sector, this represents a decisive shift to a more partnership-style approach, aiming to build on our current, excellent working relationship in order to drive volume growth in independent patient numbers, based on affordable healthcare, particularly for out-patients, and outstanding clinical outcomes. The agreement runs from 1 April 2015 for a minimum of four years, with prices agreed for up to six years.

We are pursuing a range of development and engagement activities with our PMI and other stakeholders, more details of which can be found under Our Strategy on pages 18 to 21.

REGULATION AND GOVERNANCE

In October 2014, the CMA published its Final Order for measures to increase competition in the independent healthcare market after its inquiry. We welcomed the recognition that there needs to be transparency of arrangements between hospitals and consultants, and support the drive to establish an industry-wide information organisation to be the repository for quality indicators and measures. We fully support initiatives that help patients and GPs feel confident when choosing their healthcare provider and we continue to work with our consultants to implement the Final Order.

In March 2014, we published the findings of a report by independent consultancy Verita into the work of consultant surgeon Mr Ian Paterson at our Spire Little Aston and Parkway Hospitals. We commissioned the report in April 2013 following a separate NHS review into Mr Paterson's work on breast cancer patients.

The report criticised us for failing to monitor Mr Paterson's work properly and for our handling of subsequent complaints.

I immediately gave a full and unreserved apology to all of the patients and their families for any distress they suffered as a result of their treatment by Mr Paterson while he was a surgeon at our hospitals, and committed Spire to reviewing our processes in order to ensure that such a situation could never happen again.

FOCUS ON KEY PAYOR GROUPS

PMI

- Deepen our relationships with key insurers
- Increase and deepen our relationships with GPs as referrers
- Continue to expand our higher acuity healthcare offer

SELF-PAY

- Continue to engage with GPs, particularly regarding areas of NHS service constraint
- Extend transparent pricing and quality reporting
- Increase brand awareness

NHS

- Continue to build key NHS relationships
- Expand our service offering
- Invest to meet specific NHS needs

OPEN TO EVERYONE

The overall UK healthcare market is subject to three major trends – our growing and ageing population, the increasing incidence of acute and chronic long-term conditions, and the continued development of new, often expensive, technologies and treatments. These factors contribute to independent forecasts of growth in healthcare demand exceeding 5% a year over the next five years. Set against realistic forecasts of GDP and public funding growth, the NHS projects a growing supply and funding gap that could reach approximately £35bn per annum by 2020-2021.

We cannot provide the whole answer, but the independent healthcare sector is in a position to help meet this demand, working with the NHS, as part of the overall UK healthcare system.

STRATEGY

Our strategy is based on four pillars.

First, we will continue to focus on our relationships with each of our three major payor groups – PMI, self-pay and the NHS – developing targeted responses to their individual requirements.

Second, we will leverage and develop our existing well-invested and scalable hospitals, maximising existing capacity and opening new theatres to meet growing demand. We will continue to build relationships with our patients, their referring GPs and the consultants who provide treatment in our hospitals.

Third, we will develop new sites and services, targeting identified growth areas such as radiotherapy and cancer care, but also orthopaedics, cardiac and general surgery, and acquiring or building new hospitals in areas where Spire is underrepresented, including London.

Fourth, we will continue to drive productivity improvement and cost management, both centrally and locally.

Our strategy is already delivering across all these pillars. In line with best practice for public company strategic reporting, further details follow my review. We include an analysis of our market, our business model, more detail of our strategy in action and the key performance indicators (KPIs) we use to judge our progress.

OUTLOOK – A PICTURE OF HEALTH

As I said at the time of our IPO and in subsequent meetings with shareholders and potential investors, I believe that Spire is ideally positioned for its next phase of development, ready to capture a growing share of the UK's expanding independent healthcare market and provide much needed additional capacity in areas such as radiotherapy and cancer care.

We have a strong track record of investment and growth, based on a culture of clinical excellence and care that is highly valued by consultants, GPs, payors and patients. We are well capitalised and able to fund further service and geographical growth. And we have a clear strategy in place, focused on meeting the requirements of all of our stakeholders.

Supported by Spire's outstanding team, I look forward to an exciting future.

Rob Roger
Chief Executive Officer

Overall revenue for the year grew 12.0%, with positive contributions from all three of our major payor groups.

REVENUE (+12.0%)

£856.0m

2013: £764.5 million

ADJUSTED EBITDA (+6.1%)

£159.2m

2013: £150.0 million

Continued productivity and cost-efficiency improvements help generate an increase of 6.1%

OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS (+2.7%)

£114.1m

2013: £111.1 million

Operating profit before exceptional items increased 2.7% and cash conversion reached 103.1%

Rob Roger and the IPO team proudly launches Spire's first day of trading

Open to everyone

WHERE ARE WE?
St Anthony's in Cheam, Surrey

BUILDING OUR NETWORK THROUGH ACQUISITION

At St Anthony's, we have inherited a uniquely caring ethos from the Daughters of the Cross. Our challenge is to develop the hospital, and treat more patients, without losing any of that spirit.

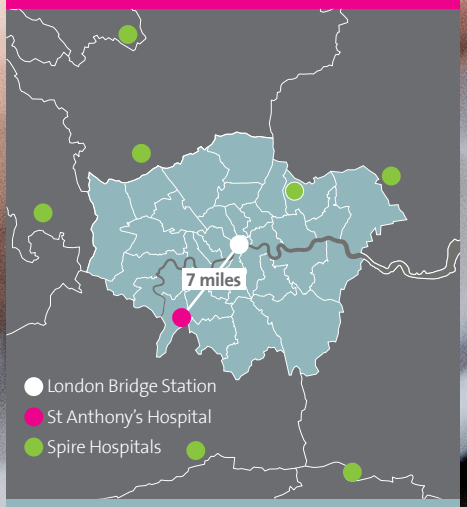
Founded in 1904 by the Daughters of the Cross of Liege, St Anthony's is a 92-bed, four theatre hospital, with an eight bed ITU. Skilled and dedicated staff are able to deliver high-quality healthcare in a calm and peaceful environment.

We acquired St Anthony's in 2014 as part of our London development strategy and, following CMA approval, have commenced an integration and development programme. Spire protocols, administration and procurement are already improving efficiency.

A £27 million investment plan, including six new state-of-the-art theatres, will provide additional facilities for complex surgery and high acuity treatments.

£27m

Investment plan for Spire St Anthony's Hospital



Located in Cheam, only seven miles from London Bridge, the acquisition of Spire St Anthony's Hospital is part of our strategy to extend Spire's coverage in and around London.

Our market

The total UK healthcare market was estimated by the Office for National Statistics to be worth £144 billion in 2012.

The main provider for primary, secondary and tertiary care throughout the country is the NHS – in 2013–2014, in England, its budget was £95.6 billion; in Wales, £5.8 billion and, in Scotland, £10.7 billion.

Spire's principal market is private acute healthcare, worth, as a sector, an estimated £7.17 billion in 2013, according to LaingBuisson. This figure includes fees paid to consultants, as well as to private providers such as Spire.

THE FUNDING GAP

Public spending on the NHS has increased faster than general inflation for decades, from 3.5% of GDP in the year after its establishment, to 7.9% in the last year before the financial crisis.

Since then, NHS funding has tightened. In the absence of significant tax increases or non-healthcare spending cuts, funding constraints are forecast to continue throughout the next parliament.

At the same time, the King's Fund reports that the population of England, Scotland and Wales will grow by some five million over the next decade and the population of those aged 65 and over will grow by nearly half by 2032*.

* Source: Office for National Statistics.

As the population ages, the incidence of long-term and chronic conditions is also expected to rise.

As a result of these, and other factors, NHS England expects a funding gap between healthcare demand and projected NHS budgets of £30–35 billion per annum by 2020–2021.

To put that in context, funding £30 billion equates to approximately 5.5 pence on VAT or 7 pence on the basic rate of income tax.

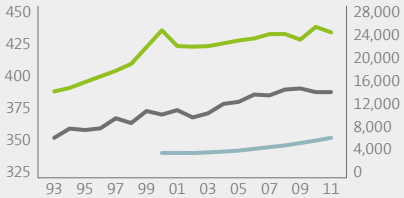
Bridging this gap presents an opportunity for the independent sector, given its capacity to provide capital, to play an increasing role in an integrated, multi-provider healthcare system.

SOURCES OF FUNDING FOR INDEPENDENT ACUTE MEDICAL/ SURGICAL HOSPITALS & CLINICS, UK 2013

- Private Medical Cover **46.4%**
- NHS **29.7%**
- UK Private Self-pay **16.4%**
- International Private Funding **7.5%**

Source: LaingBuisson.

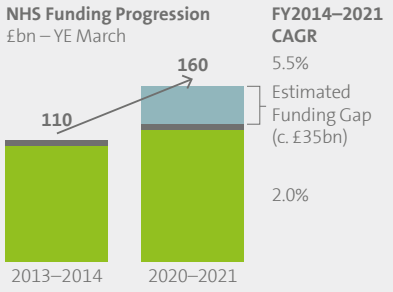
CANCER, OBESITY AND DIABETES INCIDENCE RATES IN UK 1993–2011 (PER 100,000)



- Cancer (LHS) **+9.8%**
- Obesity (RHS) **+69.1%**
- Diabetes (RHS) **+61.9%**

Source: Cancer Research UK, HSE, Euromonitor.

THE HEALTHCARE SUPPLY GAP IS WIDE AND GROWING RAPIDLY



- NHS 2013–2014 **£106bn** 2020–2021 **£121bn**
- Private 2013–2014 **£5bn** 2020–2021 **£5bn**
- Market Opportunity 2020–2021 **£35bn**

Source: LaingBuisson Private Acute Medical Care 2013, PESA 2013, NHS England, Company calculations.

PAYORS

Private healthcare in the UK has three main payors – PMI, self-pay and the NHS.

PMI

The PMI market is dominated by four providers, Bupa, AXA, Aviva and Vitality (formally PruHealth), which, together account for over 87% of the market. Their revenues are split between 'Corporate', a benefit provided to employees by employers, which accounted for an estimated 78% of the total in 2012 (LaingBuisson) and 'Individual', that is, PMI taken out by private individuals, which makes up the balance. Altogether LaingBuisson estimates 10.8% of the UK population, equivalent to 6,890,000 people, had PMI in 2012.

PMI provides almost half of UK private hospital revenues and, historically, growth in lives covered has roughly tracked growth in GDP, linked to corporate performance and personal incomes. The number of people covered by PMI declined slightly in the recession after 2008, but is forecast to grow as the economic recovery gathers momentum.

The individual PMI market, largely retirees from corporate schemes, has proved to be price-sensitive and has declined as a proportion of the market since the mid-1990s. Private medical insurers are responding to pressure for increased affordability, negotiating keener prices from suppliers and consultants, and developing 'white label' self-pay products such as Bupa On Demand.

SELF-PAY

Patients without medical insurance are increasingly paying for private medical treatment themselves. Historically, this growth has been disproportionately attributed to the purchase of cosmetic , cardiac and orthopaedic procedures, but there is emerging evidence that the self-pay sector of the market will continue to grow as people choose to pay for other procedures and treatments.

Factors driving growth include: increasing NHS waiting times; constraints imposed by NHS Clinical Commissioning Groups (CCGs) on the reimbursement of some procedures; the price and level of exclusions applied to traditional PMI products; the development of more affordable and fixed price offerings, and greater awareness and changing perceptions of self-pay medical care.

NHS

The NHS uses the independent acute medical sector extensively to meet capacity needs and waiting time targets. Between 2004 and 2012 inclusive, NHS spending on independent sector acute medical care more than quadrupled, reaching some £1.2 billion in 2012 (LaingBuisson). NHS England figures show over 100,000 patients being admitted to independent sector hospitals in the last quarter of 2013 alone, with a further 160,000 GP referrals of NHS patients for independent sector out-patient appointments over the same period.

NHS patients are treated in the independent sector in England under the Any Qualified Provider patient choice provisions introduced in 2007–2008 and facilitated by the online Choose and Book portal, or through local hospitals and CCGs contracting for demand and waiting list management.

The NHS's Payment by Results system is based on nationally determined currencies and tariffs for treatments, modified to reflect differences in regional costs, but applied equally to public and private healthcare providers.

OUR PRINCIPAL COMPETITORS

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

Spire's principal competitors are: HCA Holdings, Inc (Hospital Corporation of America), whose seven hospitals are concentrated in London, where it is the main provider; BMI Healthcare, owned by General Healthcare Group Ltd and, in turn, by listed South African hospital group Netcare Ltd and Apax Partners LLP; Nuffield Health, a not-for-profit provider; and Ramsay Health Care UK, the UK subsidiary of an Australian international healthcare group, which handles a particularly high proportion of NHS work.

UK PMI PRINCIPAL PROVIDERS – MARKET SHARE 2013

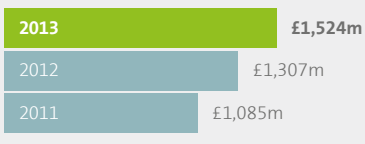
- Bupa **38.0%**
- AXA PPP healthcare **25.5%**
- Aviva **13.5%**
- Vitality (PruHealth) **10.0%**

87.0%

- Other **13%**

Source: LaingBuisson.

PUBLIC FUNDED PRIVATE ACUTE CARE MARKET



40.5% ↑

2011 to 2013

Source: LaingBuisson.

RELATIVE MARKET SHARE – UK PRIVATE HOSPITAL NETWORKS – 2013

- General Healthcare Group **18.1%**
- Spire Healthcare **16.2%**
- HCA Holdings, Inc **15.9%**
- Nuffield Health **9.7%**
- Ramsay Health Care UK **7.9%**
- Other **32.2%**

Source: LaingBuisson.

Our business model

Spire provides a range of healthcare services to patients from 39 hospitals and 13 clinics across England, Wales and Scotland.

Each of our 39 hospitals provides hotel-style accommodation, up-to-date equipment, as well as dedicated doctor, nursing and specialist staff to support the practice of more than 3,750 consultants. We are paid by private medical insurers and self-paying patients, and also direct by the NHS for NHS-funded patients. Spire aims to make access as easy as possible for all private patients while managing spare capacity and supporting the NHS.

Key services

- Orthopaedics **48.5%**
- Gynaecology, plastic surgery, urology and others **28.8%**
- High acuity services, including cardiology, cardiothoracic, neurosurgery, oncology and general **22.7%**

Source: Company 2014 in-patient and daycase revenue.

Key activities

Diagnostic 16%*

- Imaging
- MRI/CT scanning
- Pathology

Out-patient services 15%*

- Consulting
- Minor procedures
- Treatments
- Health checks
- Physiotherapy

In-patient daycase procedures 69%*

- Orthopaedics
- Cardiology
- Neurology
- Oncology
- General surgery

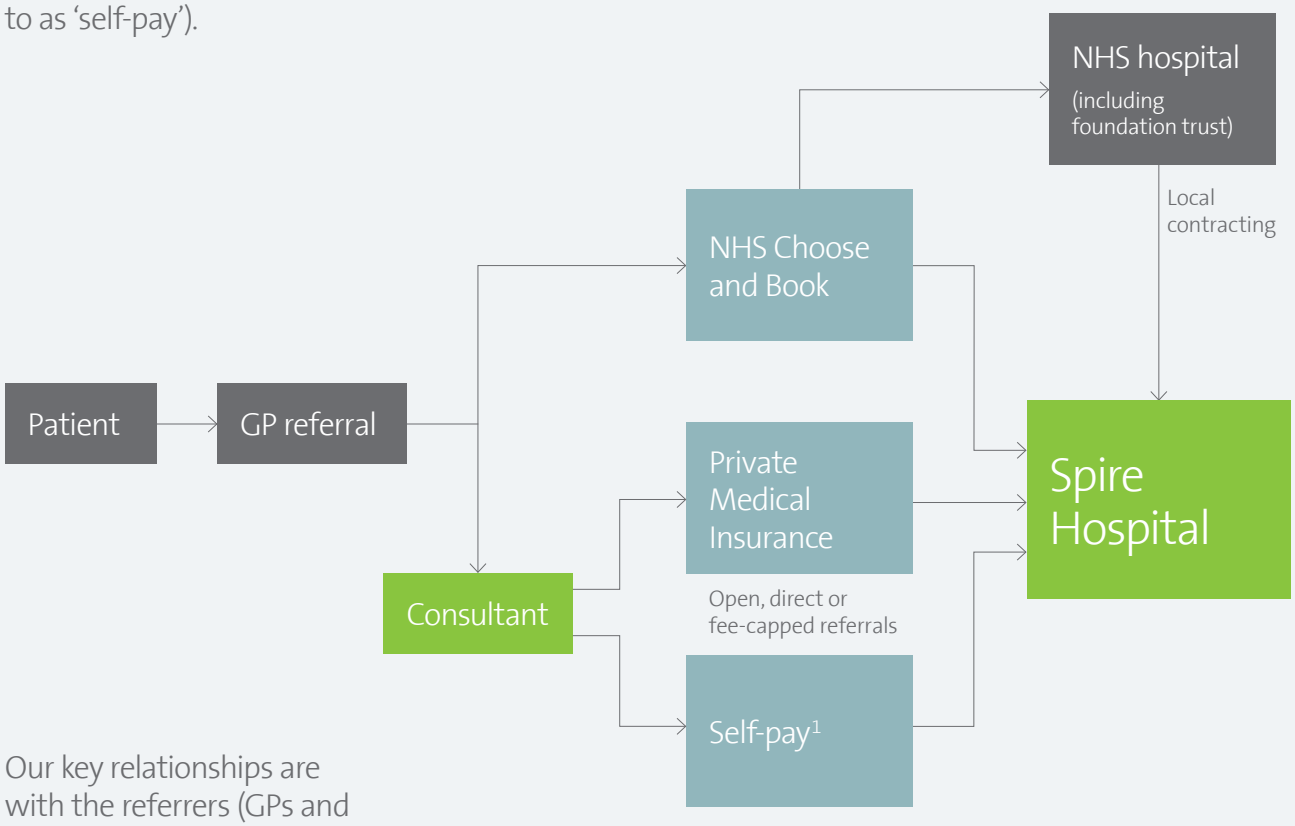
* Percentage of in-patient, daycase and out-patient revenue.
Source: Company 2014 revenue.

The patient pathway to treatment in a private hospital

The Group receives patients through multiple routes. The patient's journey typically begins with a visit to their GP, who will either treat the patient directly or provide a referral to a consultant. The procedure or treatment provided by the consultant can be funded by the NHS, a PMI provider or by the patient directly (referred to as 'self-pay').

The Group accepts patients using all three funding methods: Group hospitals may obtain referrals for patients who cannot be accommodated at local NHS Trusts (NHS local contract) or through the NHS "Choose and Book" system, and PMI and self-pay patients can obtain a private consultation where they are referred to a Group hospital.

Below is a simplified illustration of a patient's potential journey through the private healthcare system.



Our key relationships are with the referrers (GPs and consultants), the payors (PMI providers, self-pay and the NHS) and, of course, our patients and staff.

Source: Company.
1 Some self-pay patients book directly with a consultant without requiring a GP referral.

The Spire difference

Spire is a national brand, delivering excellent healthcare at a local level. We have invested consistently in high-quality facilities, state-of-the-art equipment and well-trained staff to deliver high-quality patient care.

Our focus on clinical excellence, with a robust governance and risk management system, supported by the right people, culture, training and technology, is at the heart of our success.

PROMPT ACCESS
Prompt and flexible access to diagnostics, giving patients reassurance that comes from a clear treatment plan.

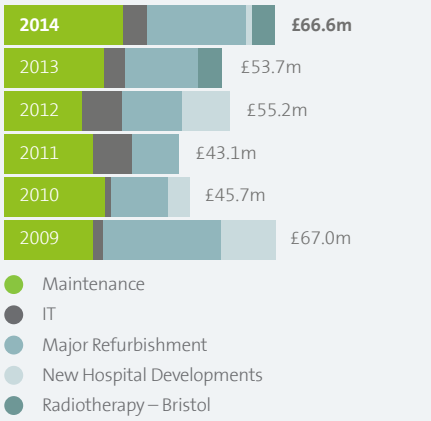
CONSULTANT-LED CARE
Spire's consultants are our partners in providing high levels of care to patients from start to finish of their treatment. All our consultants are on the General Medical Council's Specialist Register.

SUPERIOR FACILITIES
Patients value the choice of when and where to be treated, in hospitals that combine exceptional levels of infection control with 'hotel' levels of customer service.

EXCELLENT CLINICAL OUTCOMES
High-quality consultants, using state-of-the-art equipment in modern facilities, and supported by exceptional nursing and medical support staff, deliver excellent clinical outcomes and low infection rates.

WELL-INVESTED, SCALABLE ASSET BASE
We have invested consistently in further capacity, new hospitals, equipment and additional services.

CAPITAL EXPENDITURE SINCE 2009
(excludes acquisitions and capitalised interest)



Source: Company information.

VTE* RISK ASSESSMENT 2011–2014

* A number of risk factors make VTE (Venous thromboembolism) more likely following admission to hospital. Assessing this risk helps to establish whether preventative measures ('prophylaxis') should be offered to reduce the risk of VTE.

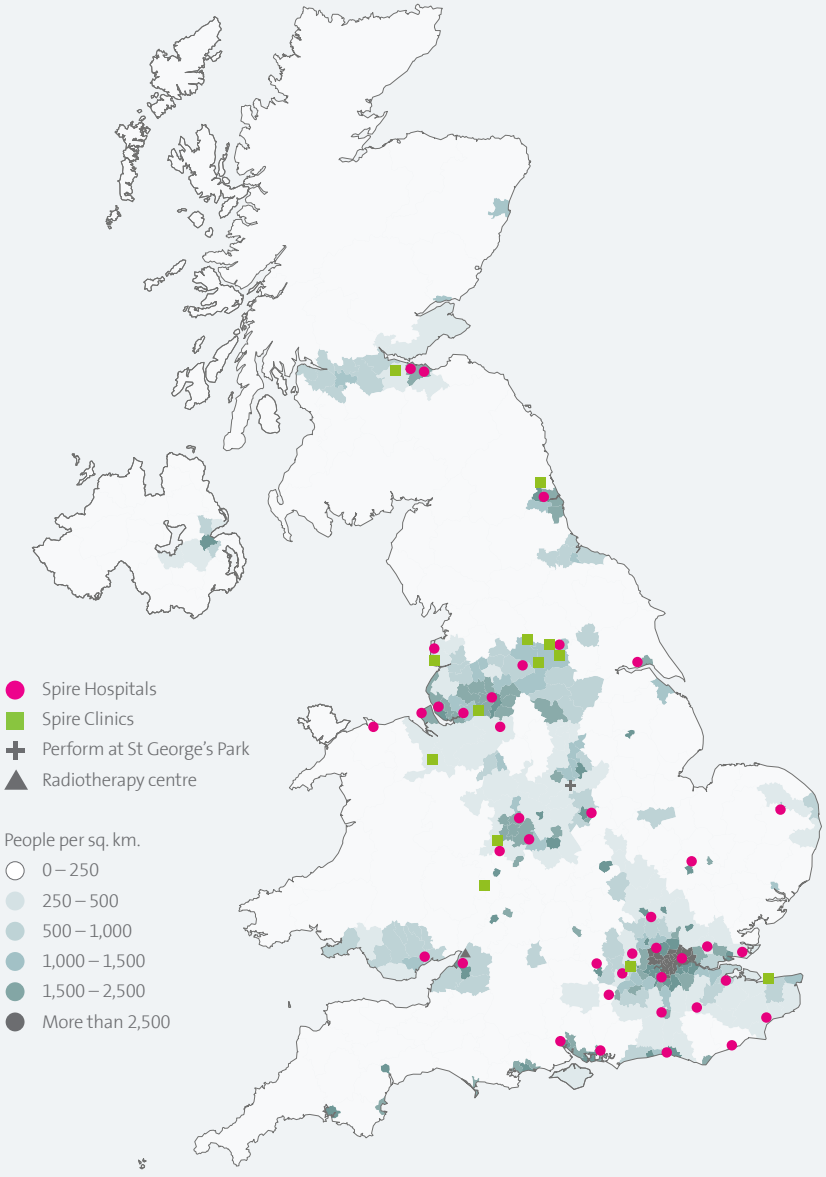
INFECTION RATES VS NHS 2014 (PER 10,000 BED DAYS)

	Spire	NHS Av
MRSA bacteraemia	0.00	0.12
MSSA bacteraemia	0.30	0.79
C. difficile	0.30	1.47

Spire data collected by calendar year and NHS data collected by financial year.

Source: Company information.

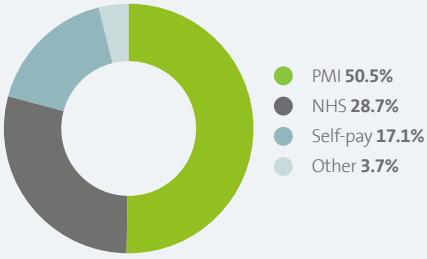
PERCENTAGE OF PATIENTS RATING SPIRE'S QUALITY AND SERVICE 'EXCELLENT' OR 'VERY GOOD'



DIVERSIFIED PAYOR MIX

The quality of our care and outcomes, and the efficiency of our delivery, attracts patients from all major payor groups. The diversified payor mix across PMI, self-pay and NHS-funded provision offers built-in resilience.

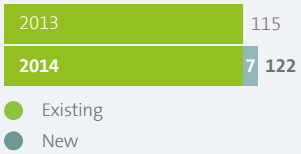
PERCENTAGE OF REVENUE



BROAD GEOGRAPHIC COVERAGE, IN KEY POPULATION CENTRES

We offer national coverage to the major PMI providers, and services and capacity, often tailored to NHS commissioners' requirements, locally.

NEW THEATRE CAPACITY



Our strategy

Our strategy aims to build value by offering a wider range of treatments, more efficiently, to an increasing number of patients.

1. To drive **strong growth** through a clear focus on our **three payor groups**

PMI

- Deepen our relationships with key insurers
- Increase and deepen our relationships with GPs as referrers
- Continue to expand our higher acuity healthcare offer

OUR PROGRESS

- We have contracts in place with all the main PMIs. In 2014, we agreed a new contract with Bupa, our largest PMI partner, to run from April 2015 for a minimum of four years, with prices agreed for the next six years, through to March 2021
- We will seek similar agreements with our other PMI providers, aimed at offering improved cost effectiveness
- In January 2014, April UK launched 'inSpire', a bespoke Spire-based health insurance plan that combines high-quality healthcare with exceptional value for money

Self-pay

- Continue to engage with GPs, particularly regarding areas of NHS service constraint
- Extend transparent pricing and quality reporting
- Increase brand awareness

OUR PROGRESS

- We are developing simple and transparent packages, and offering patients procedures not readily funded by the NHS
- We have introduced fixed prices for our top 15 procedures – and plan to extend this to at least 50 procedures – all supported by clear 'plain English' terms and conditions
- We started TV advertising in seven regions during 2014 to build brand awareness and increase enquiries. Results will feed into future marketing plans

NHS

- Continue to build key NHS relationships
- Expand our service offering
- Invest to meet specific NHS needs

OUR PROGRESS

- Our hospitals provide solutions for NHS trusts to manage waiting lists, taking elective patients out of overstretched hospitals and helping the NHS improve value and deliver better outcomes
- Our hospital directors develop close working relationships with CCGs in order to respond to local commissioning priorities – for example, Spire Hull and East Riding Hospital was asked by local commissioners to provide a chronic pain infusion service. The purchase of three additional infusion pumps and the development of a specialist team of pain consultant anaesthetists and nurses at the hospital has seen NHS treatments at the Pain Management Unit rise 74% between 2012 and 2014

Our strategic pillars

1. To drive **strong growth** through a clear focus on our **three payor groups**

2. To **maximise utilisation** of existing sites by **growing volume**

3. To **develop new sites** and **services**, particularly for the treatment of **cancer**

4. To **drive efficiency** and **improve productivity**

2. To **maximise utilisation** of existing sites by **growing volume**

Drive volume growth by continuing to build our relationships with patients and GPs

- Market directly to patients, highlighting the benefits of a private hospital (see Spire difference on page 16) and continue to target improvement in patient satisfaction to raise local reputation
- Develop transparent, fixed price offers for at least 50 procedures
- Provide training and information to GPs to facilitate referrals to Spire consultants and the use of Choose and Book

OUR PROGRESS

- We started local TV advertising in seven, regions, marketing direct to patients, building brand awareness and increasing enquiries
- We have published fixed prices for the 15 most common procedures and we plan to extend this to at least 50 procedures. This approach gives self-paying patients transparency in terms of our pricing
- Our GP Toolkit and training initiatives are raising awareness and helping GPs in advising their patients, resulting in increased referrals

Continue to build our partnership with consultants to improve our offering to patients

- Help younger consultants to build their practices and provide established consultants with the high-quality facilities and well-trained staff they need to deliver outstanding care for their patients
- Continue to target improvement in consultant satisfaction and timely response to feedback on service improvement opportunities

OUR PROGRESS

- We see consultants as partners, developing their practices in our hospitals. Our planned new hospital in Nottingham is being developed with the engagement of 70 local surgeons in response to changing market conditions in the area

Utilise our existing capacity better

- Raise average theatre usage and optimise the mix of work
- Build more theatres in our existing hospitals

OUR PROGRESS

- On average, utilisation has increased to 64% in the year. Within our portfolio of hospitals there is capacity to increase volumes without further investment. Our top four hospitals average close to 80%.
- We added seven new theatres – four with the acquisition of St Anthony's and one each at Cardiff, Harpenden and South Bank hospitals

Our strategy
continued

3. To **develop new sites** and **services**, particularly for the treatment of **cancer**

Acquire or build new sites

- Expand geographically to cover underserved areas

OUR PROGRESS

- We have expanded in Greater London with the acquisition of St Anthony's and are planning further capacity in and around London
- Our plans for new hospitals in Manchester and Nottingham are well advanced. Planning permissions have been approved and we aim to commence construction in April 2015

Develop and expand our cancer care offering

- Identify and develop standalone radiotherapy centres as part of expanding our cancer care offering

OUR PROGRESS

- Our state-of-the-art radiotherapy Specialist Care Centre opened in Bristol in 2014. It is Spire's first private end-to-end cancer pathway facility
- Plans have been approved for our second Specialist Care Centre centre at Great Baddow, near Chelmsford in Essex, which we are aiming to open by the end of 2015
- We are planning four more new-build radiotherapy centres by the end of 2017

Develop capabilities in areas of higher acuity

- Continue to develop higher acuity services such as neurosurgery and cardiac

OUR PROGRESS

- Spire Cardiff Hospital is a centre of excellence for orthopaedic care. In April 2014, a £2.9 million cardiac catheterisation laboratory in Cardiff was completed
- Spire Parkway Hospital is the first centre outside London and only the second in the UK to offer Magnetic Resonance-guided Focused Ultrasound (MRgFUS) which is currently used for the non-surgical treatment of uterine fibroids
- Spire Manchester Hospital is one of only two centres of excellence in the UK for bariatric and metabolic surgery accredited by the European Accreditation Council. It was also one of the first hospitals to offer Obalon, an innovative weight loss treatment

Our strategic pillars

1. To drive **strong growth** through a clear focus on our **three payor groups**

2. To **maximise utilisation** of existing sites by **growing volume**

3. To **develop new sites** and **services**, particularly for the treatment of **cancer**

4. To **drive efficiency** and **improve productivity**

4. To **drive efficiency** and **improve productivity**

Continue to focus on cost management, optimising central and local provision, clinical-staffing ratios, fees and consumables

OUR PROGRESS

- Our in-house procurement and supply chain model is based on a national distribution centre (NDC) in Droitwich, which aims to lower procurement and distribution costs across the group through consolidation of supplies
- The development of bespoke clinical procedure packs to meet the exact requirement of each Spire hospital has produced component cost savings, enabling faster response and procedure set-up times, improving infection control and reducing waste and packaging

WELL-ESTABLISHED KPIs

- Continued focus at a local level on established KPIs to manage costs, including staff costs and clinical consumables
- The use of peer group benchmarking between hospitals to share best practice for cost control
- Investment in management reporting systems to improve cost control

SPIRE'S OPERATING MODEL

- An optimal mix of centrally controlled services with local management flexibility reduces costs while maintaining focus on quality
- Local management have the flexibility to respond to the needs of their local market while being given the tools to manage costs

Open to everyone

WHERE ARE WE?
Specialist Care Centre – Bristol

BROADENING ACCESS TO SPECIALIST TREATMENT

Our £13 million Bristol Specialist Care Centre is the first of a planned nationwide network offering diagnostics, radiotherapy and ongoing care for cancer patients.

Every two minutes, someone in the UK is diagnosed with cancer.*

The NHS provides treatment for a wide range of cancers, but the incidence of cancer, and the demand for treatment, continues to rise.

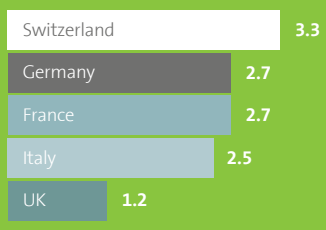
We already work with Cancer Partners UK in the running of four specialist centres and offer chemotherapy in 21 of our 39 hospitals, but, in 2014, we opened our first wholly owned, purpose-built, radiotherapy centre, close to our hospital in Bristol.

The Specialist Care Centre hosts a state-of-the-art Linear Accelerator (LinAc), offering Intensity Modulated, Volumetric Modulated Arc therapy, and Image Guided Radiotherapy treatment. Its success shows that private provision can play a key role in the future of UK cancer treatment.

In December 2014, we announced plans for our second cancer treatment centre, in Great Baddow near Chelmsford, Essex. The facility will house two LinAcs, a wide-bore CT scanner, consultant offices and consulting rooms, and an eight bay chemotherapy suite.

* Cancer Research UK.

RADIOTHERAPY CENTRES PER MILLION PEOPLE



Source: Ambrafund.

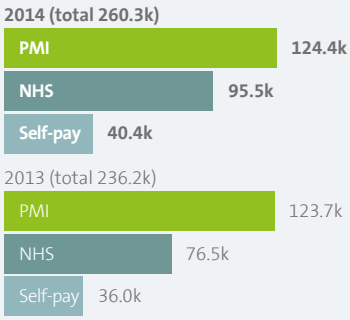
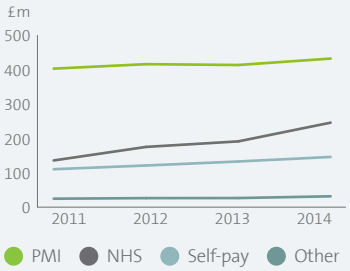
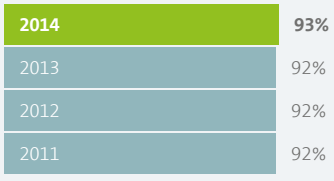
Radiotherapy is a highly effective way of treating cancer, yet the UK trails the rest of Europe in its use and it remains relatively undersupplied in the NHS, with just 5.2 LinAcs per million of population.

Source: OECD *Cancer care: assuring quality to improve survival* October 2013.

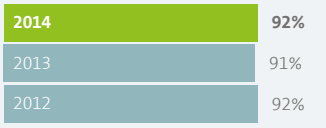
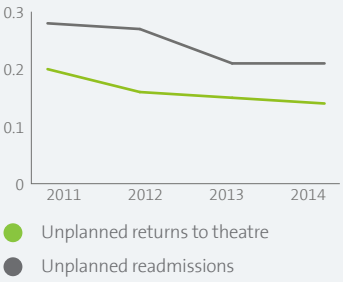
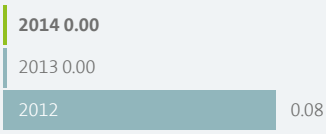
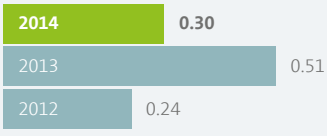
Key performance indicators

We measure our strategic and operating progress using a range of financial and non-financial indicators.

1. To drive **strong growth** through a clear focus on our **three payor groups**

MEASURE	DATA	HOW WE MEASURE THIS
PATIENT DISCHARGES (+10.2%) (IN-PATIENT/DAYCASE) 260.3k We increased the volume of patients requiring an overnight stay or an in-hospital recovery period by over 10% in 2014		Number of in-patient/daycase discharges in the period
REVENUE BY PAYOR Revenue increased, year on year, in total by £91.5 million (12%) over 2013 and for each payor group The largest increase was in NHS revenue, up £54.5 million (28.5%)		Revenue £million by payor in the period
PATIENT SATISFACTION In 2014, we improved on a consistently very high patient satisfaction score to achieve 93%		Percentage of patients who rate our overall quality of service as 'excellent' or 'very good'
CONSULTANT SATISFACTION Consultants are our partners in delivering quality patient care – satisfaction levels have increased year-on-year to 79%		Percentage of consultants who rate the quality of service Spire provides as 'excellent' or 'very good'

2.To **maximise utilisation** of existing sites by **growing volume**

MEASURE	DATA	HOW WE MEASURE THIS
THEATRE UTILISATION 64% Increased by 3%, with increased volumes largely delivered by utilising spare capacity		Number of utilised theatre hours divided by maximum theatre hours (defined as 10 hours per weekday and seven hours per Saturday for 50 weeks of the year), expressed as a percentage
EMPLOYEE SATISFACTION & COMMITMENT A high proportion of our staff continued to say that what they do at work makes a positive difference		The percentage of participants in our annual staff survey, who said that what they do at work makes a positive difference
UNPLANNED RETURNS BY PATIENTS We continued a low level of returns, reflecting our strong record of treatment effectiveness		Unplanned returns to theatre is the rate of patients returned to theatre per 100 theatre episodes Unplanned readmissions is the rate of patients readmitted to hospital per 100 patients
MRSA 0.00 There were no MRSA cases in 2014		MRSA (infection rate per 10,000 bed days)
C.DIFFICILE 0.30 Infection rates were 41% down on the prior year		C. difficile (infection rate per 10,000 bed days)
IN-PATIENT SURGICAL MORTALITY* (PER 10,000 ANAESTHETIC EPISODES) 0.34 Surgical mortality rates remain low * Not post-operative mortality.		Mortality (per 10,000 anaesthetic episodes)

Key performance indicators
continued

3.To **develop new sites** and **services**, particularly for the treatment of **cancer**

MEASURE	DATA	HOW WE MEASURE THIS
NUMBER OF THEATRES 122 Capacity was expanded by the addition of theatres at three existing hospitals and through the acquisition of St Anthony's Hospital (four theatres)		Number of theatres in use at the end of the period
NUMBER OF HOSPITALS 39 The acquisition of St Anthony's Hospital increased the number of operating hospitals to 39		Number of hospitals in operation at the end of the period
NUMBER OF CANCER CENTRES 1 We opened our first dedicated radiotherapy centre in Bristol in April 2014, with further centres in development		Number of cancer treatment centres in operation at the end of the period

4. To **drive efficiency** and **improve productivity**

MEASURE	DATA	HOW WE MEASURE THIS
ADJUSTED EBITDA MARGIN % 18.6% Key factors adversely impacting margin included lower tariffs on NHS revenue contracts and increased governance costs incurred as a public company, partly offset by operating efficiencies	2014 18.6% 2013 19.6% Including acquisition in 2014 2014 18.9% 2013 19.6% Underlying (excluding acquisition in 2014)	Adjusted EBITDA/total revenue, expressed as a percentage
CLINICAL STAFF COSTS AS A PERCENTAGE OF REVENUE 17.6% Increased by 0.1% of revenue; however, on an underlying basis, clinical staff costs were down 0.1% of revenue to 17.4%, reflecting efficiencies achieved	2014 17.6% 2013 17.5% Including acquisition in 2014 2014 17.4% 2013 17.5% Underlying (excluding acquisition in 2014)	Clinical staff costs/total revenue expressed as a percentage
OTHER DIRECT COSTS* AS A PERCENTAGE OF REVENUE 33.4% Up 0.9% of revenue, mainly due to increased NHS orthopaedic opthalmology activity and higher levels of complexity across specialties * Comprises direct costs and medical fees.	2014 33.4% 2013 32.5% Including acquisition in 2014 2014 33.5% 2013 32.5% Underlying (excluding acquisition in 2014)	Other direct costs/total revenue expressed as a percentage

Financial measures

Strong cash generation enables us to pursue our strategy for growth, without increasing gearing

MEASURE	DATA	HOW WE MEASURE THIS
NET DEBT/ADJUSTED EBITDA Throughout the reporting period, the Group has complied with its leverage covenant, as applicable post-IPO	2014 2.7	The ratio of net debt/Adjusted EBITDA
CONVERSION OF ADJUSTED EBITDA TO CASH Cash conversion has increased to 103.1%	2014 103.1% 2013 74.1%	Operating cash before exceptional items/Adjusted EBITDA, expressed as a percentage

Financial review
A strong financial performance in 2014

Simon Gordon
Chief Financial Officer

Good revenue growth was maintained, up £91.5 million in the year (+12% on 2013), with growth in revenue across all payor groups, flowing through to increased profits. Operating cash flow conversion was strong and net debt is at a level that positions the Group well for future investments.

The Company was admitted to the London Stock Exchange on 23 July 2014 and, therefore, these results cover the period both prior to and following Admission. The IPO generated cash proceeds of £306.9 million net of costs, which, combined with a restructuring of existing shareholder interests in the Group and the refinancing of the bank facilities, served to reduce overall Group indebtedness. These events fundamentally impacted the capital structure of the Group materially reducing its net funding costs. Therefore, various adjustments have been made to normalise the results for the year to reflect the new Group financing structure, the shares issued on IPO and to eliminate one-off exceptional costs, such as the costs associated with the IPO.

HIGHLIGHTS

- Revenue increased 12.0% to £856.0 million (2013: £764.5 million), with growth delivered in all payor categories
- In-patient and daycase patient volumes up 10.2% on prior year to approximately 260,300 patients (2013: 236,200 patients)
- Adjusted EBITDA** up 6.1% to £159.2 million (2013: £150.0 million)
- Operating cash flow, before exceptional items, of £164.2 million (2013: £111.2 million), with 103.1% operating cash conversion (before exceptional items) of Adjusted EBITDA (2013: 74.1%)
- Net debt leverage at year end 2.7 times Adjusted EBITDA
- Investment in acquisitions and capital investments totalled £105.1 million (2013: £53.7 million), including the St Anthony's Hospital acquisition

SELECTED FINANCIAL INFORMATION

	Year ended 31 December			
(£ million)	**2014**	2013	Variance %	Variance, excluding acquisitions %*
Revenue	**856.0**	**764.5**	**12.0%**	**9.5%**
Cost of sales	**(436.6)**	(382.1)	(14.3%)	(11.5%)
Gross margin	**419.4**	382.4	9.7%	7.4%
Other operating costs	**(359.3)**	(282.8)	(27.1%)	(24.0%)
Operating profit	**60.1**	**99.6**	**(39.7%)**	**(39.8%)**
Exceptional items included within other operating costs	**(54.0)**	(11.5)		
Operating profit before exceptional items	**114.1**	**111.1**	**2.7%**	**2.6%**
Profit on sale of property, plant and equipment	**18.5**	44.2		
Net finance costs	**(85.6)**	(195.7)		
Loss before tax	**(7.0)**	**(51.9)**	**86.5%**	**86.3%**
Taxation	**13.0**	154.1		
Profit for the year	**6.0**	102.2		
Adjusted EBITDA**	**159.2**	**150.0**	**6.1%**	**5.6%**
Adjusted, diluted earnings per share, pence***	**18.3**	–		
Dividends proposed per share, pence	**1.8**	–		
Operating cash flow, before exceptional items****	**164.2**	111.2	47.7%	
Capital investments and acquisitions	**105.1**	53.7		
Net debt at the year end	**424.3**	**1,517.4**		

* Excludes the impact of St Anthony's Hospital, acquired on 22 May 2014 (referred to as 'Underlying' in this report).

** Operating profit, adjusted to add back depreciation and exceptional items and to adjust the comparator to conform the property rental base by £4.1 million (as further described on page 33), referred to hereafter as 'Adjusted EBITDA'.

*** Calculated as pro-forma profit after tax, divided by the number of ordinary shares in issue on Admission. Pro-forma profit is calculated as earnings after tax adjusted for the capital restructuring, exceptional items and the net profit arising on the sale of property and other assets.

****Operating cash flow adjusted to add back the cash flow effect of exceptional items.

Financial review
continued

ANALYSIS BY PAYOR

	Year ended 31 December			
(£ million)	**2014**	2013	Variance %	Variance, excluding acquisitions %*
Total revenue	**856.0**	**764.5**	**12.0%**	**9.5%**
Of which:				
PMI	**432.4**	413.7	4.5%	1.4%
NHS	**245.9**	191.4	28.5%	27.3%
Self-pay	**146.1**	132.9	9.9%	7.4%
Other**	**31.6**	26.5	19.2%	17.4%
	856.0	**764.5**	**12.0%**	**9.5%**
Of which:				
In-patient/daycase	**572.9**	505.9	13.2%	10.2%
Out-patient	**251.5**	232.1	8.4%	6.9%
Other	**31.6**	26.5	19.2%	17.4%
	856.0	**764.5**	12.0%	9.5%
Number ('000s)				
Total in-patient/daycase discharges	**260.3**	**236.2**	**10.2%**	**8.6%**
Of which:				
PMI volumes	**124.4**	123.7	0.6%	(1.6%)
NHS volumes	**95.5**	76.5	24.8%	24.2%
Self-pay volumes	**40.4**	36.0	12.2%	10.8%

* Excludes the impact of St Anthony's Hospital, acquired on 22 May 2014 (referred to as 'Underlying' in this report).
** Other revenue includes consultant revenue, third-party revenue streams (e.g pathology services), secretarial services and commissioning for quality and innovation payments (earned for meeting quality targets on NHS work) ('CQUIN').

GROWING REVENUES

(£ million)	2013	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	Other	St Anthony's	**2014**
Total revenue	764.5	42.8	9.0	15.9	4.6	19.2	**856.0**
		5.6%	1.2%	2.1%	0.6%	2.5%	**12.0%**

Revenue for the year ended 31 December 2014 increased by £91.5 million, or 12.0%, to £856.0 million from £764.5 million for the year ended 31 December 2013.

Underlying growth, excluding revenues of £19.2 million relating to Spire St Anthony's Hospital since its acquisition in May 2014, was 9.5%.

Of the underlying revenue growth of 9.5%:

- additional in-patient and daycase volumes accounted for 5.6%;
- the rate increase in in-patient and daycase (average revenue per case) accounted for 1.2%; and
- growth in out-patient revenues accounted for a further 2.1% increase, including an increase in minor procedures undertaken in out-patient rooms of £7.8 million.

PMI

(£ million)	2013	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	St Anthony's	2014
PMI	413.7	(4.3)	5.2	4.7	13.1	**432.4**
		(1.0%)	1.3%	1.1%	3.1%	**4.5%**

PMI revenues for the year ended 31 December 2014 increased by £18.7 million, or 4.5%, from £413.7 million for the year ended 31 December 2013 to £432.4 million for the year ended 31 December 2014. Underlying growth, excluding revenues relating to Spire St Anthony's Hospital, was 1.4%.

Of the underlying growth of 1.4% in PMI revenues:

- the decrease in the volumes of in-patient and daycase admissions accounted for a 1.0% decline in revenues;
- the rate increase in in-patient and daycase (average revenue per case) accounted for a 1.3% increase in revenues and offset the decline in volume; and
- growth in out-patient revenues accounted for a further 1.1% increase, including an increase in minor procedures undertaken in out-patient treatment rooms which would previously have been undertaken in theatre.

The growth in rate was adversely impacted by an increase in the proportion of surgical cases treated as daycases. These procedures carry a lower revenue per case than in-patient admissions. Revenue per case of in-patient admissions increased by 6.4% relative to the prior year, supported by an increase in the complexity of surgical procedures undertaken. The average revenue per daycase admission increased by 2.2% in the year.

NHS

(£ million)	2013	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	St Anthony's	2014
NHS	191.4	38.1	4.9	9.2	2.3	**245.9**
		19.9%	2.6%	4.8%	1.2%	**28.5%**

NHS revenues for the year ended 31 December 2014 increased by £54.5 million, or 28.5%, from £191.4 million for the year ended 31 December 2013 to £245.9 million for the year ended 31 December 2014. Underlying growth, excluding revenues relating to Spire St Anthony's Hospital, was 27.3%.

Of the underlying growth of 27.3% in NHS revenues:

- a significant increase in surgical admissions accounted for a 19.9% increase in revenues;
- the rate increase in in-patient and daycase (average revenue per case) accounted for a 2.6% increase in revenues, notwithstanding a 2.25% decline in attributable NHS tariff in the year; and
- growth in out-patient revenues accounted for a further 4.8% increase in revenues in the year.

In 2013, the in-patient and daycase rate was adversely impacted by a temporary reduction in case mix complexity arising from the transition in April 2013 of local NHS Commissioning to Clinical Commissioning Groups, as a result of the Health and Social Care Act. The year ended 31 December 2014 benefited from both the absence of similar effects and an increase in local contract NHS work, typically more complex procedures attracting a higher average revenue per case.

SELF-PAY

(£ million)	2013	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	St Anthony's	2014
Self-pay	132.9	9.0	(1.1)	2.0	3.3	**146.1**
		6.8%	(0.8%)	1.4%	2.5%	**9.9%**

Self-pay revenues for the year ended 31 December 2014 increased by £13.2 million, or 9.9%, from £132.9 million for the year ended 31 December 2013 to £146.1 million for the year ended 31 December 2014. Underlying growth, excluding revenues from Spire St Anthony's Hospital was 7.4%.

Financial review
continued

Of the underlying growth of 7.4% in self-pay revenues:

- an increase in surgical admissions accounted for a 6.8% increase in revenues;
- in-patient and daycase (average revenue per case) accounted for a 0.8% decline in revenues; and
- growth in out-patient revenues accounted for a 1.4% increase in revenues in the year.

Revenue per case for in-patient admissions increased by 1.6% and by 1.5% per daycase admission; however, daycase admissions accounted for 59% of total admissions, up from 57% in the previous year.

From the beginning of 2012 until early 2013, the Group benefited from a significant number of hip revision procedures associated with a patient recall undertaken by DePuy. These revision procedures were highly complex and priced at a substantial premium to average self-pay procedures. The absence of similar work in 2014 had an adverse impact on rates achieved overall and masked a positive rate improvement in underlying recurring case mix.

OTHER REVENUE

Other revenue, which includes fees paid to the Group by consultants (e.g for the use of Group facilities and services) and third-party revenues (e.g pathology services to third parties), increased by £5.1 million, or 19.2%, in the year, from £26.5 million for the year ended 31 December 2013 to £31.6 million for the year ended 31 December 2014.

COST OF SALES AND GROSS PROFIT

Cost of sales increased in the year by £54.5 million, or 14.3%, from £382.1 million for the year ended 31 December 2013 to £436.6 million for the year ended 31 December 2014.

Underlying cost of sales, excluding £10.5 million relating to Spire St Anthony's Hospital, increased in the period by £44.0 million, or 11.5%, from £382.1 million for the year ended 31 December 2013 to £426.1 million for the year ended 31 December 2014.

Underlying gross margin for the year of 2014 was 49.1%, compared to 50.0% in 2013.

Gross margin has been adversely impacted by a reduction of 3% in NHS tariff applicable to the 2013–2014 fiscal year and a further 2.25% NHS tariff reduction applicable from 1 April 2014 for the 2014–2015 fiscal year and by a higher proportion of revenues from the NHS in 2014 than in 2013. Some of this impact has been mitigated by improved operating efficiency in the period.

Underlying clinical staff costs, as a percentage of revenues, reduced by 0.1% to 17.4% of revenue for the year ended 31 December 2014, as compared to 31 December 2013. Underlying direct costs of prostheses, drugs and consumables, as a percentage of revenues, increased from 21.3% for the year ended 31 December 2013 to 22.1% in 2014. This was due to a significant increase in NHS orthopaedic and ophthalmology surgical activity in the period and a general increase in in-patient case complexity across specialties, relative to 2013.

Underlying medical fees payable to consultant surgeons and anaesthetists for services performed in connection with NHS patients grew as a consequence of the increase in NHS activity in the year. Medical fees for NHS work increased from 5.2% of total revenues in 2013 to 5.8% of total revenues in 2014; however, as a consequence of the continued focus on cost management, these fees reduced as a percentage of NHS revenues, from 20.7% in 2013 to 20.0% in 2014.

Other fees payable to consultants for out-patient and diagnostic activities reduced as a percentage of revenues, from 6.0% in 2013 to 5.7% in 2014.

OTHER OPERATING COSTS

Other operating costs for the year ended 31 December 2014 increased by £76.5 million, or 27.1%, from £282.8 million for the year ended 31 December 2013 to £359.3 million for the year ended 31 December 2014.

Underlying other operating costs, excluding £8.6 million relating to Spire St Anthony's Hospital, increased in the period by £67.9 million, or 24.0%, from £282.8 million for the year ended 31 December 2013 to £350.7 million for the year ended 31 December 2014.

Included within these costs are exceptional costs of £11.5 million for 2013 and £54.0 million for 2014 relating to the business reorganisation, corporate restructuring and regulatory and governance costs. Before exceptional items, underlying operating costs increased by £25.4 million, or 9.4%, from £271.3 million for the year ended 31 December 2013 to £296.7 million for the year ended 31 December 2014 on revenue growth of 9.5% in the year.

DEPRECIATION

Excluding £0.7 million relating to Spire St Anthony's Hospital, the charge for depreciation for the year ended 31 December 2014 has increased by £1.4 million, or 3.3%, relative to 2013, to £44.4 million. Overall, depreciation arising from capital expenditure in 2014 and the acquisition of St Anthony's, have offset the full year impact on depreciation of reductions in the fixed asset base from the sale in January 2013 of 12 hospital properties, subject to long leases ('2013 Freehold Sale'), and of the sale and leaseback of the Spire Washington Hospital premises in March 2014.

RENT

Rent of land and buildings for the year, excluding £0.1 million relating to Spire St Anthony's Hospital, increased by £5.7 million, or 10.4%, to £60.6 million. The increase is largely the consequence of the annualised impact of the 2013 Freehold Sale (£2.2 million in the year), the first annual indexation of rental costs associated with the 2013 Freehold Sale (£1.3 million in the year) and the commencement of rent following the sale, subject to lease, of the Spire Washington Hospital, which was concluded on 11 March 2014 with a starting rent of £2.3 million per year (£1.9 million in the year). The impact on comparatives will not normalise until the end of the first quarter of 2015.

SHARE-BASED PAYMENTS IN OTHER OPERATING COSTS

Since Admission, 2.7 million share options comprising of 1.7 million Directors' Share Bonus Award and 1.0 million Long Term Incentive Plan (LTIP) have been awarded to executive directors and members of the senior management team. These are conditional on certain market and other performance conditions being fulfilled. Further details are contained in note 28 on page 120 of the financial statements.

The charge to the income statement in the year was £2.8 million (£3.7 million inclusive of NI), of which £2.5 million (£3.4 million inclusive of NI) related to the Directors' Share Bonus Award and was charged to exceptional items, as it related to performance during the period prior to the IPO.

EXCEPTIONAL ITEMS INCLUDED IN OTHER OPERATING COSTS

(£ million)	2014	2013
IPO costs	**46.1**	–
Corporate restructuring and refinancing	**3.9**	3.5
Business reorganisation	**–**	3.0
Regulatory	**4.0**	5.0
Total	**54.0**	11.5

Full details of exceptional items are disclosed in note 8, page 108.

EBITDA AND ADJUSTED EBITDA

EBITDA for the year ended 31 December 2014 increased by £5.1 million, or 3.3%, from £154.1 million to £159.2 million. Adjusted EBITDA increased by 6.1%, from £150.0 million to £159.2 million (2013 EBITDA adjusted to include £4.1 million rental costs, to include these costs on the same basis as for 2014, following the 2013 Freehold Sale and the sale, subject to lease, of the Spire Washington Hospital in March 2014).

OPERATING PROFITS BEFORE AND AFTER EXCEPTIONAL COSTS

Operating profit after exceptional costs decreased by 39.7% in the year to £60.1 million. Before exceptional costs, operating profits increased by 2.7%, from £111.1 million for the year ended 31 December 2013 to £114.1 million for the year ended 31 December 2014.

PROFIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

The profit on disposal of £18.5 million for the year ended 31 December 2014 relates principally to the sale of the freehold land and buildings of Spire Washington Hospital. The profit in the prior year of £44.2 million relates principally to the profit on the 2013 Freehold Sale.

FINANCE COSTS

Finance costs in the year include those incurred in respect of borrowings drawn under the capital structure of the Group prior to Admission. On Admission, borrowings reduced significantly and, therefore, finance costs also reduced.

Finance costs for the year ended 31 December 2014, before exceptional finance costs, totalled £85.9 million, a reduction of £68.0 million or 44.2% over the prior year. This reduction mainly comprises £35.9 million of interest on shareholder debt and £32.1 million on bank loans, net of the mark-to-market movement on interest rate swap instruments settled on Admission. Had the finance structure as effected on Admission been in place throughout the 2014 financial year, finance costs (before exceptional items) would have further reduced by £65.2 million to £20.7 million.

In the year ended 31 December 2013, exceptional finance costs of £42.2 million arose from the 2013 Freehold Sale and relate to interest rate swaps being recycled to the income statement as they no longer met the criteria for hedge accounting, net of the early settlement discounts arising on the repayment of bank borrowings.

TAXATION

The taxation credit for the year ended 31 December 2014 consisted of a £13.7 million credit for deferred tax and a charge of £0.7 million for corporation tax.

The UK corporation tax charge on 2014 profits was £nil (2013:£ nil), reflecting the significant allowable costs arising from the Listing, including the settlement of out-of-the-money interest rate swaps. The UK corporation tax charge in the income statement is an adjustment to prior years.

The credit for deferred taxation for the year ended 31 December 2014 was £13.7 million, comprising deferred tax assets previously unrecognised, in relation to losses carried forward following the reorganisation of the Spire Group into a single tax group. The credit for the year ended 31 December 2013 relates predominantly to the release of deferred tax liabilities associated with fixed assets disposed of as part of the 2013 Freehold Sale.

Financial review
continued

PROFIT AFTER TAXATION

The profit after taxation for the year ended 31 December 2014 was £6.0 million, compared with a profit after taxation for the year ended 31 December 2013 of £102.2 million. The profit on assets sold as part of the 2013 Freehold Sale and the consequent release of associated deferred tax liabilities substantially contributed to the result for 2013.

ADJUSTED EARNINGS PER SHARE (EPS)

Adjusted EPS (after eliminating exceptional items, profit on disposal of property, plant and equipment, and adjusting for the effects of the capital restructuring on the IPO) was 18.3 pence per share.

The pro-forma financial information set out below has been prepared to illustrate the effect of the IPO on earnings per share. It is prepared for illustrative purposes only and does not represent the Group's actual earnings. The information is prepared on a basis consistent with the accounting policies of the Group and as described in the notes set out below.

(£ million)	Year ended 31 December 2014
Loss before taxation	**(7.0)**
Operating adjustments:	
Exceptional items – IPO	**46.1**
Exceptional items – other	**7.9**
Profit on disposal of property, plant and equipment (note 1)	**(18.5)**
Financing adjustments:	
Finance costs shareholder loans (note 2)	**54.8**
Finance costs bank loans (note 3)	**10.4**
Pro-forma profit before tax	**93.7**
Taxation (note 4)	**(20.2)**
Pro-forma profit after tax	**73.5**
Number of ordinary shares in issue on Admission	**401,081,391**
Pro-forma basic earnings per share (pence)	**18.3**
Number of ordinary shares in issue on Admission, weighted average (note 5)	**401,957,044**
Pro-forma diluted earnings per share (pence)	**18.3**

Note 1 Profit on disposal of the freehold interest in Spire Washington Hospital, net of the loss arising on the disposal of trade and assets of the fertility business.
Note 2 Removes finance costs in the year relating to the shareholder loans capitalised on Admission.
Note 3 Reduces bank finance costs; revised costs calculated as if the bank refinancing had occurred on 1 January 2014 and the new loan facility had been entered into on that date.
Note 4 Taxation is calculated at the statutory rate of 21.50% of the pro-forma profit before tax before taking account of available tax losses.
Note 5 Dilution relates to the weighted average number of share options awarded in the period.

CASH FLOW ANALYSIS OF CASHFLOWS IN YEAR

(£ million)	2014	2013
Opening cash balance	**111.5**	133.8
Operating cashflow before exceptional items	**164.2**	111.2
Exceptional items	**(51.2)**	(11.5)
Operating cashflow after exceptional items	**113.0**	99.7
Net cash (used in)/generated from investing activities	**(70.0)**	647.1
Net cash used in financing activities	**(80.0)**	(769.1)
Closing cash balance	**74.5**	111.5
Closing net indebtedness	**424.3**	1,517.4

OPERATING CASHFLOWS

The cash inflow from operating activities before exceptional items for the year was £164.2 million, which constitutes a cash conversion rate from Adjusted EBITDA for the year of 103.1% (2013: £111.2 million or 74.1%). The net cash inflow from movements in working capital in the year is £4.0 million, a significant improvement on that reported for the year ended 31 December 2013.

INVESTING AND FINANCING CASHFLOWS

Net cash used in investing activities for the year is £70.0 million, which includes the acquisition of Spire St Anthony's Hospital in May 2014 for £38.5 million and other capital expenditure of £66.6 million, offset by the proceeds from the disposal of the freehold interest (subject to lease) in Spire Washington Hospital and the disposal of a fertility business, totalling £34.8 million, and interest received of £0.3 million. Capital expenditure comprises the completion of the radiotherapy centre in Bristol, new theatres in Harpenden and South Bank, the completion of a cardiac catheterisation laboratory and theatre in Cardiff, MRI at Clare Park and a major reconfiguration and development of facilities in Tunbridge Wells, including investment in out-patient areas and static MRI and CT machines at this hospital.

Net cash generated from investing activities for the year ended 31 December 2013 was £647.1 million, including proceeds from the 2013 Freehold Sale.

Net cash used in financing activities of £80.0 million comprises net proceeds from the issue of shares of £306.9 million, the net repayment of bank debt after cash raised from new borrowings of £345.6 million and interest paid of £41.3 million.

On Admission, 150,100,341 new ordinary shares were issued by the Company, which generated cash proceeds of £306.9 million. The proceeds, combined with a restructuring of existing shareholder interests in the Group and the refinancing of the bank facilities, served to reduce overall Group indebtedness and materially reduce the net funding costs of the Group.

In the prior year, in January 2013, the Group completed the £704.0 million 2013 Freehold Sale, the net proceeds of which were used to repay debt.

BORROWINGS

At 31 December 2014, the Group has bank debt of £422.2 million, drawn under facilities which mature in 2019 and finance lease debt of £76.6 million. Additionally, the Group has a revolving loan facility of £100.0 million available until July 2019, which was undrawn at 31 December 2014.

(£ million)	2014	2013
Cash	**(74.5)**	(111.5)
External debt (incl. finance leases)	**498.8**	782.4
Shareholder debt	**–**	846.5
Net debt	**424.3**	1,517.4

Net debt as at 31 December 2014 was 2.7 times Adjusted EBITDA (2013: 10.1 times Adjusted EBITDA).

RISK MANAGEMENT

The principal risks faced by the Group are identified in the Principal risks section on pages 52 to 55.

TREASURY POLICIES AND OBJECTIVES

The group has established treasury policies aimed at reducing financial risk.

Further information about financial risk management (including interest rate, credit and liquidity risks) is provided in note 32 of the financial statements on pages 122 to 125.

The consolidated cash and cash equivalents were £74.5 million at 31 December 2014. Surplus cash balances are held with UK-based investment-grade banks.

Simon Gordon
Chief Financial Officer

Open to everyone

WHERE ARE WE?
Spire Harpenden Hospital

INVESTING IN NEW CAPACITY TO MEET DEMAND

Building within the current hospital, together with extended parking, means easy access for our patients to all wards, theatres and patient areas. We're well positioned now to treat even more of our local population.

Over the last three decades, Spire Harpenden Hospital has grown from a small local hospital, with fewer than 30 beds, to become the largest private hospital in North Hertfordshire. Demand, particularly from local NHS trusts, commissioners and through NHS Choose and Book, continues to grow.

By 2013, theatre utilisation was up to 76% and the hospital was beginning to face pinch points in theatre and consultant capacity.

An additional theatre, incorporating laminar flow and laparoscopic capability, an enhanced recovery area and a further seven-bedded ward were opened in September, and a fully refurbished main reception area was opened in February 2015.

Harpenden now has 79 beds, five main theatres, an endoscopy theatre and extensive digital X-ray, mammography, ultrasound, CT and MRI facilities. Following the new investment, theatre utilisation is 60% and the hospital now has capacity for future growth.

6 theatres

Spire Harpenden Hospital has five complex theatres and one endoscopy theatre

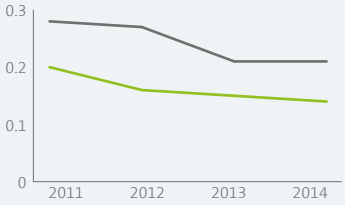
Planned to a 5cm tolerance, Spire Harpenden Hospital's new theatre block was craned into position within the existing hospital complex. The use of off-site modular construction enabled this nine month, £5 million development to be completed with the loss of only one day's operation.

Clinical review

Clinical quality and performance are at the heart of everything we do.

Our Group Medical Director, Dr Jean-Jacques de Gorter, is responsible for defining our clinical governance and quality strategy and his team audit, monitor and report on our quality performance. In addition, the Clinical Services team supports our hospitals to comply with relevant healthcare regulations across England, Scotland and Wales.

UNPLANNED RETURNS BY PATIENTS RATE PER 100 PATIENTS



We continued a low level of returns, reflecting our strong record of treatment effectiveness

Clinical review

Dr Jean-Jacques de Gorter
Group Medical Director

While the transition to becoming a public company was an important milestone for Spire in 2014, we worked hard to ensure that the process did not distract us from our primary purpose – delivering safe and effective care for our patients. It is pleasing, therefore, that we continued to make improvements in clinical performance and that we were able to put in place a number of developments that will stand Spire in good stead for the future.

CLINICAL PERFORMANCE

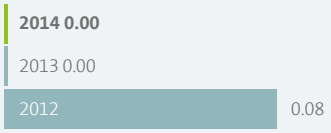
For the second year running, there was not a single case of MRSA bacteraemia reported by our hospitals. In addition, cases of C. difficile fell by 41%, year-on-year, and surgical site infections following hip and knee replacement surgery remained low. We report hospital acquired infection data (MRSA, MSSA, E-coli bacteraemia and Clostridium Difficile infection) to Public Health England and participate in the surveillance programme for hip and knee replacement surgical site infection. Our rates compare favourably with published national averages.

In terms of treatment effectiveness, in 2014, we reported the lowest-ever rate of unplanned patient transfers and readmissions. This is a testament to the care and attention to detail shown by our clinical teams. Good teamwork, robust and up-to-date care pathways, and a

MRSA

0.00 →

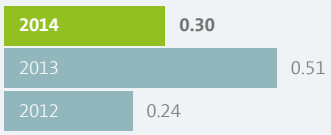
MRSA (rate per 10,000 bed days)



C. DIFFICILE

0.30 ↓

C. difficile (rate per 10,000 bed days)



IN-PATIENT SURGICAL MORTALITY* (PER 10,000 ANAESTHETIC EPISODES)

0.34 ↑

* Not post-operative mortality

We continued to make improvements in clinical performance.

Dr Jean-Jacques de Gorter
Group Medical Director

willingness to challenge, together create the platform for reliable and high-quality care within our hospitals.

Nursing teams are able to call upon over 120 procedure-specific clinical care pathways. Clinical care pathways are standardised across all our 39 hospitals and are printed off individually to form part of each patient's medical records. The pathways set out the routine activities that must be completed pre and post-operatively and contribute to a successful clinical outcome.

We monitor compliance with our pathways by auditing approximately 1,000 records every month and reporting our findings every quarter. Hospital compliance with key nursing processes – such as use of the Early Warning Score, venous thromboembolism risk (VTE) assessment and the assessment of post-operative pain – remains exceptionally high.

We are not complacent and will continue to focus on compliance with our care pathways and processes.

Our hospitals undertake a considerable volume of elective surgery, including many complex cases. It is, therefore, particularly significant that post-operative mortality within 31 days of surgery fell by over 10% year-on-year.

Over the past four years, our hospitals have been working to improve processes for patient discharge and the planning necessary to ensure this is undertaken in a calm and efficient manner. Patient satisfaction with discharge processes increased for the fourth year in a row, making this the greatest improving satisfaction measure over this period.

As we develop and broaden our cancer treatment facilities, it is important that we support them with modern technology and working practices, including ensuring that treatment decisions are considered and agreed by a multi-disciplinary team.

In 2014, we launched a transformation programme to facilitate these discussions and for the effectiveness of treatment recommendation to be recorded consistently. In time, we expect to publish our performance in this regard in order to enable patients to make more informed choices regarding their cancer treatment, as more and more options become available.

SAFETY CULTURE

At the end of 2014, we undertook our first Safety Culture survey, based on one used by the Agency for Healthcare Research and Quality (AHRQ) in the US. This is helping us to understand the importance of systems and processes, as well as culture and leadership, when trying to make care safer for patients. All employees and bank workers in our hospitals, pathology network, Lifescan, mobile imaging and Perform at St George's Park were invited to take part. In summary, Spire achieved a rating of 71%, compared with the external benchmark of 63%.

While we were pleased to achieve a score above the benchmark, we see this as only the first step in reinforcing safety as being central to our patient offering. We will continue to monitor our culture in this way on an annual basis.

Our clinical teams are justifiably proud of their care and professionalism. Strong clinical systems and processes create a stable foundation to build on, supported by a healthy culture that values and prioritises safety and clinical quality. We will continue to learn from the unexpected events that will always occur. In terms of clinical performance, it is my view that Spire is well positioned to continue to deliver excellent care to increasing numbers of patients, with evermore complex needs.

"I love working here and there's nothing like the sound of a happy team laughing down the corridor to spur you on."
Elaine Kennedy
Clinical nurse, Edinburgh

It is Elaine's responsibility to oversee one of the largest theatre departments in the Group; Elaine and her team successfully discharge over 1,300 patients per month from the six theatres across Murrayfield and Shawfair Park. Elaine makes sure the department is running to its optimum efficiency by scheduling surgical patients, liaising with consultants, addressing staffing issues and attending the senior management meeting, which is the opportunity to discuss the nuts and bolts of the business.

Operating review

We seek to deliver clinical excellence as efficiently as possible. To do this, we listen to all our 'customers' (patients, consultants, GPs, insurers, commissioners), to our staff and to our suppliers.

Our new operations directors

Rob Anderson

Karen Newton

Paul O'Conor

Nicola Amery

PERFORMANCE IN 2014

Together with clinical indicators, we monitor our performance through a range of regular surveys of our patients, consultants, GPs and staff.

Patient satisfaction levels continued to increase in 2014, overall quality of service rated 'excellent' and 'very good' rose 1% to 93% and the proportion of patients who would 'definitely' or be 'very likely' to recommend Spire to their friends and family also rose 1% to 88%.

The proportion of consultants who believe that our hospitals go out of their way to make a difference to their working relationship remained at 96% and those who would be 'very' or 'fairly likely' to choose a Spire hospital for their own treatment was constant at 94%.

Surveyed in April 2014, the proportion of GPs who rated their satisfaction with Spire's service as 'excellent' or 'very good' dipped 1% to 90%, while the ease of referring patients to Spire remained at 99%.

Our 2014 Staff Engagement Survey attracted a 74% response rate. The response rate was impacted slightly by the introduction of our new Staff Culture survey, which ran at the same time.

Further details of Staff Engagement Survey can be found in Our People, the section that follows this review, on page 42.

REGULATORY COMPLIANCE

During 2014, there were Care Quality Commission (CQC) standard inspections at 18 of our locations in England and all standards have since been met.

Spire Southampton Hospital was chosen to be part of the pilot programme for the new style of CQC inspection in October 2014. The hospital received a detailed report, which was published on the CQC website, but, as it was part of the pilot, it was not officially rated as per the CQC recommendations – reinspection is due to take place in 2015.

Healthcare Inspectorate Wales inspected our two Welsh hospitals – Cardiff and Yale – in 2014. Both were approved with only minor actions listed.

Healthcare Improvement Scotland inspected our Murrayfield and Shawfair Park hospitals – grades achieved were six outcomes in the 'very good' category and four in the 'good' category.

OPERATIONAL EXPANSION

In a year that saw the acquisition of St Anthony's Hospital, the opening of Bristol's Specialist Care Centre, new theatres in Worcester and Harpenden, and the opening of the cardiac catheterisation lab in Cardiff, operational challenges centred on recruitment, staffing and supply chain integration. It is pleasing to report that all these facilities are operating ahead of expectations and that the integration of Spire St Anthony's Hospital is progressing well.

More details on Spire St Anthony's Hospital can be found on pages 10 and 11, on the Specialist Care Centre on pages 22 and 23 and on the expansion of Spire Harpenden Hospital on pages 36 and 37.

IMPROVING OPERATIONAL EFFICIENCY

Balancing the advantages of our national scale and reach with the requirements of individual, local hospital accountability, we seek to maximise margins through operational efficiency.

Theatre utilisation is a key performance indicator. While theatre use is demand-driven, sharing operational best practice can optimise capacity. Average utilisation increased to 64% from 61% across all our hospitals in 2014 (based on maximum 2,850 hours per year, i.e. 10 hours per weekday and seven hours per Saturday, 250 weekdays and 50 Saturdays per year).

Scope for further improvement remains – some 14 of our hospitals are currently running below 60% utilisation.

Throughout 2014, we continued to focus on our supply chain and maximising efficiencies that support improving patient care.

Our in-house procurement and supply chain model is based at our in NDC in Droitwich. In 2014, we delivered over 1.2 million product lines to our hospitals with a value of around £50 million. The central procurement team continues to generate cost savings.

One aspect of our supply chain and procurement improvement is the development and supply from the NDC of hospital-specific medical consumable procedure packs that contain all the medical consumables required for specific procedures. In addition to specification modifications and negotiated component cost savings, bespoke clinical procedure kits meet the exact requirement of each Spire hospital, enabling faster response and procedure set-up times, improving infection control and reducing waste and packaging.

During 2015, we plan to link the supply of clinical procedure kits to our SAP enterprise resource planning system. This will be part of ongoing developments within our IT offering, as we further embed SAP across the supply chain.

We began rolling out our SAP system in 2012 and had fully implemented it across all platforms by April 2013. In 2014, we achieved full NHS compliance and accreditation for integration and use on Choose and Book.

The benefit of an integrated patient, financial and warehousing (supply chain and stock control) system, which our staff and consultants find easy to use, is being seen in improved management information, cost savings and streamlined administration processes.

During 2015, SAP enhancements will be largely targeted at improving patient experience by the implementation of CRM and the expansion of the current direct booking capability for insurers and self-pay patients. There is also a major 'Purchase 2 Pay' initiative, which, it is hoped, will produce major cost savings by improving the management of stock across the business and a further initiative to provide automated NHS discharge information for GPs.

We continuously seek to improve our engineering governance and compliance processes across our facilities. Estates and engineering audits, including feedback reports covering hard facilities management services, were completed at all hospitals during 2014, helping to ensure that all hospitals are operating in line with Spire policy and discharging their statutory responsibilities.

We monitor and prioritise investment in the upgrade of our infrastructure through remedial works highlighted in these compliance audits, recorded on our Property Risk Management system (PRisM). PrisM analysis of hospital equipment maintenance and replacement schedules aids patient safety and provides cost-saving opportunities for capital maintenance and planned replacement.

All of these operational enhancements support a closer focus on cashflow throughout the business. This was emphasised in 2014 and is an area of continued focus in 2015.

2015 PRIORITIES

We are working to develop our recruitment and retention strategies. Further details of our Human Resources approach can be found in the section on Our People that follows this review, on page 42.

The development and opening of our new hospitals in Manchester and Nottingham, during 2016–2017, will require, not only the recruitment of additional staff, but also the support of our Procurement and Stock Management teams throughout next year.

The same will be true for our planned new Specialist Care Centre in Chelmsford and other sites that will follow, as we roll out our radiotherapy services across the country.

Rob Roger
Chief Executive Officer

"Through the Spire supply chain, we work as efficiently as possible to drive cost savings throughout the business."
Mathew Mason
Head of Supply Chain & Purchasing (central)

Mat oversees all aspects of Spire's purchasing operations – a world of quality, efficiency and cost savings – for everything, from surgical gloves to highly complex MRIs, CT scanners and LinAcs.

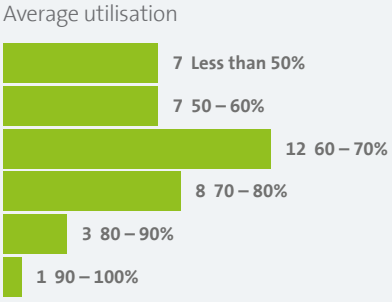
It's Mat's job to design and develop corporate supply chain and purchasing strategies and, then, implement them across all areas of the business – and throughout the supply chain, right down to our central warehouse and distribution operations.

Mat and his team of specialist buyers work closely with key clinicians and hospital users to increase efficiency and provide better value for patients. They are constantly looking to balance improvements in our in-house supply chain, reducing stock holding and freeing working capital, with optimum availability.

DISTRIBUTION OF THEATRE UTILISATION BY HOSPITAL[1,2]

64%

Average utilisation



Source: Company information
1 Management assumes theatres can be utilised 2,850 hours per year (10 hours per weekday and seven hours per Saturday, totalling 250 weekdays and 50 Saturdays per year).
2 Includes one joint theatre utilisation rate for Murrayfield and Shawfair hospitals.

Our people

Our people are our difference. It's the dedication, warmth and skills of our people that sets Spire Healthcare apart.

We believe that the best service and patient care comes from skilled staff who are fully engaged and feel truly valued by the company they work for – staff who feel they make a personal contribution to the success of their hospital and can genuinely say that Spire is a great place to work.

At 31 December 2014, we employed over 8,000 people (over 12,000, including bank staff) – equivalent to just over 7,000 full-time jobs – split between nursing, theatre staff, allied health professionals, and administration and clinical support staff (see opposite).

Our employees are predominantly female (10,113 compared to 2,256 male). For senior management we employ 27 female managers out of a total of 65.

CONTINUOUS IMPROVEMENT

We fully recognise that advancing quality is dependent on Spire acting as a learning organisation.

We place the individual patient at the centre of our business. This means that increasingly well-informed patients are key partners in decision making, able, with the support of their families, carers and consultants, to manage their own health and illness.

An effective and consistent patient experience feedback loop, encouraging not only compliments, but also constructive feedback and complaints, is therefore a key component of our continuous improvement culture.

The other key component comes from our staff. We are committed to developing all our staff, listening to, and learning from, their experiences, to help improve nursing care.

All clinical activities are aligned to our strategic pillars and will be embedded within our job descriptions. The aim is to ensure clinical quality standards are understood and consistent throughout the business.

ENGAGEMENT AND VALUES

We take employee engagement seriously; every year, we invite all our employees to complete a survey to provide feedback on how we're doing and offer suggestions about what action could be taken to make Spire an even better place to work. The survey comprises 40 questions, which are designed to establish how effectively we do this.

"What good leadership looks like."
Anna Tchaikovsky
Hospital Director, Spire Leeds Hospital

Over its 25 years (and one million patients), Spire Leeds has developed an international reputation for high-quality healthcare across a broad range of medicine and surgery, acting as the pioneers for clinical advancement in the north of England.

A large part of that is owed to solid leadership and, for the past 10 years, Anna has been at the helm of the ship, introducing a large amount of clinical expansion and positive change.

We are very much looking to the future, as we continue to develop new services for our patients, maintain our excellent in-patient care and remain at the forefront of medical developments in the region.

Anna Tchaikovsky
Hospital Director, Spire Leeds Hospital

Our values:

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

In 2014, we received 6,171 responses, with 76% of those taking part agreeing that they would be likely to recommend Spire Healthcare to friends and family as a place to work (up from 72% in 2013).

Other highlights from the 2014 results included:

- 92% of respondents believe what they do at work makes a positive difference (91% in 2013)
- 89% of respondents feel that they really fit in with the rest of their team (88% in 2013)
- 88% of respondents agree that they were proud to work for Spire Healthcare (86% in 2013)
- 88% of respondents agree that their manager trusts them to make the right decisions at work (86% in 2013)
- 88% of respondents agree that they can rely on colleagues in their team to be there for them if they need help or support (86% in 2013)

The annual employee survey results are published in December and each hospital or business unit director is responsible for sharing the results with their management and staff, and agreeing actions to address any areas for improvement.

The annual staff survey also allows us to gauge whether our employees experience our values in the way we work. This is of significant importance, as seeing an organisation's values reflected in day-to-day behaviours is one of the four key drivers of employee engagement, as identified in the MacLeod report, Engaging for Success, published in 2009.

Our values are also central to Enabling Excellence, our performance management and appraisal system, and are part of every employee's annual appraisal.

IMPROVING CAPABILITIES

Investment in our staff is investment for the future, ensuring that patients and their families can rely upon the right staff working in the right place with the right skills to provide high-quality care.

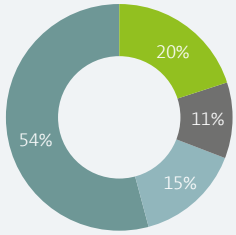
In 2014, we supported around 100 people through our Management Fundamentals programme and 11 future leaders through our Leadership Essentials programme.

Management Fundamentals is focused on developing the people skills of new managers. It is designed to build managerial capability, skills, behaviours and attitudes in areas such as employee engagement, performance management, culture, coaching and managing absence.

Leadership Essentials is a seven month, four module programme designed to develop our leaders, building their capability and confidence to engage with, and lead, a successful team to deliver strong business results. Topic areas, such as managing change, creative leadership and managing self, are grounded in specific projects, aimed at business growth and showing a return on investment.

In line with Spire's devolved hospital management model, each hospital assesses individual staff training needs, taking into consideration both specialty and regulatory requirements and business gap analysis, and agrees a personal development plan as part of annual appraisals. Our nurses undertake annual training in order to maintain their registration.

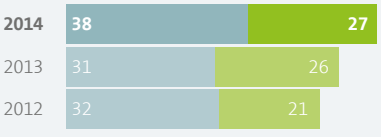
EMPLOYEES INCLUDING BANK STAFF* (31 DECEMBER 2014)



- Nursing **2,529**
- Theatre Staff **1,352**
- Allied Health Professionals **1,852**
- Clinical Support & Admin **6,636**

DIVERSITY: OVERALL EMPLOYEES

SENIOR MANAGERS



BOARD

- Male
- Female

* The Group employs 'bank' staff (staff who do not work regularly scheduled hours, but are directly employed by the Group).

Corporate social responsibility

Spire's ethos reflects our care for the environment and our local communities.

Spire is a significant local employer. In 2014, Spire continued its fundraising activities for charities and local communities. Typical of the fundraising events undertaken was a major 620 kilometre cycling challenge undertaken over a series of weekends in the summer to raise money for Walking with the Wounded and Macmillan Cancer Care. Led by our CEO, Rob Roger, the route went from Spire Wellesley Hospital in Southend up to Spire Murrayfield Hospital in Edinburgh across six separate legs, which aimed to include as many Spire hospitals as possible.

Other examples of corporate and local community support during the year include:

- Spire Hull and East Riding Hospital held their own Grand Depart festivities which raised £6,000 for Marie Curie Cancer Care
- Through various fundraising events, Spire Harpenden Hospital raised £6,500 for local and international charities

LOOKING AFTER OUR ENVIRONMENT

We want to take care of 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 partners Schneider Electric.

Artificial lighting accounts for a significant portion of electrical energy consumed through the operation of our buildings and has been selected as a key area of investment to reduce energy consumption.

We have installed LED street and car park lighting at 21 of our hospitals, improving lighting and reducing energy consumption. Replacing just over 500 fittings has yielded in excess of 70% energy savings and Future Energy Solutions estimate 10-year savings in excess of £0.5 million on the basis of energy savings, reduced maintenance costs and environmental tax savings.

Spire Leicester Hospital is now our trial site for a similar investment in the upgrade of internal lighting systems to LED technology. Comparative data from October, November and December 2014 indicates potential energy savings of up to 69% are achievable.

We intend to invest further in both these areas during 2015 to ensure we continue to reduce our electricity consumption and realise our energy reduction targets.

Capital investment in our engineering plant continues to improve energy efficiency. Modular condensing heating and hot water boilers were installed at Spire Portsmouth, Spire Clare Park and Spire Thames Valley hospitals in 2014, which are expected to deliver a reduction in gas consumption at those sites in future years.

Our theatre ventilation plant in our hospitals ensures rapid air exchange within our theatre suites to protect our patients from infection. By their nature, these systems are energy-hungry. We replaced ageing systems in Norwich and Cheshire in 2014, installing high-efficiency control and heat recovery systems that help deliver this critical air in the most efficient way.

Reduced CO_2 emissions is also being achieved through the Company car fleet list. The approved vehicle list is reassessed regularly to ensure the most efficient and cost-effective models are available. From a 2010 baseline average of 145 CO_2 g/km, the fleet now averages 120 CO_2 g/km, a 17% reduction.

The car choice list has been revised using a whole life costing model. The CO_2 g/km range on the list is now between 88 and 102, which will further reduce the overall average as vehicles are replaced.

Caledonian Challenge – participated in by consultants and staff.

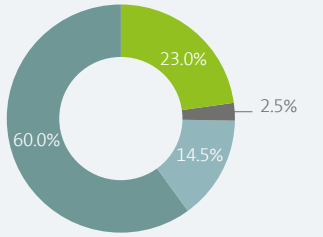
ENERGY SAVING OPPORTUNITY SCHEME (ESOS)

Article 8 of the EU Energy Efficiency Directive requires all Member States to introduce a programme of regular energy audits for 'large enterprises'. The UK government believes that this programme offers a significant opportunity for the UK. It will help drive the take-up of cost-effective energy efficiency measures by participants, benefiting their competitiveness and contributing to the wider growth agenda.

ESOS is the government's proposed approach to implementing this requirement and is a mandatory energy assessment scheme for organisations in the UK that meet certain criteria.

Spire's audits took place in December 2014, conducted by an approved ESOS assessor, and the results will be notified to the Environment Agency in line with the ESOS regulations. The audits were carried out in four hospitals, one clinic, the NDC and the Reading Finance Office; the expectation is that the ESOS assessments will help Spire to identify cost-effective measures to save energy and money.

2014 TOTAL EMISSIONS (%) (tCO_2e)



- Fuel Combustion: Stationary **10,360**
- Fuel Combustion: Mobile **1,124**
- Facility Operation **6,543**
- Purchased Electricity **27,027**

WASTE

The NDC provides the Group with a collection service removing cardboard and paper for recycling, which avoids this waste entering into the general waste stream. The success of this scheme has resulted in an increase of cardboard and paper recycling by 10%, or 60 tonnes (1 Jan 2014 to 31 Dec 2014).

Central Purchasing continues to work with our strategic waste management partners to help direct general waste that is generated by the Group away from landfill and into Energy from Waste (EfW) facilities. Over 80% of our general waste (1,700 tonnes) is now being recycled utilising material recycling facilities and around 10% of the residue waste is now being sent to EfW. All the clinical waste generated by clinical facilities is now either incinerated or pre-treated and the residual sent to EfW.

GREENHOUSE GAS EMISSIONS (GHG)

This section provides the emission data and supporting information required by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, Part 7: Disclosures Concerning Greenhouse Gas Emissions.

FOOTPRINT BOUNDARY

An operational control approach has been used to define the GHG emissions boundary, as defined in Defra's latest Environmental Reporting guidelines: "Your organisation has operational control over an operation if it or one of its subsidiaries has the full authority to introduce and implement its operating policies at the operation".

For Spire Healthcare, this captures emissions associated with the operation of all our hospitals and other buildings such as clinics, offices and the NDC, plus company-owned and leased transport. As Spire has no overseas operations, all emissions refer to UK operations only.

EMISSIONS SOURCES

All material scope one and two emissions are included. These are:

- fuel combustion: stationary (natural gas, diesel oil) and mobile (vehicle fuel);
- purchased electricity; and
- fugitive emissions (refrigeration F-gases, medical gases).

There are no known process emissions and no purchased heat or steam.

METHODOLOGY AND EMISSIONS FACTORS

Our figures have been calculated using the methodology set out in Environmental Reporting Guidelines (ref. PB 13944), published by Defra in June 2013. Emissions factors are taken from DECC/Defra's June 2014 update.

GHG EMISSIONS DATA

The GHG emissions for Spire Healthcare for the reporting period January–December 2014 were 45,054tCO_2e.

As this is the first reporting year, no historical comparison is available.

EMISSIONS INTENSITY

For the purposes of establishing a baseline and ongoing comparison, we are required to express the GHG emissions data using a 'carbon intensity' metric.

The intensity metric we have chosen is revenue. Spire Healthcare's revenue in 2014 was £856 million, giving an intensity of 52.6tCO_2e per £m revenue.

Alina Carunto
Specialist breast care nurse – Spire Bushey Hospital

Alina has set up local patient support group Pink Petal Club for women living with breast cancer in North London.

Alina started the group to help women meet others in the same situation and to provide extra support by having specialists such as breast surgeons, lymphedema nurses, dentists, nutritionists and hairdressers answer questions on treatment, lifestyle, side effects and surgery.

One patient said of the club: "One of the most amazing afternoons since my diagnosis was when I was given the opportunity to talk to other women who have had similar experiences to me".

Rob and the cycling challenge team at the start line.

Open to everyone

WHERE ARE WE?
Spire Hull and East Riding Hospital

PARTNERING WITH THE NHS

The long-term collaboration between NHS Hull Clinical Commissioning Group and Spire Hull and East Riding Hospital works so successfully because it is based around a set of common objectives and shared values that put patients at the centre of their care.

Spire hospitals work with local NHS hospital trusts and Clinical Commissioning Groups (CCGs) to provide specific services and additional capacity for NHS patients. We are part of the local healthcare economy across the country.

Our hospital directors develop close working relationships with NHS commissioners in order to respond to NHS capacity constraints, local priorities and patient needs.

The chronic pain infusion service featured on these pages, built up at Spire Hull and East Riding Hospital in response to a local CCG request, is just one example.

As Julia Mizon of NHS Hull CCG says, "the Infusion Therapy Service is a key example of our collaborative approach. A clear pain pathway is in place across the local health community led by the pain management team at Spire, which has significantly improved the standard of care for this group of patients".

Our services are complementary to the NHS, but we share a common objective: we are all driven by patient needs.

74% ↑

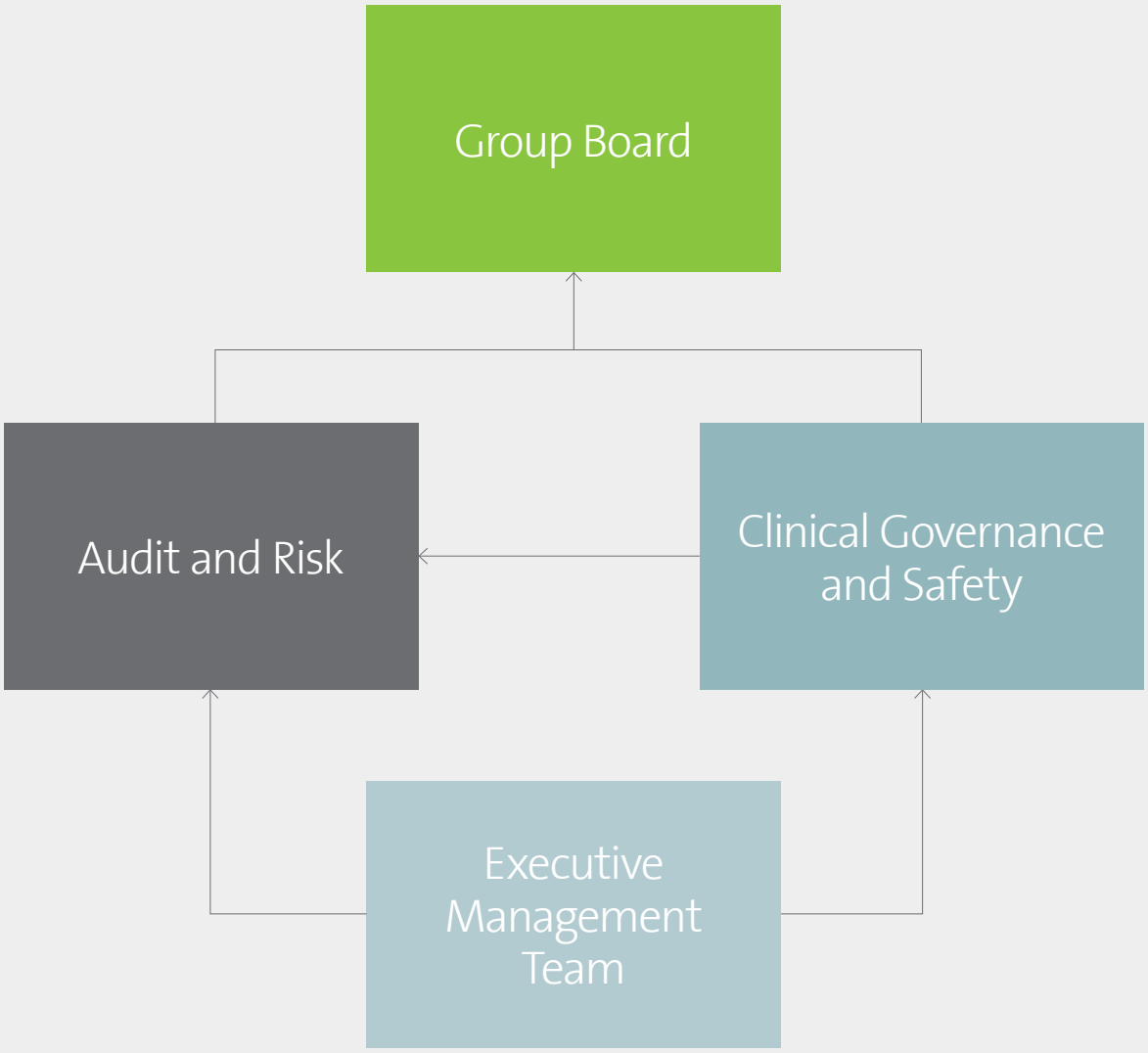
NHS treatments at the Pain Management Unit rise from 2012 to 2014

Investment in additional equipment and the development of a specialist team of pain consultant anaesthetists and nurses at Spire Hull and East Riding Hospital has seen NHS treatments at the Pain Management Unit rise 74% between 2012 and 2014.

Risk management and internal control

The following section describes the risk management and internal control processes employed by the Group, for the year, to help ensure the delivery of its corporate objectives.

Risk management framework



Approach to managing risk

Overall responsibility for the Group's risk management and internal control systems (together 'the risk management framework') lies with the Board of Directors.

The Board has delegated key elements of the oversight of the Group's risk management framework to two committees, as detailed below:

The Audit and Risk Committee, with the assistance of the Clinical Governance and Safety Committee (CGSC), provides the Board with advice on the Group's overall risk appetite and strategy, and a view on current risk exposures, the future risk strategy and the effectiveness of the Group's risk management and internal control processes. The CGSC reports on the specific risks that it monitors (see table below) to the Audit and Risk Committee and additional detail on the work of the CGSC (in conjunction with the Audit and Risk Committee) can be found on pages 70 and 71.

The risk management framework is designed to identify, evaluate and mitigate the risks that the Group faces. The underlying process aims to understand and mitigate, rather than eliminate, the risk of failure to achieve business objectives and, therefore, can only provide reasonable and not absolute assurance against loss.

Appetite for risk is considered at Board meetings whenever significant strategic, financial or operational decisions are made, and is a key part of ongoing discussions about strategy.

The Board recognises that it has limited control over many of the external risks it faces, such as macro-economic events and the complex regulatory environment, and it periodically reviews the potential impact of such ongoing risks on the business and actively considers them in its decision making (see the list of principal risks on pages 52 to 55, including how we manage the risks).

Board Committee	Members	Committee role	Membership
Audit and Risk	Chair: Robert Lerwill. Members: Dame Janet Husband, Tony Bourne	To monitor the integrity of financial reporting and to assist the Board in its review of the effectiveness of the Group's internal control and risk management systems	Independent non-executive directors
Clinical Governance and Safety	Chair: Dame Janet Husband. Members: Tony Bourne, Garry Watts and Rob Roger	To promote, on behalf of the Board, a culture of high-quality and safe patient care, and to monitor the Group's non-financial risks and their associated processes, policies and controls in the following areas: (a) Clinical and regulatory risks (b) Health and safety (c) Facilities and plant	Chair: independent non-executive director Members: executive and non-executive directors

Risk management and internal control *continued*

RISK MANAGEMENT AND INTERNAL CONTROLS

The adequacy of the Group's risk management and internal control processes was subject to detailed scrutiny by independent assessors as part of the IPO, and was deemed as being appropriate, given the nature and scale of the Group at that time. However, the Board recognises that, as a listed company, the Group needs to conform to the UK Corporate Governance Code (UK Code) and to increasing regulatory expectations. In consequence, following the IPO, the Board has initiated reviews of existing risk management oversight arrangements and processes to identify where improvements can be made to bring the Group into line with best practice.

Since July, the overall corporate governance structure has been modified and strengthened to meet the more stringent regulatory requirements and UK Code obligations. This is still being formulated in certain areas and is being closely monitored to ensure adherence to best practice.

The overall risk management framework is being reviewed by the Board and its Committees during 2015.

CLINICAL GOVERNANCE AND SAFETY COMMITTEE

Up until July 2014, clinical delivery and patient safety risk was subject to detailed internal scrutiny and monitoring by the executive management team and by a Board sub-committee (the Clinical Governance and Risk Committee), whose membership comprised the executive chairman, a non-executive director and the director of Clinical Services.

Subsequent to the IPO, this Committee has been restructured and renamed the CGSC; it is chaired by an independent non-executive director, Dame Janet Husband (who possesses relevant clinical expertise), and its membership comprises a mix of non-executive and executive directors (see details on pages 70 and 71).

CORPORATE RISKS

All significant risks facing the Group are captured within a Corporate Risk Register and are assessed in terms of likelihood and potential impact. Each such risk is owned by a member of the executive management team who works with the senior management responsible for the monitoring and mitigation of that risk. Since July 2014, the Corporate Risk Register has been subject to detailed review and has been updated to reflect the additional risks associated with being a listed Group and developing issues in the wider regulatory environment, to ensure it remains complete and relevant to support decision making. The principal risks facing the Group, drawn from the risks listed in the Corporate Risk Register, are detailed on pages 52 to 55.

INTERNAL CONTROL

The principal internal controls and assurance activity over the risks that are directly manageable by the Group are:

STANDARD POLICIES AND PROCEDURES

The Group has documented policies and standard procedures in place covering all significant activities and areas of risk, which are subject to regular review and update.

ASSURANCE OVER CLINICAL DELIVERY AND CLINICAL REGULATORY COMPLIANCE RISKS

As a provider of clinical services to patients, the Group faces a specific set of non-financial risks associated with such provision. In relation to these risks:

- the corporate Clinical Services Team, which is independent of the hospital operations and is led by the Group Medical Director, oversees a national programme of clinical audits, in addition to conducting on-site clinical reviews of every hospital and non-hospital unit, according to the approach taken at regulatory inspections, as part of the overall framework for clinical governance and quality, to ensure that clinical risk and clinical regulatory compliance is managed effectively across all registered sites. The results of these activities are regularly reviewed by the corporate Clinical Services Team, business unit directors and matrons, the executive management team and the CGSC;

- comprehensive, non-financial management information on clinical performance, including safety, clinical effectiveness and customer experience, is produced and reviewed quarterly against pre-agreed standards by the corporate Clinical Services Team, business unit directors and matrons, the executive management team and the CGSC. Specific KPI measures drawn from this management information are given on pages 24 and 27;
- the Group is subject to substantial levels of external inspection and review, both by the range of clinical regulators and through choice, such as the rolling programme of Health & Safety inspections carried out by third-party specialists. The outcomes of all such inspection activity are reviewed by management, the executive management team and the CGSC; and
- the structures and processes for internal confirmation of clinical regulatory compliance and the level of evidence and assurance required to monitor this on an ongoing basis have been further strengthened and formalised from early 2015.

FINANCIAL AND OPERATIONAL CONTROLS
Financial control is established through:

- the annual process of preparing business plans and budgets, followed up by close monitoring of operational performance by the executive management team and the Board;
- monthly monitoring of actual results, compared to budgets, forecasts and the previous year;
- all material capital expenditure is subject to an investment evaluation and authorisation procedure;
- common accounting policies and procedures; and
- the Group's treasury position and forecast liquidity are kept under review to ensure that borrowings are aligned with the Group's growth and are in compliance with banking covenants.

Other non-financial operational risk is managed by means of the application of best practice, as defined by Group policies and standard procedures, in areas such as project management, Human Resources management and IT security and delivery, supported by detailed performance monitoring of outputs and issues.

INTERNAL AUDIT/INTERNAL CONTROL ASSURANCE
The Group has not historically considered it necessary to establish an Internal Audit function, in part because, through the way that hospitals and administration activities are structured, the initiation of transactions are entirely separated from the delivery of the associated services and their financial recording, and the low level of delegated authority at hospital level, which limits risk. Reliance is placed on the management review process, transaction-level controls built into business processes and other forms of assurance activity and audits being performed across the Group, including Clinical and Health and Safety audits, and regulatory inspections.

The need for an Internal Audit function will be reviewed by the Audit and Risk Committee during 2015, alongside the implementation of any revisions to the risk management framework, taking into account assurance activity undertaken on clinical delivery, clinical regulatory compliance and on the risk management framework.

CONTINUOUS LEARNING
Accepting that an internal control system cannot guarantee to reduce error or loss to zero, the Group takes all instances of complaints, control failures, regulatory non-compliance or other risk events very seriously, and has detailed processes in place to take action in respect of each specific issue identified, to understand the cause and to learn from the event wherever possible, so that the chance of re-occurrence is minimised. An open culture is promoted within the Group that positively encourages the reporting of all risk events and other issues arising. The number and nature of events arising and the operation of event management processes are closely monitored by hospital management, the executive management team, the CGSC and the Audit and Risk Committee.

The Group operates an independent whistleblowing service to facilitate reporting of any issues or concerns that staff may have that they are unwilling to raise via any other channel.

Details of the principal risks facing the Group, and the controls and mitigating actions applied to them, are set out overleaf.

Principal risks

The Group's principal financial and operational risks, how they have changed and how they are managed, are shown below:

Risk	Description and impact	Risk change
Macroeconomic conditions	Approximately 70% of the Group's revenue is dependent on private patients having private medical insurance (PMI), paid by their employer or paid by the individual, or being able to afford its services (self-pay). In an economic downturn, the number of insured individuals falls with the level of employment and individuals have reduced real income to fund insurance or 'self-pay' for procedures. This would have an adverse effect on the Group's business, the results of its operations and prospects.	**Down**
Government policy	Change in the medium-term public funding of NHS services provision, and/or the prioritisation of this funding to particular service lines over time (elective healthcare, A&E, community care, etc.), could adversely reduce the flow of NHS patients. Changes in the service level requirements for providers of NHS services, and service level commitments to members of the public served by the NHS, could adversely impact the attractiveness of privately funded treatment. A fundamental change in the tariff structure (pricing arrangements), associated with the provision of services to the NHS, could result in reduced access to patients, reduced tariffs, or reduced prices leading to reduced volumes and/or margins.	**Up**
Laws, regulations and loss of reputation	The Group operates in a highly regulated environment, including complying with the requirements of, for example, the CQC, Monitor and the CMA. Failure to comply with laws, regulations or regulatory standards may expose the Group to patient claims, fines, penalties, damage to reputation, suspension from the treatment of NHS patients and loss of private patients, such that the Group may not be able to operate one or more of its hospitals, causing a significant reduction in profit. In addition, the Group could fail to anticipate legal or regulatory changes leading to a significant financial or reputational impact.	**Down**
Clinical care	Spire operates in a highly complex medical sector and requires high clinical standards from staff, consultants and third-party suppliers. If they fail to meet the standards required, the Group may be subject to litigation and/or media coverage, resulting in reputational damage and, potentially, financial loss. The Group's future growth depends upon its ability to maintain its reputation for high-quality services by meeting its quality goals. Poor clinical outcomes, negative media comment or patient, GP and/or consultant dissatisfaction could reduce the quality ratings, which could lead to a loss of patient referrals. The Group could receive claims arising from clinical care that could exceed its insurance limits of cover, giving rise to additional expenses being borne by the Group.	**Level**

Our strategic pillars

1. To drive **strong growth** through a clear focus on our **three payor groups**

2. To **maximise utilisation** of existing sites by **growing volume**

3. To **develop new sites** and **services**, particularly for the treatment of **cancer**

4. To **drive efficiency** and **improve productivity**

Related strategic pillars	How we manage the risk
	The Board manages this risk by regularly reviewing market conditions and economic indicators to assess whether actions are required. As successfully employed in the recent economic downturn, if the private market contracts, the Group can try to reduce costs and future investment to improve profit and cashflow, and may be able to offer the released capacity to the NHS at its lower tariff, reducing the impact on profit.
	The Group believes that the private sector has become a fundamental partner of the NHS across the UK. The continued use of private facilities is, in Spire's view, the best way to meet the challenges facing the NHS particularly as there is limited capacity within the NHS to take back work currently undertaken by the private sector. The Group's service levels are confirmed by regular surveys of patients, GPs and consultants, which provide ongoing feedback to ensure NHS requirements (whether as providers or as commitments to its patients) are met. In addition, the Board regularly reviews the competitiveness of its patient offering (both NHS and private patients). The Board continually monitors government policy, NHS requirements and associated tariff structures to consider the need for cost and/or investment reduction, whether in the short, medium or long term. See Spire Hull and East Riding Hospital's case study (on pages 46 and 47), which demonstrates a successful partnership with the NHS.
	Following the IPO, the Group is in the process of implementing a new group-wide risk management framework (and associated policies and procedures), which is tasked with the review, monitoring and, via the executive management team, ensuring that these risks are mitigated as far as possible. During 2015, this framework will be further strengthened in order to monitor and react to the changing regulatory framework of a listed company in the healthcare sector. Emerging legal or regulatory changes are monitored by the Board, its executive management team and the risk Board Committees, as well as consultations with external advisers and industry briefings.
	Spire has implemented and continually monitors its clinical standards, policies and procedures. The introduction of the Board's Clinical Governance and Safety Committee will aid the monitoring and control of clinical risks. A number of key performance indicators are used in the assessment of clinical standards and these may be found in the Clinical Review, on pages 38 and 39. The Group reviews and maintains insurance to mitigate the possibility of a major loss. Adequacy of cover is reviewed annually with the Group's brokers.

Principal Risks
continued

Risk	Description and impact	Risk change
Competitor challenge	Spire operates in a highly competitive market. New or existing competitors may enter the market of one or more of our existing hospitals, or offer new services, reducing the market share for the Group. The potential impact would be the loss of market share and reduced profitability and cash-flow.	**Level**
Concentration of PMI market	The PMI market is concentrated, with the top four companies – Bupa, AXA, Aviva and VitalityHealth (formerly PruHealth) – having a market share of over 87% (see page 13). Loss of an existing contractual relationship with any of the key players could significantly reduce revenue and profit.	**Down**
Availability of key medical staff	Due to growing demand for healthcare, and a limited supply of appropriately qualified nursing staff, the healthcare sector is seeing a rising shortage of skilled nursing staff. Profitable growth, in line with the Group's strategy, requires an expansion of clinical services in hospitals, particularly including more complex surgical procedures and ongoing treatment of higher-risk patients, which could be impacted by a shortage of key medical staff. In order to expand our directory of services at hospital level, in line with our strategy, it is vital to have access to appropriately qualified, self-employed consultants. The market may well see salary rates rise as competition for staff increases and, as a result, the Group's costs would increase and its profits would reduce.	**Up**
Investment plans and execution	The capital investment programme (which includes IT system developments) for the Group in 2015 and beyond consists of the largest number of parallel developments undertaken to date. The management of the programme brings risks relating to: • delays in bringing additional facilities, or IT functionality, on line; • cost overruns; and • change capacity and project management capability. Any major cost overrun or substantial delay in delivery could impact upon the expected returns and the Group's planned profit growth and future cashflow.	**Up**
Liquidity and covenant risk	The Group may have insufficient liquid resources to meet its financial liabilities as they fall due, or breach financial covenants linked to its borrowings. Failure to meet its obligations or covenants would have a substantial adverse effect on the Group's reputation and may lead to borrowings becoming repayable earlier than contracted for.	**Down**
Interest rate risk	The Group has liabilities outstanding under floating rate bank loan facilities and, is therefore, exposed to interest rate risk from fluctuations in market rates. Cashflows would be adversely impacted due to any increases in interest rates, reducing availability for other purposes.	**Down**

Related strategic pillars	How we manage the risk
	The Group maintains a watching brief on new and existing competitor activity and retains the ability to react quickly to changes in patient and market demand. The Group considers that a partial mitigation of the impact of competitor activity is ensured by providing patients with high-quality care and by maintaining good working relationships with GPs and consultants.
	The Group works hard to maintain good relationships and a joint product/patient health offering with the PMI companies, which, it is believed, assists the healthcare sector as a whole in delivering high-quality patient care. The Board believes continuing to invest in its well-placed portfolio of hospitals should provide a natural fit to the local requirements of all the PMI providers. The Group has entered into contracts to continue the good relationships for the long term (see Bupa in the Chief Executive Officer's statement on page 8) and to reduce the Group's risk.
	The Board focuses on staff retention, evidenced by very high levels of staff satisfaction and, hence, low staff turnover, and its excellent reputation to attract new staff. Overseas recruitment of English-speaking nurses is being used to mitigate the UK shortage of trained nursing staff and to reduce the cost of using agency staff. The Group believes consultants are attracted by its advanced facilities, technology and equipment, excellent brand and reputation, the availability of a broad range of treatments, skilled nursing staff and medical support staff, and the efficiency of administrative support. The Group undertakes continuous investment in its equipment, facilities and services to retain high-quality consultants and also provides theatre capacity to new consultants. This is confirmed by high consultant satisfaction levels, see page 24. An employee survey is conducted annually to establish employee satisfaction and, where appropriate, changes in working practices are made in response to the survey findings to aid retention.
	The Group ensures change and project risks are minimised by the following: • a detailed financial and operational appraisal process is in place to evaluate the expected returns on capital. During the course of development, the actual costs and estimated returns are regularly monitored; • implementing robust bid procedures, including a thorough review of the contract terms and conditions, technical requirements and programme cost forecasting; • rigorous planning, and programme and project management; • the selection of contractors and suppliers is based upon track record of delivery and credit worthiness; and • regular reviews of the programme, and individual projects, by the executive sponsor and the Board.
	The Group actively monitors and manages its liquid asset position, its financial liabilities falling due and the cover against its loan covenants. Forward projections show that the Group can meet its liquidity requirements from existing liquid assets and maintain its loan covenant obligations, even in adverse scenarios. In addition, there is a committed, undrawn revolving credit facility of £100 million available to meet liquidity needs, if required. In an adverse scenario, capital expenditure could be cut back to reduce the demand on liquidity.
	On a regular basis, the Group reviews the cost benefit of entering into derivative financial instruments to hedge its exposure to interest rate volatility based on existing variable rates, current and predicted interest yield curves, and the cost of associated medium-term derivative financial instruments. The impact of changes in market rates of interest would be partially mitigated by increased rates receivable on money market deposits.

The Strategic Report, from page 1 to page 55, was reviewed, approved by the Board and signed on its behalf on 23 March 2015.

Rob Roger
Chief Executive Officer
23 March 2015

Our Board of Directors

In preparation for the IPO, the Board of Directors was strengthened, increasing its experience and diversity in order to achieve Spire's strategic aspirations.

Garry Watts
Non-executive Chairman
Garry Watts, FCA, MBE, joined the Group as executive chairman in 2011 and became non-executive chairman at the time of the IPO in 2014. Prior to joining Spire, he was CEO of SSL International plc for seven years (and, before that, its CFO). SSL was a £2.5 billion 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 member of the Clinical Governance and Safety Committee.

Rob Roger
Chief Executive Officer
Rob Roger has been CEO of Spire since May 2011. Previously, he was appointed CFO when Spire Healthcare was formed in 2007. Prior to joining Spire, Rob spent nine years with the Tussauds Group as CFO. During this time, he also had responsibility for business development, was CEO (acting) in 2001–2002 and oversaw the opening of Madame Tussauds in six markets. He oversaw the sale of the Tussauds Group to Merlin Entertainment in April 2007. Prior to this, Rob was CFO of First Choice holidays and flights in 1995–1997, and was CFO of Pizza Hut in France in 1992–1995 overseeing the roll-out of 150 sites across France. Rob qualified as a chartered accountant with PricewaterhouseCoopers LLP.

Rob is a member of the Nomination Committee and Clinical Governance and Safety Committee.

Simon Gordon
Chief Financial Officer
Simon Gordon 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 breakeven to £150 million EBITDA, operating in five countries. This growth was achieved by a successful combination of organic development and acquisition.

Prior to joining Virgin Active, Simon worked for KPMG on both audit and transaction advisory projects for both listed and private companies. Simon qualified as a chartered accountant with KPMG.

Simon does not sit on any Board Committees.

Tony Bourne

Independent Non-executive Director

Tony Bourne has been a non-executive director since June 2014. He is also non-executive director at various companies, including Barchester Healthcare Limited, one of the UK's largest residential care home businesses, and Bioquell Plc, a London Stock Exchange-listed company with a leading position in bio-decontamination and in testing, regulatory and compliance services. Tony was Chief Executive of the British Medical Association for nine years until 2013. Prior to that, he was in investment banking for over 25 years, including as a partner at Hawkpoint and as global head of the equities division and a member of the managing Board of Paribas. Tony has also previously served as a non-executive director of Southern Housing Group, from 2004 to 2013, and Scope, which focuses on cerebral palsy and is one of the UK's largest charities.

Tony is a member of the Audit and Risk Committee, the Clinical Governance and Safety Committee and is Chair of the Remuneration Committee.

John Gildersleeve

Deputy Chairman and Senior Independent Director

John Gildersleeve has been the Non-Executive Deputy Chairman and Senior Independent Director of Spire since June 2014. He has been chairman of The British Land Company plc since January 2013, prior to which he served as a non-executive director of British Land from September 2008 and as senior independent director from November 2010. John is also non-executive director of Dixons Carphone and TalkTalk Telecom Group plc. John served as a director of Tesco plc for 20 years until he retired in 2004. He was formerly chairman of EMI Group and Gallaher Group plc, and was also a non-executive director of Lloyds TSB Bank plc and Vodafone Group.

John is a member of the Remuneration Committee and is Chair of the Nomination Committee.

Professor Dame Janet Husband

Independent Non-executive Director

Dame Janet Husband has been a non-executive director since June 2014. She holds the position of Emeritus Professor of Radiology at the Institute of Cancer Research and currently serves on the Boards of Royal Marsden NHS Foundation Trust and Nuada Medical Group as a non-executive director. Prior to her appointment with the Group, she also served as a Specially Appointed Commissioner to the Royal Hospital Chelsea, was President of the Royal College of Radiologists and chaired the National Cancer Research Institute in the UK. She trained in medicine at Guy's Hospital Medical School and was appointed as Professor of Diagnostic Radiology at the University of London, Institute of Cancer Research, in addition to more than 20 years as a practising consultant radiologist.

Janet is a member of the Audit and Risk Committee, the Nomination Committee and is Chair of the Clinical Governance and Safety Committee.

Robert Lerwill

Independent Non-executive Director

Robert Lerwill is a chartered accountant and has been a non-executive director since June 2014. He spent 13 years with Arthur Andersen and 10 at WPP as CFO. He then joined Cable & Wireless as CFO in 1996 and subsequently became deputy CEO and CEO of Cable & Wireless Regional, leaving in 2003. In 2000, Robert joined Aegis plc as a non-executive director and Chair of the Audit Committee and then served as CEO of Aegis Group from 2005 to 2008. Robert also served as a non-executive director at Synergy Health plc from 2005 to 2012, becoming Chairman of the Board in 2010, and at British American Tobacco plc from 2005 to 2013, where he was Chair of the Audit Committee. Robert currently serves as a non-executive director of ITC Limited (a large Indian conglomerate), DJI (Holdings) plc and the Payments Council Limited. Robert has a BA degree from Nottingham University (industrial economics) and has also attended the Advanced Management Program at Harvard Business School.

Robert is a member of the Nomination Committee, the Remuneration Committee and is Chair of the Audit and Risk Committee.

Dr Supraj Rajagopalan

Non-executive Director

Dr Supraj Rajagopalan has been a non-executive director since June 2014 and has served as a non-executive director of the Group since 2012. He is a partner at Cinven, where he leads the firm's activities in the healthcare sector. During nearly 10 years at Cinven, he has been involved in a wide variety of transactions, most recently leading the firm's investments in AMCo and Medpace. He has sat on the Board of several other Cinven portfolio companies, including Phadia and Ahlsell. Prior to joining Cinven in 2004, Supraj worked at the Boston Consulting Group in London, advising corporate clients in the healthcare and financial services sectors. Before this, he was a doctor in the NHS. Supraj graduated with undergraduate and postgraduate degrees in Medical Sciences from the University of Cambridge.

Supraj does not sit on any Board Committees.

Simon Rowlands

Non-executive Director

Simon Rowlands has been a non-executive director since June 2014 and has served as a non-executive director of the Spire Group since 2007. His other current appointments include non-executive directorships at MD Medical Group and Avio. Simon is a Founding Partner of European private equity firm Cinven Partners, which he joined in 1986. At Cinven, Simon established and led the healthcare team and was involved in a number of transactions, including: General Healthcare Group, Amicus and Partnerships in Care in the UK; USP in Spain; and Générale de Santé, Aprovia and MediMedia in France. In July 2012, Simon became senior adviser at Cinven. Prior to joining Cinven, Simon worked with an international consulting firm on multi-disciplinary engineering projects in the UK and southern Africa. He has an MBA in business, a BSc in engineering and is a chartered engineer.

Simon does not sit on any Board Committees.

Executive management team

The executive management team consists of the Chief Executive Officer, Chief Financial Officer and the following senior executives:

Dr Jean-Jacques de Gorter
Group Medical Director

Dr Jean-Jacques de Gorter is the Group Medical Director and has overseen Spire's clinical governance and quality for the past nine years. Prior to this, he served as Director of Clinical Services for Bupa Hospitals and as a Medical Director for NHS Direct. He is currently a non-executive director at the Milton Keynes Foundation Trust and chairs its Quality Committee. Dr de Gorter graduated with a Bachelor of Medicine and Bachelor of Surgery from Charing Cross and Westminster Medical School and subsequently completed his MBA degree at Cranfield School of Management.

Daniel Toner
General Counsel and Group Company Secretary

Previously with Freshfields and the commercial directorate at the Department of Health, Daniel joined Bupa hospitals as Head of Legal in 2006, becoming General Counsel and Company Secretary for Spire in September 2007.

Peter Kahn
Commercial Director

Peter joined as Commercial Director in August 2011 after being involved with Spire as a management consultant for four years. Peter has over 18 years' experience in hospital and health insurance management, having held senior positions in several companies, including Affinity Health, which was the largest hospital group in Australia before it was sold to Ramsay Healthcare. He was Principal of the management consulting firm Intrinsix, which was established in 2005, providing strategic advice to healthcare organisations in Australia and internationally.

Antony Mannion
Investor/Public Relations Director

Antony joined Spire as Investor and Public Relations Director in March 2012, having spent seven years at SSL International plc (ending in its acquisition by Reckitt Benckiser in 2010) as Group Legal Director and Head of Acquisitions. Prior to SSL, Antony had started his career as a corporate lawyer at Freshfields in London and Paris, and had then worked as an investment banker at Citicorp Investment Bank in London and New York, and latterly at Standard Chartered in Singapore. Antony has a wide range of experience in all areas of corporate finance, and has worked on significant acquisition and IPO transactions in the UK, Europe, the US, South America, Asia Pacific, India, China and Russia. Immediately prior to joining Spire, Antony had worked as a consultant at Hawkpoint.

Neil McCullough
Business Development Director

Following an early career in accounting and finance, Neil moved into healthcare in 1993 working with Bupa UK Membership, where he held a number of senior sales and relationship management roles. Neil moved into the Bupa hospitals business in 1998, holding hospital general manager roles in Birmingham and East Anglia. He then moved into preventative healthcare with Bupa Wellness in 2002, where, as sales director, he led the rapid expansion of the business for five years.

Neil joined Spire Healthcare on its formation in 2007 as Hospital Director at Cambridge Lea before joining the executive team in 2011. In his role, Neil oversees Spire's business development strategy both at the local hospital level and corporately – in the UK, as well as internationally.

Neil also oversees sales and marketing for Spire Healthcare, leading Spire's online and off-line marketing, brand development and communications, while supporting Spire's local sales and marketing activity.

Chairman's governance letter

Dear Shareholder,
Welcome to the first Annual Report in which your Board, supported by the executive management team, embraced the challenges of governance as an independent public company following Admission to the London Stock Exchange on 23 July 2014.

Garry Watts
Chairman

Following the significant changes in narrative reporting recently introduced, we now present our Annual Report within the expanded reporting requirements, including our Strategic Report and the Remuneration, Audit and Risk, and the new Clinical Governance and Safety Committee reports, together with our greenhouse gas emissions and diversity data.

We have used the reporting structure to explain the Spire Healthcare story, its strategy and the active ongoing management of our successful business model.

BOARD

On Admission, we formed a new Board, which will assist in ensuring we deliver the Group's strategy for the future.

The new independent non-executive directors have each taken specific responsibility for a Board Committee and report within the following Corporate Governance section upon the activities of the Board Committee that they have chaired since Admission.

I consider that the Board's composition addresses our current requirements for expertise, diversity and experience and, as such, is well-equipped to face the challenge of setting and managing the strategic direction of the business.

EVALUATION

As the Group was listed on 23 July 2014, the Board decided that an evaluation of the Board, Committees and individual directors was inappropriate, as the Board had not been in place for a sufficient length of time to provide a meaningful review across the Group's annual business cycle; the first evaluation will be carried out during 2015.

This will be an informal evaluation and will include strategy, succession planning and Board composition, as well as the changing governance and compliance obligations placed on PLC Boards.

As a new Board with diverse commercial skills and experience, I believe we have already developed good working relationships and Board synergies, which will aid our future stewardship of the Company and its overall governance. We look forward to meeting the strategic challenges that the rapidly evolving healthcare sector poses for the Group.

The Board is committed to an open dialogue with our shareholders and stakeholders; I and John Gildersleeve, our Deputy Chairman, ensure we are available for effective engagement, whether at the Annual General Meeting, or other investor relations activities. The ongoing programme of meetings in 2014 with investors, led by the Chief Executive Officer and the Chief Financial Officer, covered in excess of 130 meetings and presentations, of which 74 were subsequent to the IPO process.

Finally, my Board colleagues and I look forward to meeting shareholders at our first AGM at 11am on 21 May 2015 in Freshfields Bruckhaus Deringer's offices at 65 Fleet Street, London EC4Y 1HS.

Garry Watts
Chairman

Corporate governance

The Group complies with the UK Corporate Governance Code, except as noted.

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE (UK CODE)

The Group has complied with, and will continue to comply with, the principles (and code provisions) of the UK Code, except as described below, from the date of Admission.

Independence is determined by ensuring that, apart from receiving their fees for acting as directors or owning shares, non-executive directors do not have any other material relationship or additional remuneration from, or transactions with, the Group, its promoters, its management or its subsidiaries, which in the judgement of the Board may affect, or could appear to affect, their independence of judgement.

The UK Code recommends that at least half the Board of Directors of a UK-listed company, excluding the Chairman, should comprise non-executive directors determined by the Board to be independent in character and judgement and free from relationships or circumstances that may affect, or could appear to affect, the directors' judgement.

The Group complies with this recommendation of the UK Code, notwithstanding that Simon Rowlands and Dr Supraj Rajagopalan are not independent, as they have been nominated to act as non-executive directors by Cinven Funds, the principal shareholder who entered into a Relationship Agreement with the Company on 7 July 2014. Under the terms of that agreement, for as long as they and their associates control in excess of 30% of the votes able to be cast, they are entitled to appoint two non-executive directors.

When Cinven Funds control between 15% and 30% of votes, they will be entitled to appoint one non-executive director. They control 48.35% of votes as at 23 March 2015.

The directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of Cinven Funds.

The UK Code also recommends that the Chairman of the Board of Directors should meet the independence criteria set out in the Code on appointment.

Garry Watts was not independent on appointment, having previously served as executive chairman of Spire. Following his appointment as non-executive chairman, Garry is responsible for the leadership and overall effectiveness of the Board and setting the Board's agenda, but he is no longer responsible for the day-to-day management of the Group.

CONFLICTS OF INTEREST

Simon Rowlands and Dr Supraj Rajagopalan are partners at Cinven Funds, which controls 48.35% of the voting rights in the Company as at 23 March 2015.

Save as set out in the paragraph above, there are no actual or potential conflicts of interest between any duties owed by the directors or senior management to the Company and their private interests or other duties.

KEY ROLES AND RESPONSIBILITIES

Garry Watts
Chairman

The Chairman leads the Board. He is responsible for:

- the leadership and overall effectiveness of the Board;
- a clear structure for the operation of the Board and its Committees;
- setting the Board agenda in conjunction with the Company Secretary and Chief Executive; and
- ensuring that the Board receives accurate, relevant and timely information about the Group's affairs.

Rob Roger
Chief Executive Officer

The Chief Executive Officer manages the Group. He is responsible for:

- developing the Group's strategic direction for consideration and approval by the Board;
- day-to-day management of the Group's operations;
- the application of the Group's policies;
- the implementation of the agreed strategy; and
- being accountable to, and reporting to, the Board on the performance of the business.

John Gildersleeve
Deputy Chairman and Senior Independent Director

The Board nominates one of the non-executive directors to act as senior independent director. He is responsible for:

- being an alternative contact for shareholders at Board level other than the Chairman;
- acting as a sounding board for the Chairman;
- if required, being an intermediary for non-executive directors' concerns;
- undertaking the annual Chairman's performance evaluation; and
- when required, leading the recruitment process for a new Chairman.

Daniel Toner
General Counsel and Group Company Secretary

The Company Secretary supports the Chairman on Board corporate governance matters. He is responsible for:

- planning the agenda for the annual cycles of Board and Committee meetings;
- making appropriate information available to the Board in a timely manner;
- ensuring an appropriate level of communication between the Board and its Committees;
- ensuring an appropriate level of communication between senior management and the non-executive directors;
- keeping the Board appraised of developments in relevant legislative, regulatory and governance matters; and
- facilitating a new director's induction and assisting with professional development, as required.

BOARD AND COMMITTEE STRUCTURE

Ultimate responsibility for the management of the Group rests with the Board of Directors.

The Board focuses primarily upon strategic and policy issues and is responsible for:

- leadership of the Group;
- implementing and monitoring effective controls to assess and manage risk;
- supporting the executive management team to formulate and execute the Group's strategy;
- monitoring the performance of the Group; and
- setting the Group's values and standards.

There is a specific schedule of matters reserved for the Board.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The division of responsibilities between the Chairman and the Chief Executive Officer is set out in writing and was reviewed and approved by the Board during the Admission process.

THE NON-EXECUTIVE DIRECTORS

The non-executive directors bring a wide range of skills and experience to the Board. The independent non-executive directors represent a strong, independent element on the Board and are well placed to constructively challenge and support management. They help to shape the Group's strategy, scrutinise the performance of management in meeting the Group's objectives and monitor the reporting of performance.

Their role is also to satisfy themselves with regard to the integrity of the Group's financial information and to ensure that the Group's internal controls and risk management systems are robust and defensible.

The independent non-executive directors oversee the adequacy of the risk management and internal control systems (from their membership of the Audit and Risk Committee and Clinical Governance and Safety Committee (CGSC), as well as the remuneration for the executive directors (from their membership of the Remuneration Committee).

As members of the Nomination Committee, the non-executive directors also play a pivotal role in Board succession planning and the appointment of new executive directors.

Corporate governance *continued*

YOUR BOARD IN 2014

Since the date of Admission, the Board met on four scheduled occasions (including one by telephone conference) for the year ended 31 December 2014.

The agenda at scheduled meetings in 2014 covered standing agenda items, including: a review on the Group's performance by the Chief Executive Officer, the current month's and YTD financial statistics by the CFO and a report from the Chair of the Clinical Governance and Safety Committee (including a clinical performance report). In addition, the Board received a verbal report from other Committee Chairmen, where the Committee met immediately in advance of the scheduled Board meeting, and the Board regularly received reports on legal and statutory matters.

Also in 2014, the Board focused upon major elements of the Group's operations by:

- reviewing, and approving, the Group's five-year Strategic Plan;
- considering a draft 2015 Annual Operating Plan; and
- receiving, reviewing and approving major capital expenditure proposals.

The Board has a formal schedule of matters reserved to it and delegates certain matters to Committees, as outlined elsewhere. Specific matters reserved for the Board considered during the period to 31 December 2014 included: reviewing the Group's performance (monthly and YTD); approving capital expenditure; setting and approving the Group's strategy and annual budget; and a review of the draft dividend policy.

THE BOARD'S PLAN FOR 2015

It is planned that the Board will convene on eight formal scheduled occasions (including one by telephone conference) during 2015, as well as holding any necessary ad hoc Board and Committee meetings to consider non-routine business.

The Chairman and the other non-executive directors are scheduled to meet on their own without the executive directors present. In addition, the non-executive directors will also meet without the Chairman present to discuss matters such as the Chairman's performance.

The Board will maintain its focus on the Group's pursuit of its 2015 targets and, during the year, its activities will include:

- review and approve the 2014 Annual Report;
- review the proposed final dividend for 2014;
- approve the 2015 Annual Operating Plan;
- consider specific major themes;
- review the risk management framework; and
- follow a rolling agenda, ensuring proper time for strategic debate.

The Board will enhance and streamline information flows to the Board and Committees (via an on-line portal with Board documents, briefing papers and a library of relevant information about the Group and its activities), will meet the senior leadership across the Group and will review the delegation of its authority, as appropriate.

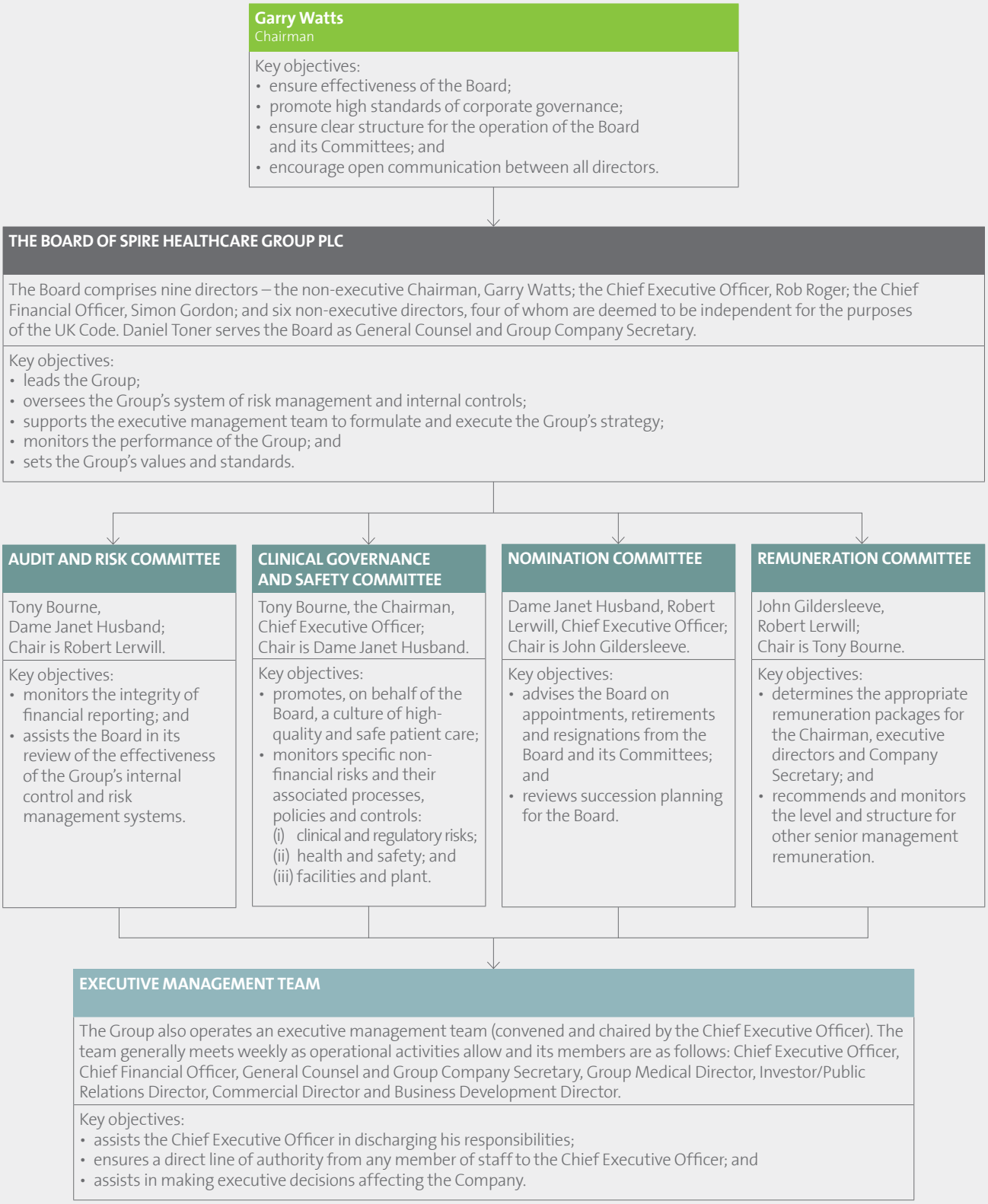
Furthermore, the Board will consider clinical safety matters and maintain overall responsibility for the Group's system of internal control and risk management processes via the relevant Board Committees.

SHARE SCHEMES COMMITTEE

In addition, the Board delegates certain responsibilities on an ad hoc basis to the Share Schemes Committee, which operates in accordance with the delegation of authority agreed by the Board.

Committee	Role	Chair of Committee	Membership
Share Schemes Committee	To facilitate the administration of the Company's share schemes.	Any member.	Any one executive director.

GOVERNANCE FRAMEWORK



Corporate governance *continued*

BOARD AND COMMITTEE ATTENDANCE

The attendance of the directors who served between the date of Admission, 23 July 2014, and 31 December 2014, at the Board and principal Committee meetings held during this period, is shown in the table below. The number of meetings in the period when the individual was a Board or Committee member is shown in brackets.

		Committees			
	Board	Audit and Risk	Clinical Governance and Safety	Nomination[1]	Remuneration
Chairman					
Garry Watts	4(4)		3(3)		
Deputy Chairman					
John Gildersleeve	4(4)				3(3)
Executive Directors					
Rob Roger	4(4)		3(3)		
Simon Gordon	4(4)				
Non-Executive Directors					
Tony Bourne	4(4)	2(2)	3(3)		3(3)
Robert Lerwill	4(4)	2(2)			3(3)
Dame Janet Husband	4(4)	2(2)	3(3)		
Simon Rowlands	3(4)				
Dr Supraj Rajagopalan	3(4)				

[1] The Nomination Committee has to ensure the best possible leadership and, as the on-executive directors were appointed for the first time on 24 June 2014, there has been no meeting of this Committee in 2014 (two meetings have been scheduled in 2015).

To the extent that directors are unable to attend scheduled meetings, or additional meetings called on short notice, they will receive the papers in advance and relay their comments to the Chairman for communication at the meeting. The Chairman will follow up after the meeting in relation to the decisions taken.

EFFECTIVENESS

BOARD COMPOSITION

The Board seeks to ensure that both it and its Committees have the appropriate range of skills, experience, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively; for example, the 2015 Board calendar includes Board development training sessions on the role and regulatory powers of the CQC.

The number of non-executive directors and their range of skills and experience were carefully reviewed and agreed as part of the IPO process. The continuing requirements and the number of directors, together with the Group's succession plans, will form part of the Nomination Committee activities and the Board's evaluation process in 2015. The Board considers its size and composition to be appropriate for the current requirements of the business.

Committee composition is set out in the relevant Committee reports. No-one other than Committee Chairs and members of the Committees is entitled to participate in meetings of the Audit and Risk, Nomination, Remuneration and Clinical Governance and Safety Committees, unless by invitation of the Committee Chair.

The Board considers that half of the Board is independent of management and free from any business or other relationship that could affect the exercise of their independent judgement. Simon Rowlands and Dr Supraj Rajagopalan are remunerated by Cinven Funds and are not considered to be independent.

As the Chairman was previously the executive chairman prior to Admission, he did not satisfy the independence criteria on his appointment to the Board. John Gildersleeve was appointed as the Senior Independent Director and Deputy Chairman.

Biographical details of the Directors are set out on pages 56 and 57.

APPOINTMENTS TO THE BOARD

Recommendations for appointments to the Board are made by the Nomination Committee. The Committee will follow a formal, rigorous and transparent procedure for the appointment of new directors to the Board. Further information is set out in the Nomination Committee Report on pages 72 and 73.

TIME COMMITMENT OF THE CHAIRMAN AND THE NON-EXECUTIVE DIRECTORS

The Chairman and non-executive directors each have a letter of appointment, which sets out the terms and conditions of their directorship. An indication of the anticipated time commitment is provided in any recruitment role specification, and each director's letter of appointment provides details of the meetings that they are expected to attend.

Non-executive directors are required to set aside sufficient time to prepare for meetings, and to regularly refresh and update their skills and knowledge. In signing their letters of appointment, all directors have consequently agreed to commit sufficient time for the proper performance of their responsibilities, acknowledging that this will vary from year to year, depending on the Group's activities.

Directors are expected to attend all Board and Committee meetings, and any additional meetings, as required. Each director's other significant commitments were disclosed to the Board at the time of their appointment and they are required to notify the Board of any subsequent changes. The Group has reviewed the availability of the non-executive directors and considers that each of them is able to, and in practice does, devote the necessary amount of time to the Group's business.

INDUCTION AND TRAINING

An induction programme was used in 2014 for the initial introduction of all non-executive directors to the Group's activities.

Generally, reference materials are provided, including information about the Board, its Committees, directors' duties, procedures for dealing in the Group's shares and other regulatory and governance matters, and directors are advised of their legal and other duties, and obligations as directors of a listed company.

The Company Secretary ensures that any additional request for information is promptly supplied. Whilst the Chairman, through the Company Secretary, ensures that there is an ongoing process to review any internal or external training and development needs.

As already noted, in the event of a general training need, in-house training will be provided to the entire Board. Necessary and relevant regulatory updates are provided as a standing item at each Board meeting in the Group Company Secretary's report and Board briefing by external advisers, where appropriate.

INFORMATION AND SUPPORT

The Board ensures that it receives, in a timely manner, information of an appropriate quality to enable it to adequately discharge its responsibilities. Papers are provided to the directors in advance of the relevant Board or Committee meeting to enable them to make further enquiries about any matters prior to the meeting, should they so wish. This also allows directors who are unable to attend to submit views in advance of the meeting.

Outside the Board papers process, the Chief Executive provides written updates to non-executive directors on important business issues, including financial and commercial information. In addition, relevant updates on shareholder matters (including analyst's reports) are also provided to the Board.

All directors have access to the advice and services of the Company Secretary. There is also an agreed procedure in place for directors, in the furtherance of their duties, to take independent legal advice, if necessary, at the Group's expense.

PERFORMANCE EVALUATION

The UK Code requires (main principle (B.6)) that the Board should undertake a formal and rigorous evaluation of its own performance and that of its Committees and individual directors.

As the date of Admission was 23 July 2014, the Board had not yet had sufficient time working together for an evaluation of their performance to be sufficiently wide-ranging across the full business cycle of the Group.

Hence, no Board evaluation was performed in 2014.

The Board will undertake an informal evaluation of its performance, and that of its Committees, in 2015.

ELECTION OF DIRECTORS

All the directors offer themselves for election at the first AGM and, in future, will be re-elected in accordance with the requirements of the UK Code. The biographical details of each of the directors are set out in the 2015 Notice of AGM. The Board believes that each of the directors standing for election is effective and demonstrates commitment to their respective roles. Accordingly, the Board recommends that shareholders approve the resolutions to be proposed at the 2015 AGM relating to the election of the directors.

DIRECTORS' INDEMNITIES

The directors of the Group have the benefit of a third-party indemnity provision, as defined by section 236 of the Companies Act 2006, in the Group's Articles of Association. In addition, directors and officers of the Group are covered by directors' and officers' liability insurance.

DIRECTORS' CONFLICTS OF INTEREST

The Board has established a formal system to authorise situations where a director has an interest that conflicts, or may possibly conflict, with the interests of the Company (Situational Conflicts). Directors declare Situational Conflicts, so that they can be considered for authorisation by the non-conflicted directors.

In considering a Situational Conflict, these directors act in the way they consider would be most likely to promote the success of the Group, and may impose limits, or conditions, when giving authorisation or, subsequently, if they think this is appropriate.

The Company Secretary records the consideration of any conflict and any authorisations granted. The Board believes that the system it has in place for reporting Situational Conflicts continue to operate effectively.

Corporate governance *continued*

ACCOUNTABILITY

THE AUDIT AND RISK COMMITTEE

The Committee's report is set out on pages 67 to 69 and identifies its members, whose details are set out on pages 56 and 57.

The report describes its work in discharging its responsibilities in the period ended 31 December 2014 and its terms of reference can be found on the Group's website (www.spirehealthcare.com).

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibility for establishing and maintaining a sound system of risk management and internal control, and for reviewing its effectiveness. This system is designed to manage, rather than eliminate, the risks facing the Group and safeguard its assets. No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to provide the directors with reasonable assurance that issues are identified on a timely basis and are dealt with appropriately.

The Audit and Risk Committee and the Clinical Governance and Safety Committee, whose reports are set out on pages 67 to 69 and pages 70 and 71, respectively, assist the Board in reviewing the effectiveness of the Group's risk management system and internal controls, including financial, clinical, operational and compliance controls.

EXECUTIVE COMPENSATION AND RISK

Only independent non-executive directors are allowed to serve on both the Audit and Risk, and Remuneration Committees. The non-executive directors are, therefore, able to bring their experience and knowledge of the activities of each Committee to bear when considering the critical judgements of the other.

This means that the directors are in a position to consider carefully the impact of incentive arrangements on the Group's risk profile and to ensure the Group's remuneration policy and programme are structured, so as to accord with the long-term objectives and risk appetite of the Group.

FINANCIAL AND NON-FINANCIAL RISK

Independent non-executive directors serve on the Clinical Governance and Safety Committee, as well as the Chief Executive Officer. In conjunction with the independent members of the Audit and Risk Committee, both Committees aim to ensure that the control and monitoring of both financial and non-financial risks is satisfactory.

In addition, the Committees, jointly, seek to ensure, as far as practicable, there are no elements omitted or unnecessarily duplicated and that all critical judgements receive the correct level of challenge.

RELATIONS WITH SHAREHOLDERS

The Board is committed to communicating with shareholders and stakeholders in a clear and open manner, and seeks to ensure effective engagement through the Group's regular communications, the AGM and other investor relations activities.

The Group undertakes an ongoing programme of meetings with investors, which is managed by the Chief Executive Officer and Chief Financial Officer. The majority of meetings with investors are led by them.

During the year, there were in excess of 130 individual meetings, conference presentations, group lunches and telephone briefings with investors, attended by one or both of the CEO and CFO, supported by the Investor Relations Director, of which 74 were subsequent to the IPO process.

The Chairman, Senior Independent Director and Committee Chairs remain open for discussion with shareholders on matters under their areas of responsibility, either through contacting the Company secretary or directly at the AGM.

The Company reports its financial results to shareholders twice a year, with the publication of its Annual and Half-yearly Financial Reports.

It also currently issues further trading updates each year with the publication of an Interim Management Statement. In conjunction with these announcements, presentations or teleconference calls are held with institutional investors and analysts, and copies of any presentation materials issued are made available on the Company's website (www.spirehealthcare.com).

All directors are expected to attend the Company's AGM, providing shareholders with the opportunity to question them about issues relating to the Group, either during the meeting, or informally afterwards.

Audit and Risk Committee Report

Welcome to the Group's first Audit and Risk Committee Report.

Robert Lerwill
Chair, Audit and Risk Committee
Other members: Dame Janet Husband, Tony Bourne.

All the members of the Audit and Risk Committee (the 'Committee') were appointed in July. In accordance with the UK Code, the Board has determined that the Chairman, Robert Lerwill, has recent and relevant financial experience.

The Committee members' biographies are on page 57, and its terms of reference (approved by the Board) can be found on the Group's website, www.spirehealthcare.com.

The Company Secretary, or his deputy, is Secretary to the Committee.

The Committee will normally meet at least three times a year. It met twice in the short period between the IPO and 31 December 2014, with attendance disclosed on page 64. The Committee normally invites the external auditor and the Chief Financial Officer to attend each meeting and other members of the management team attend as and when invited. Representatives of the Group's external auditor have a private session with the Committee/ Chairman of the Committee.

EXTERNAL FINANCIAL REPORTING

The Committee is responsible for monitoring, reviewing and challenging the integrity of the financial statements, and ensuring compliance with legal, regulatory and statutory requirements, giving due consideration to the provisions of the UK Code.

The external auditor provided reports for the half-year and year end reporting, including all significant issues, with an assessment of the prudence of management's judgements. The Committee considered that management's judgements were cautious, but not overly prudent, a view shared by the external auditor, Ernst & Young LLP (EY).

EY proposed no material audit adjustments arising from their audit work, which provided additional comfort to the Committee.

At the request of the Board, the Committee considered whether the 2014 Annual Report and Accounts was fair, balanced and understandable, and whether it provided the necessary information for the shareholders to assess the Group's performance, business model and strategy. The Committee was satisfied that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable, and has affirmed that view to the full Board.

ROLES AND RESPONSIBILITIES

The Committee has responsibility for overseeing the financial reporting and internal financial controls of the Group, for reviewing the Group's internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the Group and for reporting its findings and recommendations to the Board.

These comprise:

- receiving and reviewing the Annual Report and Accounts of the Group and half-yearly financial statements and any public financial announcements, and advising the Board on whether the Annual Report and Accounts is fair, balanced and understandable;
- receiving and reviewing reports from the external auditor, monitoring their effectiveness and independence, and approving their appointment and their terms of engagement;
- monitoring the effectiveness of the risk management system;
- reviewing the effectiveness of the Group's system of internal financial controls and internal control systems, assessing and advising the Board on the internal financial, operational and compliance controls; and
- overseeing the Group's procedures for detecting fraud and relating to whistleblowing.

Audit and Risk Committee Report
continued

ACTIVITIES

The main activities were as follows:

- adopting the Committee's terms of reference, which are set out on our website: http://investors.spirehealthcare.com/corporate-governance/committees/;
- agreeing the Committee's rolling agenda for 2014;
- approving the terms of engagement of the external auditor, including its remuneration and reviewing its independence;
- approving the plan for the external audit for 2014;
- reviewing changes to the Group's capital structure in preparation for the IPO;
- challenging and reviewing the financial and regulatory reporting relating to the IPO, including the Combined Historical Financial Information included within the Price Range Prospectus;
- discussing and reviewing the Group's accounting policies and critical estimates and judgements;
- receiving and approving the Interim Report and the 2014 Annual Report and Accounts;
- reviewing the systems of internal control, including assessing the requirement for an internal audit function;
- agreeing the policy for approval of non-audit services provided by the external auditor – details are on our website: http://investors.spirehealthcare.com/corporate-governance/committees/;
- considering the adequacy of the risk management systems of the Group; and
- receiving a report on the IT function and how its risks are managed, with particular focus on IT security.

SIGNIFICANT ISSUES AND MATERIAL JUDGEMENTS

The Committee assesses whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements. The table below summarises the matters where the most significant judgements have been made in relation to reporting in 2014. EY also identified these matters in its audit report, commenting that they had the greatest effect on the overall audit strategy, the allocation of resources and in directing the efforts of the engagement team:

Matters	Judgement and estimation required	How the Committee gained comfort on the matter
Revenue recognition	The complexity of the pricing structures and the high volume of procedures undertaken present a risk in relation to the accuracy and completeness of revenue recognition.	By assessing the internal measures taken in the analytical review of revenues and procedures relating to the controls over the invoicing process. In addition, EY tested key manual controls and performed extensive substantive testing, with no issues being noted by it during this work.
Goodwill carrying amounts	The carrying value of goodwill was significant (£519.1 million as at 31 December 2014). It is tested by reference to its value in use, which involves judgements by management as regards the assumptions used in forecasting cash flows, in particular regarding growth rates and the discount rate applied.	By challenging the reasonableness of assumptions used in impairment calculations by management and the appropriateness of the judgements and forecasts used the growth rate and discount rate and reviewing the sensitivity analyses as applied to the key assumptions.
Recognition of deferred tax balances	The reorganisation of the Group's ownership structure prior to IPO results in a higher inherent risk associated with the calculation of tax balances. There are judgements required in estimating the liability to deferred tax on the property portfolio (£91.7 million as at 31 December 2014) and in the recognition of deferred tax assets (£43.6 million as at 31 December 2014) in accordance with IAS 12, particularly in respect of available losses.	By reviewing the key assumptions adopted by management in the calculation of deferred tax, in particular the assumptions about the future use or disposal of properties and the deductibility of items yet to be approved by the relevant tax authority. EY reviewed the tax calculations in detail, testing key assumptions, with no issues being noted.
Treatment of costs directly attributable to the Group's IPO	Management has exercised judgement about how the IPO costs are presented in the financial statements. Exceptional costs of £54 million, mainly related to the IPO, were classified as exceptional, in accordance with the Group's definition thereof, and charged to the Income Statement. Costs arising from the IPO directly related to the issue of shares have not been expensed, but netted to equity in accordance with IAS 32.	By reviewing management's approach to identifying costs as directly attributable to the issue of shares, as netted to equity. Careful consideration was given by management to the FRC guidance issued on 13 December 2013, as regards consistency in reporting exceptional items, as it relates to items arising in 2014. Particular attention was given to the nature and magnitude of the costs incurred.

EXTERNAL AUDITOR

The Committee oversees the Group's relationship with the external auditor and formally reviews the relationship, policies and procedures to ensure independence.

The Committee adheres to the Auditing Practices Board's Ethical Standard 3, which requires the rotation of the audit partner for listed companies every five years. EY has audited the financial statements of Spire since 2008 under the same audit engagement partner, David Hales and, therefore, his term will end in 2015. As a FTSE 250 Group, we will comply with the new provisions requiring an audit tender at least every 10 years and our approach to this will be considered further in 2015.

As noted, we reviewed the independence and effectiveness of the external auditor. We did this by:

- reviewing its proposed plan for the 2014 audit;
- discussing the results of its audit, including its views about material accounting issues and key judgements and estimates, and its audit report;
- reviewing the quality of the people and service provided by EY; and
- evaluating all of the relationships between the external auditor and the Group, to determine whether these impair, or appear to impair, the auditor's independence.

NON-AUDIT SERVICES AND INDEPENDENCE

The details of our policy in relation to non-audit services are set out on our website: www.investors.spirehealthcare.com/corporate-governance/committees/. In summary, there are certain services termed 'excluded services' that are not permitted to be provided by the external auditor, including where the auditor may be required to audit its own work, would participate in activities that would normally be undertaken by management or is remunerated through a 'success fee' structure.

Total non-audit services provided by EY to the Group for the year ended 31 December 2014 totalled £0.5 million. The majority of the services related to the IPO in July 2014. IPO services are typically performed by auditors, as they are mostly assurance-related; the fee was not contingent or success-based. Excluding the fees in relation to the IPO, non-audit fees principally related to tax advisory and compliance services and they represent less than 20% of the recurring base fee and will remain subject to scrutiny and approval by the Committee. A full breakdown of non-audit fees paid during the year is disclosed within note 12 to the financial statements on page 109.

The Committee considers the requirements of the UK Code and the appropriateness of tendering the external audit contract as part of normal business practice. Based on an ongoing assessment, for example, of the quality of the external auditor's report to the Committee and the audit partner's interaction with the Committee, the Committee remains satisfied with the efficiency and effectiveness of the audit. The Committee, therefore, has not considered it necessary to require the audit to be put to tender.

The Committee has recommended, and the Board has agreed, that, subject to shareholder approval, EY will be reappointed at the 2015 AGM.

RISK MANAGEMENT AND INTERNAL CONTROLS

An overview of the risk management and internal controls processes are contained on pages 48 to 51. The Committee, with the assistance of the Clinical Governance and Safety Committee (CGSC) (which focuses on key non-financial risks, including patient and clinical risks), carried out the following:

- reviewed the work carried out by the CGSC in relation to the risks within its remit;
- reviewed the Group's system of internal control;
- monitored the risks and associated controls over the financial reporting processes, including the process by which the Group's financial statements are prepared for publication; and
- reviewed reports from the external auditor on any issues identified during the course of its work, including a report on control weaknesses.

The overall risk management framework, including the Board's appetite for risk and the underlying process for capturing and reporting risk and control data, will be reviewed by the Board and its Committees during 2015 to ensure, as far as possible, that changes to reflect the new regulatory environment and best practice are incorporated.

WHISTLEBLOWING

The Committee also continued its monitoring and oversight of the procedures for the receipt, retention and treatment of qualifying disclosures by staff.

The Group offers its staff an independent and confidential service, where staff may register any concerns about any wrongdoing or safety at work. The General Counsel is, as Whistleblowing Officer, responsible for the investigation of any concerns arising and reporting directly to the Committee.

ACCOUNTABILITY

At the year-end, following a detailed review by the Committee of the Corporate Risk Register and the principal risks drawn from it, consideration of reports on the operation of the risk management and internal control systems from senior management, the results of all external audit, review and inspection activity and all reported risk events, the directors confirmed that no material failings or weaknesses were identified.

ANNUAL EVALUATION OF THE COMMITTEE'S PERFORMANCE

As the Committee has only been in existence for a short period of time, an evaluation of its performance has not been undertaken. The first evaluation is scheduled for 2015.

On behalf of the Committee

Robert Lerwill
Chair, Audit and Risk Committee
23 March 2015

Clinical Governance and Safety Committee Report

The work of this Committee, in overseeing the delivery of clinical governance, patient safety and care quality, is central to the success of Spire Healthcare.

Professor Dame Janet Husband
Chair, Clinical Governance and Safety Committee
Other members: Tony Bourne, Garry Watts, Rob Roger

Dear Shareholder

On behalf of the Board, I am pleased to present our first Report of the Clinical Governance and Safety Committee (the 'Committee' or 'CGSC') since Spire was admitted to the London Stock Exchange in July 2014.

COMMITTEE PURPOSE

The Group's mission is to bring together the best people, dedicated to developing excellent clinical environments and delivering the highest-quality patient care. The CGSC oversees, reviews and monitors the quality of our clinical services with the aim of ensuring that the highest standards of governance are consistently met and that clinical outcomes, patient safety and patient experience continuously improve in support of this mission.

The Committee also has an important role in identifying areas of clinical risk, and of ensuring that controls are in place to mitigate such risk as far as possible. Close links between the CGSC and the Audit and Risk Committee have been developed to support the Company's robust approach to risk management.

COMMITTEE MEMBERSHIP

Since listing, the Committee has been reconstituted, bringing together non-executive directors and senior management to further develop a sound framework of clinical governance within Spire. With my recent, relevant and broad clinical experience, acquired during a long medical career, I have the required experience to chair this Committee of the Board.

The CGSC members during the period since Admission were:

Dame Janet Husband	**Independent Non-Executive Director**	Committee Chair
Tony Bourne	**Independent Non-Executive Director**	
Rob Roger	**Chief Executive Officer**	
Garry Watts	**Group Chairman**	

Members' biographies and details of Committee attendance are on pages 56 and 57, and page 64, respectively.

The Group Company Secretary, or his appointed nominee, is secretary to the Committee.

The Committee operates in an inclusive manner. The Company's Group Medical Director and Chief Nursing Officer attend each meeting, with other management and Board members invited, as appropriate. This openness supports the quality and transparency of the Committee's work and the communication of its deliberations with the Audit and Risk Committee, the Board and the hospitals' executive management teams.

COMMITTEE MEETINGS

The Committee will meet eight times in 2015, in accordance with its terms of reference, with meetings scheduled to take place before each Board meeting, so that there is a timely flow of information on clinical governance matters to the Board.

From the above meetings schedule, the Committee will hold four meetings at Spire's head office in London, and four in a designated Spire hospital, thereby providing the opportunity for the Committee to meet Hospital Directors, matrons and other front-line staff and to tour the hospital facilities. This will aid a 'ward to Board' approach to clinical governance and also permits the hospital management team to present its own strategic developments and challenges and to focus on specific aspects of clinical governance relevant to its own experience.

PRINCIPAL ACTIVITIES

The Committee reviews a number of standing items, including:

- the Group Medical Director's Review of performance, in the form of a Clinical Governance and Safety Report, and, on a quarterly basis, a review of Serious Adverse Events;
- health and safety;
- information governance; and
- whistleblowing.

In 2014, the Committee developed its strategy, which not only focuses on monitoring clinical performance and trends in practice, but also on a programme of themed reviews to address key strategic quality areas in a rolling agenda over the next two years.

Themed reviews planned for 2015 include:

- a programme of preparation and training for the new CQC inspections regime;
- a review of our complaints process and its compliance with national guidance;
- a review of Spire's in-house clinical review process of individual hospitals, which will enable us to benchmark our hospitals against well-defined standards; and
- a review of the quality of service provided by resident medical officers at each of our 39 hospitals.

We will also undertake specific 'deep dives' to investigate compliance with best practice guidance and to take action where needed. This approach will ensure that the Committee has a detailed understanding of contemporary clinical issues and of the challenges of delivering the highest standards of modern hospital-based healthcare.

2014 ACTIVITIES

The Committee held two meetings at head office and one off-site meeting in 2014.

Apart from standing review activities, the Committee conducted its first themed review, examining the clinical governance structure across Spire, information flows, the escalation of issues through the executive management to the Board, and ensuring that the structures and processes comply with best practice across healthcare organisations in the UK.

In future, the Committee intends to review its clinical governance framework in the light of developing practice on a regular basis.

The off-site meeting was held at Spire Bristol Hospital in November. Hospital staff, including management, clinicians and nurses, met members of the Committee and were able to highlight particular successes and discuss areas targeted for further improvement. Members of the Committee were able to see the hospital's levels of care for themselves and to meet the Chair of the hospital's Medical Advisory Committee and a number of other specialist consultants.

PERSONAL EXPERIENCE

In order to better understand the business, culture and ethos within Spire's diverse group of hospitals, I am also undertaking a programme of informal visits to all of our hospitals. These visits will enable me to engage more closely with senior clinical and managerial staff and to be 'visible' as Chair of the CGSC. In 2014, I visited 13 of our 39 hospitals and plan to complete my tour during 2015.

These hospital visits have allowed me to question the hospital management teams on various issues, to learn about their aspirations and challenges, and to gather ideas and suggestions that may have an impact on the future strategy of both the Committee and the Group. I have also learnt an enormous amount about the complexity and variety of Spire's healthcare business and of the influences that drive change and development in the local environment.

Equally important, I have been able to talk to individual patients on a one-to-one basis and have learnt about their experience of being a patient at a Spire hospital and how they viewed the quality of care they have received.

I am pleased to report that the feedback from the patients I have met has been overwhelmingly positive.

TERMS OF REFERENCE AND EVALUATION

The Committee operates under formal terms of reference that were approved by the Board during the year. The terms of reference are available on the Group's website (www.spirehealthcare.com).

Within these terms, the Committee and its individual members are empowered to obtain outside legal or other independent professional advice (at the cost of the Group). Such powers were not required during the period.

As the Committee has only been in existence for a short period of time, an evaluation of its performance has not been undertaken. The first evaluation is scheduled for 2015.

Details of the risk management and internal control processes are contained on pages 48 to 51.

The Committee believes that it has received sufficient, relevant and reliable information from management and the clinical executive team to enable us to discharge our responsibilities.

FUTURE DEVELOPMENT

In this Report, our aim has been to present information in a simple and transparent way and I hope that shareholders will find it informative.

As Chair of the Clinical Governance and Safety Committee, I am committed to ensuring an open dialogue with our shareholders. If you have any questions about clinical governance or safety generally, or the contents of this report, please contact me via the Company Secretary – companysecretary@spirehealthcare.com.

The work of this Committee, in maintaining the highest standards of clinical governance, patient safety and care quality, is central to the success of Spire Healthcare. It is part of a governance structure that seeks to balance central and common standards and processes with the unique circumstances of each of our hospitals. As a process seeking continuous improvement, I look forward to reporting on our further progress in a year's time.

Professor Dame Janet Husband DBE FMedSci, FRCP, FRCR
Chair, Clinical Governance and Safety Committee
23 March 2015

Nomination Committee Report

The Committee did not meet in the period following Admission, as the appointments of all independent non-executive directors took place at the same time.

John Gildersleeve
Chair, Nomination Committee
Other members: Dame Janet Husband, Robert Lerwill, Rob Roger

THE NOMINATION COMMITTEE

The Nomination Committee (the 'Committee') must have at least three members, of which a majority must be independent non-executive directors. The Board appoints the Chairman of the Committee, who must be either the Chairman of the Board or an independent non-executive director. During the year, I was appointed to the role of Chairman of the Committee, though, in my absence, the Committee will be chaired by an independent non-executive director. The Company Secretary or, in his absence, the Deputy Company Secretary is secretary to the Committee.

MEETINGS

The Committee meets as and when required, but did not meet in the period following the IPO, as the appointments of all independent non-executive directors were made on the same date and there was no immediate requirement for further consideration of the Board's diversity of skill and experience, nor that of succession planning at the Board and below.

Meetings of the Committee are scheduled to take place twice in 2015 and the Committee will invite other senior executives to assist their discussions.

The meetings will consider any standing items of business, together with ad hoc discussion between Committee meetings in the event of new director recruitment and I will report the outcome of our meetings to the Board.

The Committee operates under formal terms of reference, which were reviewed and approved by the Board. The terms of reference are available on the Group's website (www.spirehealthcare.com). The Committee and its members are also empowered to obtain outside legal or other independent professional advice (at the cost of the Group) in relation to its deliberations (which were not exercised during the period) and to secure the attendance at its meetings of any employee or other parties, should it be considered necessary.

ROLE AND RESPONSIBILITIES

The Committee's foremost priorities are to ensure that the Group has the best possible leadership and a clear plan for both executive and non-executive director succession. Its prime focus is, therefore, to concentrate upon the strength of the Board, for which appointments will be made on merit against objective criteria, selecting the best candidate for the post. The Nomination Committee advises the Board on these appointments, and also on retirements and resignations from the Board, and its other Committees.

The Committee's key objectives can be found on page 63.

BOARD COMPOSITION

All the executive and independent non-executive directors have served at a very senior level in global and UK-based organisations, have international experience across a variety of industries, and most have financial experience. At present, one of the seven executive and independent non-executive directors is female.

It should be noted that in Lord Davies' original recommendation on Women on Boards, he stated that listed companies in the FTSE 100 should aim for a minimum of 25% female Board member representation by 2015. He also recommended that FTSE 350 companies should be setting their own challenging targets and expected that many would achieve a much higher figure than this minimum. We note this requirement and aim to move towards this target as soon as practicable.

PROCESS FOR BOARD APPOINTMENTS

When considering Board recruitment, the Committee will draw up a specification for a director, taking into consideration the balance of skills, knowledge and experience of its existing Board members, the diversity of the Board, the independence of continuing Board members, together with the ongoing requirements and strategic development of the Group. The search process can then focus on appointing a candidate with a balance of skills that will enhance the Board.

The Committee will utilise the services of an executive search firm to identify appropriate candidates, ensuring that the search firm appointed does not have any other connection with the Group. In addition, the Committee will only use those firms that have adopted the Voluntary Code of Conduct addressing gender diversity and best practice in search assignments. A 'long list' of potential appointees will then be reviewed, followed by the shortlisting of candidates for interview, based upon the objective criteria identified at inception. Care is taken to ensure that all proposed appointees will have sufficient time to devote to the role and do not have any conflicts of interest. The Committee will then recommend a preferred candidate and the directors not on the Committee will meet the candidate. Following these meetings, and assuming acceptance, the Committee will make a formal recommendation to the Board on the appointment. Wherever possible, the Nomination Committee will arrange for all directors to meet the preferred candidate.

BOARD SUCCESSION

The Committee will regularly examine succession planning based on the Board's balance of skills and overall diversity. Led by the Committee, succession planning of the Board will form an integral part of the Board's annual strategy meeting.

SENIOR MANAGEMENT SUCCESSION

During 2015, it is anticipated that the executive directors will submit succession plans in respect of senior executives to the Board for review. The Board also actively seeks to meet with key executives throughout the Group in order to gain a greater understanding of the breadth and depth of management talent. During 2015, this process will be augmented to include a series of formal presentations to the Board by relevant members of the executive management team, and of the senior leadership team. This will allow members of the Committee to adopt a more informed approach to the requirements of Board and/or Group succession planning in 2015.

COMMITTEE EVALUATION

As the Committee has only been in existence for a short period of time and did not meet in 2014, an evaluation of its performance has not been undertaken. The first evaluation is scheduled for 2015.

RE-ELECTION OF DIRECTORS

The Committee met in March 2015 and reviewed the continuation in office, and potential re-appointment, of all members of the Board. Following this review, the Committee recommended to the Board that all directors should be re-appointed, and hence all directors will seek re-election at the AGM.

On behalf of the Nomination Committee

John Gildersleeve
Chair, Nomination Committee
23 March 2015

Directors' Remuneration Report

Tony Bourne
Chair, Remuneration Committee
Other members: John Gildersleeve, Robert Lerwill

ANNUAL STATEMENT FROM THE REMUNERATION COMMITTEE CHAIRMAN

Dear Shareholder

On behalf of the Board, I am pleased to present our first Directors' Remuneration Report ('DRR') following the IPO in July 2014, which has been prepared in accordance with the relevant legislation, including Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the Listing Rules. This Report is, therefore, set out in two parts:

i. Policy Report – This sets out our Remuneration Policy ('Policy') for all directors of the Group, which will be subject to a binding shareholder vote at our 2015 AGM.

ii. Annual Report on Remuneration – This sets out how our directors were paid in 2014 and how we will apply our Policy in 2015. There will be an advisory shareholder vote on this section of the Report at the 2015 AGM.

OUR APPROACH TO REMUNERATION

The overall remuneration structure was designed prior to the IPO and detailed in the Prospectus. The approach was intended to provide a simple and transparent structure that reflected our business operations and future strategy. The structure also took into account evolving market norms and best practices.

The Committee has spent considerable time focusing on how the remuneration structure adopted prior to IPO should be implemented in practice. The Committee wanted to enshrine core behaviours and values that have been integral to Spire Healthcare's success to date and to tie variable pay to future Group success with performance-related payments being aligned with sustainable shareholder value, and subject to the achievement of rigorous and stretching targets.

The Committee considers that our new policy provides a well-balanced remuneration package that will continue to attract and retain people of the right calibre, and incentivise our executive directors and senior executives to achieve the short and longer-term business targets of the Group and to deliver shareholder value.

The Committee operates under terms of reference approved by the Board, available on the Group's website (www.spirehealthcare. com)

REMUNERATION DECISIONS IN RESPECT OF 2014

As described elsewhere in the Strategic Report and in the financial highlights on page 1, during our first year as a listed Group, we achieved a strong financial performance, and continue to deliver on our strategic and operational priorities.

The 2014 annual bonus awards were based on a mix of financial and non-financial metrics. On the basis of the reported EBITDAR outcome of £219.9 million and the achievement of strategic and personal objectives, including delivering a successful IPO of the Group, approximately 34% of the maximum bonus potential was paid to the executive directors, of which one-third will be deferred into shares.

During the year, the Committee also considered the terms of the Company's Long Term Incentive Plan ('LTIP'), adopted at IPO. The first awards were granted in September 2014. The Committee has determined that these 2014 awards to senior executives, including executive directors, are based on stretching relative Total Shareholder Return ('TSR') and Earnings Per Share ('EPS') performance targets. Subject to achievement of the relevant targets, these awards will vest in early 2017 in accordance with the normal business cycle. The Committee is satisfied that the targets are appropriately linked to delivery of demanding long-term financial goals and the creation of shareholder value.

As noted in the Prospectus, executive directors are expected to build and retain a shareholding at least equivalent to twice their salary. This will create further alignment with shareholders. Both executive directors meet this guideline.

REMUNERATION DECISIONS FOR 2015

In relation to remuneration arrangements for the executive directors in respect of 2015 performance and beyond, the only structural change is to introduce clawback provisions for both the annual bonus and LTIP awards (see page 77 for more detail). The Committee is of the view that this change further strengthens the existing malus provision that already applies to our incentive plans.

Apart from a change to the annual bonus metrics (replacing EBITDAR with EBITDA measures and introducing a balanced scorecard of strategic objectives) and weightings, no other changes are proposed in respect of 2015 bonus awards. LTIP awards to be granted in 2015 will continue to be subject to EPS and relative TSR targets.

SHAREHOLDER COMMUNICATION

As Chairman of the Remuneration Committee, I am committed to ensuring an open dialogue with our shareholders.

If you have any questions about remuneration generally, the presentation or contents of this Report, please contact me via companysecretary@spirehealthcare.com

THE DRR AND THE AGM

The Committee recommends both elements to you for approval and we look forward to your support at the 2015 AGM.

Tony Bourne
Chair, Remuneration Committee
23 March 2015

Policy Report

The following sections set out our Directors' Remuneration Policy ('Policy'), which will be put forward for shareholder approval at the 2015 AGM. Subject to shareholder approval, the Policy will take effect from the date of the AGM on 21 May 2015.

REMUNERATION POLICY TABLE

FIXED REMUNERATION

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	• To provide fixed remuneration that is appropriate for the role and to secure and retain the talent required by the Group.	• The Committee takes into account a number of factors when setting salaries, including: – scope and responsibility of the role; – the skills and experience of the individual; – salary levels for similar roles within appropriate comparators; – overall structure of the remuneration package; and – pay and conditions elsewhere in the Group. • Salaries are normally reviewed annually, with any increase usually taking effect in January.	• While there is no defined maximum opportunity, salary increases normally take into account increases for full-time employees across the Group. • The Committee retains discretion to make higher increases in certain circumstances, for example, following an increase in the scope and/or responsibility of the role, or a significant change in market practice or the development of the individual in the role. • The current salaries effective from 1 January 2015 are: – CEO: £525,000 – CFO: £350,000	• None
Benefits	• Fixed element of remuneration providing market competitive benefits to both support retention and recruit people of the necessary calibre.	• A range of role-appropriate benefits may be provided to executive directors, including such items as private medical insurance (for the executive director and their family), permanent health assurance, participation in an income protection scheme, life assurance, an annual health assessment (for the executive director and their spouse) and a car allowance. • Additional one-off benefits may also be provided where the Committee considers this appropriate (e.g on relocation). • Executive directors are also eligible to participate in any all-employee share plans operated by the Company from time to time on the same basis as other eligible colleagues. • The Committee keeps the benefits package offered to existing and new executive directors under review.	• Whilst no maximum limit exists, individual benefit arrangements take into account a number of factors, including market practice for comparable roles within appropriate pay comparators. • Participation in any HMRC-approved all-employee share plan is subject to the maximum permitted by the relevant tax legislation.	• None
Retirement benefits	• Fixed element of remuneration to assist with retirement planning. • Retirement benefits are provided to both support retention and recruit people of the necessary calibre.	• Executive directors can opt to join the Company's defined contribution scheme, receive a contribution into a personal pension scheme, take a cash supplement or any combination of the three. • The employer defined contribution level, the contribution into a personal pension scheme and/or cash supplement are kept under review by the Committee. • The retirement benefits are not included in calculating bonus and long-term incentive quantum.	• The maximum level of retirement benefits is 25% of base salary, and the current provision for the executive directors is 18% of base salary. • They are set by taking into account a number of factors, including market practice for comparable roles at appropriate pay comparators. • For new executive directors, the nature and value of any retirement benefits provided will be, in the Committee's view, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Group.	• None

Directors' Remuneration Report *continued*

VARIABLE REMUNERATION

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	• To incentivise and reward the achievement of annual financial, operational and individual objectives that are key to the delivery of the Group's strategy.	• Objectives are set annually to ensure that they remain targeted and focused on the delivery of strategic goals. • The Committee sets targets that require appropriate levels of performance, taking into account internal and external expectations of performance. • As soon as practicable after the year end, the Committee meets to review performance against objectives and determines payout levels. The Committee may adjust payments to ensure they are reflective of overall performance. • A portion of any bonus (as determined by the Committee) is normally deferred into an award of shares under the Deferred Bonus Plan (DBP). Currently one-third of any bonus is deferred for a period of three years (although the Committee may vary this approach). • DBP awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the plan rules. This deferred bonus element is not normally subject to any further performance conditions, although it is subject to continued employment. • Further details of the malus and clawback provisions applicable are set out on page 77.	• Maximum award opportunity for executive directors is 150% of base salary for each financial year, a portion of which is normally deferred into an award of shares under the DBP (currently one-third).	• Awards are based on a combination of financial, operational and individual goals measured over one financial year. • At least 50% of the award will be assessed against Group financial metrics. The remainder of the award will be based on performance against strategic objectives and/or individual objectives. Details of the performance measures for 2014 and 2015 are set out in the Annual Report on Remuneration. • A sliding scale between 0% and 100% of the maximum award pays out for achievement between the minimum and maximum performance thresholds. • For annual bonuses in respect of 2015, the targets will be based on EBITDA and a balanced scorecard of strategic metrics. • The details of measures, targets and weightings may be varied by the Committee year-on-year based on the Group's strategic priorities.
Long Term Incentive Plan (LTIP)	• To incentivise and reward the delivery of long-term strategic objectives. • To align the interests of the executive directors with those of shareholders. • To assist recruitment and retention of executive directors.	• Awards granted under the LTIP vest subject to achievement of performance conditions measured over a period of at least three years, unless the Committee determines otherwise. • Awards may be in the form of conditional share awards or nil-cost options or any other form allowed by the plan rules. • Further details of the malus and clawback provisions applicable are set out on page 77.	• The maximum award opportunity (at grant) for executive directors in respect of a financial year is 200% of base salary.	• Vesting of awards will be dependent on a range of financial, operational or share price measures, as set by the Committee, which are aligned with the long-term strategic objectives of the Group and shareholder value creation. • Not less than 30% of an award will be based on share price measures. The remainder will be based on either financial and/or operational measures. • At the threshold performance, no more than 25% of the award will vest, rising to 100% for maximum performance. • For awards granted in 2015, vesting will be based on EPS (50%) and relative TSR (50%) targets. • The details of measures, targets and weightings may be varied by the Committee prior to grant based on the Group's strategic objectives.

NOTES TO THE POLICY TABLE

PERFORMANCE MEASURES AND TARGETS

Annual bonus

The annual bonus performance measures are designed to provide an appropriate balance between incentivising executive directors to meet financial targets for the year and to deliver specific strategic, operational and personal goals. This balance allows the Committee to review the Group's performance in the round against the key elements of our strategy, and appropriately incentivise and reward the executive directors.

Bonus targets are set by the Committee each year to ensure that executive directors are focused on the key financial and strategic objectives for the financial year. In doing so, the Committee usually takes into account a number of internal and external reference points, including the Group's business plan.

LTIP

The Committee believes it is important that the performance conditions applying to LTIP awards support the long-term ambitions of the Group and the creation of shareholder value. The Committee currently considers that a combination of relative TSR and financial metrics (currently EPS) are the most appropriate measures to assess the underlying performance of the business, while creating alignment with shareholders and rewarding long-term value creation.

The Committee will keep the measures and weightings under review to ensure that the most appropriate measures to incentivise the long-term success of the Group are used.

RECOVERY PROVISIONS (MALUS AND CLAWBACK)

Prior to vesting, the Committee may cancel or reduce the number of shares subject to, or impose additional conditions on, LTIP, DBP awards and Directors' Share Bonus Awards in circumstances where the Committee considers it to be appropriate ('malus'). Such circumstances may include: a serious misstatement of the Group's audited financial results, a serious miscalculation of any relevant performance measure, a serious failure of risk management or regulatory compliance by a relevant entity, serious reputational damage to the Group, or the participant's material misconduct.

In addition, for cash bonus awards in respect of 2015 and future years, and for LTIP awards granted after 1 January 2015, the Committee may also claw back vested awards in certain extreme circumstances (including those listed above) for up to two years following the determination of the relevant performance outcome.

Prior to applying malus or clawback, the Committee will take into account all relevant factors (including, where a serious failure of risk management or regulatory compliance or serious reputational damage has occurred, the degree of involvement of the employee in that failure or damage in question and the employee's level of responsibility) in deciding whether, and to what extent, it is reasonable to operate malus and/or clawback. The Committee is satisfied that the above provisions provide robust safeguards against inappropriate payment of incentive awards.

LEGACY ARRANGEMENTS

Directors' Share Bonus Plan Awards ('Awards') were granted to Rob Roger, Simon Gordon and Garry Watts (in recognition of his performance as Executive Chairman) to reflect their contribution to the Company prior to Admission. These awards were made over shares in the form of nil-cost options. The awards are split into two equal tranches, which normally become exercisable on the first and second anniversary of Admission, respectively.

Although these awards were made in recognition of services provided to the Company prior to Admission, the awards will only be exercisable in full if the 90-day average share price prior to the first and second anniversary of Admission is at least 359 pence. If, at the relevant anniversary, the average share price is at or below 224 pence then the number of shares in the relevant tranche to which the options relate will be reduced by approximately 35%. Where the average share price at the relevant anniversary is between 224 pence and 359 pence, the proportion exercisable will be reduced on a pro-rata basis.

RECRUITMENT POLICY

In determining remuneration for new executive directors, the Committee will consider all relevant factors, including the calibre of the individual and the external market, while aiming not to pay more than is necessary to secure the required talent. The Committee would seek to act in what it considers to be the best interests of the Group and its shareholders. Normally, the Committee will seek to align the new executive director's remuneration package to the remuneration policy, as set out above.

Salary and benefits (including any retirement benefits) will be determined in accordance with the policy table above. In certain instances, the Committee may decide to appoint an executive director to the Board on a lower-than-typical salary, with the intention of gradually increasing the salary to move closer to market level as they build experience in the role. Normally, benefits will be limited to those outlined in the policy table above, including a relocation allowance in certain circumstances.

The maximum level of variable pay (excluding any buyouts) that may be awarded to a new executive director will be limited to 350% of base salary, which is consistent with the policy table above. Incentives will normally be granted under the existing plans; however, where appropriate, the Committee may tailor the award (e.g timeframe, form, performance criteria) based on the commercial circumstances.

The Committee may 'buyout' remuneration terms a new hire has had to forfeit on joining the Group. Buyout awards are intended to be of comparable commercial value, and capped accordingly. The Committee will take into account all relevant factors when determining the quantum and form/structure of any buyout, including any performance conditions attached to any forfeited awards, the likelihood of those conditions being met, and the proportion of the vesting/performance period remaining.

The service contracts for new appointments will be consistent with the policy described below. Where an executive director is appointed from within the organisation, the policy of the Group is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an executive is appointed following an acquisition of, or merger with, another company, legacy terms and conditions would be honoured.

Directors' Remuneration Report
continued

EXECUTIVE DIRECTOR SERVICE CONTRACTS AND PAYMENTS FOR LOSS OF OFFICE

The key employment terms and other conditions of the current executive directors, as stipulated in their service contracts, are set out below:

Provision	Policy
Notice period	• 12 months' notice by either the Group or the executive director. This is also the policy for new recruits.
Benefits	• The Group may agree that certain benefits will be specified within the executive directors' service contracts. • The current executive directors are contractually entitled to private medical insurance (for the executive director and his family), permanent health assurance, income protection, life assurance, an annual health assessment (for the executive director and their spouse) and a car allowance.
Termination payment	• It is the Group's policy that service contracts contain provisions that allow the Group to terminate employment by making a payment in lieu of notice (PILON) equivalent to (i) 12 months' base salary and (ii) the cost of specific benefits (including retirement benefits). • Upon termination by the Group, the Group can determine whether a PILON is made as a single lump sum or paid in instalments, subject to mitigation. Where the sum is paid in instalments, the executive director has a duty to use reasonable endeavours to secure alternative employment as soon as reasonably practicable. In the event the executive director commences alternative employment with an annual salary of greater than £30,000, there will be a pro-rata reduction in the PILON payments.
Immediate termination	• The service contract of an executive director may also be terminated immediately and with no liability to make payment in certain circumstances, such as the executive director bringing the Group into disrepute or committing a fundamental breach of their employment obligations.
External appointments	• Executive directors may accept one position as a non-executive director of another publically listed company that is not a competitor of the Group, subject to prior approval of the Board. External appointments to any other company (and treatment of any fees) are also subject to the prior approval of the Board.

In the event that the employment of an executive director is terminated, any compensation payable will be determined in accordance with the terms of the service contract between the Group and the employee, as well as the rules of any incentive plans in which they participate.

Where an executive director's employment with the Group ceases prior to the payment of the annual bonus in respect of a financial year, the Committee in its absolute discretion will determine whether any bonus should be paid and the extent to which deferral into shares should be applied. Any awards would normally be pro-rated. For bonuses in respect of 2015 onwards, clawback provisions will also apply. For the avoidance of doubt, in the event the executive director is dismissed for misconduct, no bonus will be payable.

The treatment of share awards made by the Company is governed by the relevant share plan rules. The following table summarises the leaver provisions of share plans under which executive directors may currently hold awards.

Plan	Leaver reasons where awards may continue to vest	Vesting arrangements
Deferred Bonus Plan (DBP) and LTIP	• Death • Injury, ill health or disability • Retirement • The transfer of the individual's employing company or business out of the Group • Any other scenario in which the Committee determines good leaver treatment is justified	• LTIP awards will vest to the extent determined by the Committee, which, unless the Committee determines otherwise, will be calculated on the basis of the achievement of any performance conditions at the relevant vesting date and, unless the Committee determines otherwise, the period of time that has elapsed between grant and cessation of employment/directorship. • The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment. • DBP awards will normally vest in full on the original vesting date, although the Committee has the flexibility to determine that awards can vest earlier. • DBP and LTIP awards will continue to be subject to the malus provisions outlined on page 77 until the vesting of the awards. LTIP awards granted from 2015 onwards will also be subject to a clawback provision, as described above.
	• Any other reason	• Awards lapse in full.
Directors' Share Bonus Plan (Legacy arrangements granted prior to Admission)	• Any circumstance other than dismissal for cause	• These awards were made in recognition of services provided to the Company prior to Admission and, as such, are not subject to continued employment (except in the case of dismissal for cause). • Awards vest on the first and second anniversary of Admission to the extent the share price performance targets have been met. • Awards will continue to be subject to the malus provisions outlined on page 77 until the vesting of the awards.
	• Dismissal for cause	• Awards lapse in full.

Where directors participate in any HMRC approved all-employee share plans, the leaver treatment will be consistent with the relevant legislation on the same terms as all other employees.

Directors' Remuneration Report
continued

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

The Group seeks to appoint non-executive directors who have relevant professional knowledge (and/or specific technical skills) to support the current expertise of the Board and to match the healthcare sector within which the Group operates.

In the event of the appointment of a new Chairman and/or non-executive director, remuneration arrangements will normally be in line with those detailed in the relevant table below. Fees to non-executive directors will not include share options or other performance-related elements.

Remuneration of independent non-executive directors, with the exception of the Chairman, is determined by the Chairman and the executive directors. The remuneration of the Chairman is determined by the Committee. Directors are not involved in any decisions in relation to their own remuneration.

The table below sets out the remuneration policy with respect to non-executive directors. Non-executive directors do not participate in the Group's bonus arrangements, share incentive schemes or retirement benefit plans.

Approach to setting remuneration for non-executive directors	Opportunity
• Fees are set at appropriate levels to ensure non-executive directors are paid to reflect the individual responsibility taken, as well as the skills and experience of the individual. Fees are reviewed periodically. • When setting fee levels, consideration is given to a number of factors, including responsibilities and market positioning. • Where appropriate, benefits to the role may be provided. Travel and other reasonable expenses (including fees incurred in obtaining professional advice in the furtherance of their duties and any associated taxes) incurred in the course of performing their duties may be paid by the Group or reimbursed to non-executive directors.	• The total fees paid to non-executive directors will remain within the limit stated in the Articles of Association of the Company. • Individual fees reflect responsibility and time commitment, as well as the skills and experience of the individual. Additional fees may be paid for further responsibilities, such as chairmanship of committees. • Any benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided to comparable roles. Expenses reasonably incurred in the performance of the role may be reimbursed or paid for directly by the Group, as appropriate, including any tax due on the benefits. Non-executive directors will also be covered by the Group's indemnity insurance. • The fees as at 31 December 2014 were: – Chairman: £257,000 – Deputy Chairman and Senior independent director: £140,000 – Non-executive director basic fee: £50,000 – Committee chairmanship: £10,000 • Individuals appointed to the Board by Cinven Funds pursuant to the Relationship Agreement do not currently receive any annual fees from the Company.

Under the terms of his appointment, Garry Watts is entitled to private medical expenses insurance (for both himself and his spouse and any dependent children), life assurance, annual health assessment (for both himself and his spouse) and office facilities to perform his duties as Chairman. Medical expenses insurance and life assurance will be provided under the Group's arrangements or, if he obtains equivalent benefits directly, the Group will meet his costs (up to a specified cap).

CHAIRMAN AND NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT

The Chairman and non-executive directors have letters of appointment that set out their duties and responsibilities. They do not have service contracts with either the Group or any of its subsidiaries.

The key terms of the appointments are set out in the table below. This is the policy for current and any new non-executive directors.

Provision	Policy
Period	• In line with the UK Code, the Chairman and all independent non-executive directors are subject to annual re-election by shareholders at each AGM. • After the initial three-year term, the Chairman and the non-executive directors are typically expected to serve a further three-year term.
Termination	• The appointment of the Chairman is terminable by either the Group or the director by giving 12 months' notice. • The appointment of the Deputy Chairman is terminable by either the Group or the director by giving three months' notice. • The appointment of any independent non-executive directors is terminable by either the Group or the director by giving two months' notice. • The non-executive directors nominated by Cinven Funds pursuant to the terms of the Relationship Agreement are terminable without notice.

FURTHER DETAILED PROVISIONS

The DBP and LTIP, as well as the outstanding legacy Directors' Share Bonus Awards, will be operated in accordance with the relevant plan rules (which were summarised for shareholders in the Prospectus). The Committee may adjust or amend awards only in accordance with the provisions of the relevant plan rules. This includes making adjustments to awards to reflect one-off corporate events, such as a change in the Group's capital structure. In accordance with the plan rules, awards may be settled in cash rather than shares, where the Committee considers this appropriate.

The performance conditions applicable to incentive awards may be amended on an appropriate basis determined by the Committee, if an event occurs or circumstances arise that cause the Committee to consider the performance condition is no longer a fair measure of performance (and, in the case of the Directors' Share Bonus Award, the Committee determines fairly and reasonably that the circumstances prevailing at grant have changed). For LTIP and Directors' Share Bonus Awards, the amended performance condition will be at least as challenging as the original condition.

Under the DBP, LTIP and Directors' Share Bonus Awards, participants may receive an additional amount, in cash or shares, to take account of the value of dividends the participant would have received on the shares that vest.

In the event of a change of control of the Company, LTIP awards may vest to the extent that the Committee determines, taking into account the extent to which any performance conditions have been satisfied, and such other factors as the Committee considers relevant in the circumstances, provided that, unless the Committee determines otherwise, awards will be adjusted to reflect the period of time that has elapsed between grant and cessation of employment/directorship; DBP awards will normally vest in full; and legacy Share Bonus Awards may vest based on the per-share price payable to shareholders on the relevant transaction, or, in the case of a winding-up, the share price at the time. Alternatively, awards may be exchanged for equivalent awards in the acquiring company.

The Committee may make any remuneration payments (including vesting of incentives) and payments for loss of office, notwithstanding that they are not in line with the Policy set out above, where the terms of that payment were agreed before this Policy came into effect; or at a time when the relevant individual was not a director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a director of the Company.

The DBP and LTIP incorporate dilution limits. These limits are 10% in any rolling 10-year period for all plans and 5% in any rolling 10-year period for executive share plans. Shares issued out of treasury will count towards these limits for so long as this is required under institutional shareholder guidelines. Shares issued, or to be issued, pursuant to any awards granted on or before the date of Admission will not count towards these limits. In addition, awards that lapse shall be disregarded for the purposes of these limits.

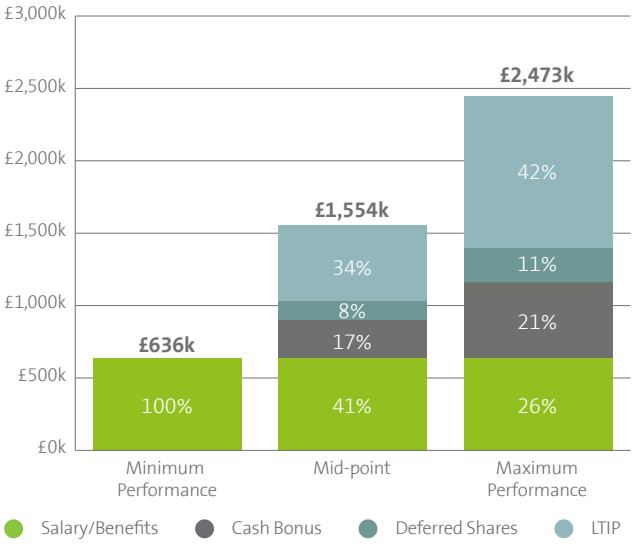
The Committee may make minor amendments to the Policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without obtaining shareholder approval for that amendment.

ILLUSTRATION OF THE REMUNERATION POLICY

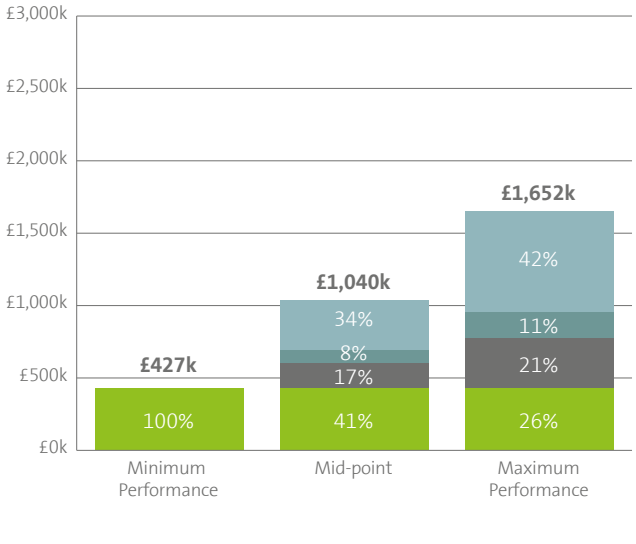
The remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of stretching short-term and long-term performance targets aligned with the Group's objectives, and on delivering shareholder value. The Committee considers the level of remuneration that may be received under different performance outcomes to ensure that this is appropriate in the context of the performance delivered and the value added for shareholders.

The charts that follow provide illustrative values of the annual remuneration packages for executive directors in 2015 under three assumed performance scenarios. These charts are for illustrative purposes only and actual outcomes may differ from those shown.

Chief Executive Officer – Rob Roger



Chief Financial Officer – Simon Gordon



Directors' Remuneration Report
continued

	Assumed performance	Assumptions used
Fixed pay	All performance scenarios	• Consists of total fixed pay, including base salary, benefits and retirement benefits. • Base salary – salary effective as at 1 January 2015. • Benefits – based on 2014 values. • Retirement benefits – 18% of 2015 salary.
Variable pay	Minimum performance	• No payout under the annual bonus. • No vesting under the LTIP.
	Mid-point	• 50% of the maximum payout under the annual bonus. This represents 75% of base salary for both executive directors. One-third of the bonus payable is deferred into shares under the DBP. • 50% vesting under the LTIP. This represents 100% of base salary for both executive directors.
	Maximum performance	• 100% of the maximum payout under the annual bonus. This represents 150% of base salary for both executive directors. One-third of the bonus payable is deferred into shares under the DBP. • 100% vesting under the LTIP. This represents 200% of base salary for both executive directors.

DBP and LTIP awards have been shown at face value, with no share price growth, dividend accrual or discount rate assumptions.
Excludes payouts under the Legacy Share Bonus Award, which were granted to the executive directors in recognition of services prior to Admission.

REMUNERATION ARRANGEMENTS THROUGHOUT THE COMPANY

The Policy for our executive directors is designed in line with the remuneration philosophy and principles that underpin remuneration across the Group. When making decisions in respect of the executive director remuneration arrangements, the Committee takes into consideration the pay and conditions for employees throughout the Group. As stated in the policy table, salary increases are, in practice, normally aligned to the general employee population. The Committee does not directly consult with our employees as part of the process of determining executive pay.

DIFFERENCES IN REMUNERATION POLICY FOR ALL EMPLOYEES

The remuneration of the wider employee population is based on the same reward philosophy, whilst the components of remuneration vary with seniority. All employees, including executive directors, receive a salary and role appropriate benefits. Role-specific annual bonus arrangements are operated across the Group. For more senior roles, a portion of the bonus is deferred on a similar basis to executive directors. Only senior individuals who can have significant influence on the performance of the Group as a whole are invited to participate in the long-term incentive plans. This provides those individuals with an incentive to help achieve the Group's medium and long-term objectives and create shareholder value, whilst ensuring their remuneration varies to the extent these goals are achieved.

CONSIDERATION OF SHAREHOLDER VIEWS

The structure of remuneration for Board members was presented to shareholders in the Prospectus prior to Admission.

The Committee is mindful of shareholder views when evaluating and setting ongoing remuneration strategy, and intends to appropriately consult with shareholders prior to any significant proposed changes to the remuneration policy.

Annual Report on Remuneration

SINGLE TOTAL FIGURE OF REMUNERATION – EXECUTIVE DIRECTORS (AUDITED)

The following table sets out the total remuneration for the executive directors for the year ended 31 December 2014. This comprises the total remuneration received over the full year from 1 January 2014 to 31 December 2014, including remuneration received from the Group prior to Admission and the incorporation of the Company on 12 June 2014.

As Spire Healthcare Group plc was a newly listed company during 2014, there is no disclosure in this report of prior year information.

£000's	Rob Roger (CEO)	Simon Gordon (CFO)
Salary	450.0	302.1
Benefits	16.1	14.4
Retirement benefits	80.5	54.1
Annual bonus (including deferred element)	195.4	118.2
Long-term incentives	–	–
Sub-total	**742.0**	**488.8**
Legacy – Accrued Incentive Payments	4,450.0[1]	2,050.4[1]
Legacy – Share Bonus Award[2]	1,031.1	562.4
Total	**6,223.1**	**3,101.6**

1 The Accrued Incentive Payment for R Roger was paid wholly in cash, and for S Gordon was paid half in cash (less the repayment of a loan of £12,890) and half in shares as noted on page 84.
2 The value of the Share Bonus Award is calculated at the date of Admission based on a share price of £2.10.

ADDITIONAL NOTES TO THE TABLE

SALARY

On Admission, the salary for the Chief Executive Officer was £525,000 and the salary for the Chief Financial Officer was £350,000, and their salary for 2015 remains unchanged.

BENEFITS

The benefits consist of private medical insurance (for the executive director and their family), permanent health assurance, life assurance and a car allowance. Under his contractual terms, Simon Gordon also has an annual health assessment (for himself and his spouse). Under his contractual terms, Rob Roger also has income protection cover.

RETIREMENT BENEFITS

The amount set out in the table represents the Group contribution to the directors' retirement planning at a rate of 18% of base salary. Simon Gordon is a member of the the Spire Healthcare Pension Plan and Rob Roger has a personal pension scheme.

ANNUAL BONUS

The executive directors' annual bonus targets were set at the beginning of the financial year, prior to Admission, and were amended on Admission by pro-rating to reflect the new circumstances of the company. The EBITDAR reported for the full year of £219.9m was ahead of the amended threshold target. Additionally, both Rob Roger and Simon Gordon achieved their strategic and personal objectives in full, including the successful delivery of the IPO, such that each has earned in total a bonus of 34.3% of their maximum potential annual bonus.

The Committee is satisfied that the resulting payments of £195,400 and £118,200 to Rob Roger and Simon Gordon respectively are fully merited. The performance targets in relation to the 2014 awards, which were set prior to Admission, are considered to be commercially sensitive. The Committee have implemented a revised bonus framework for 2015 (as set out on page 86).

Two-thirds of the bonus will be paid in cash. The remaining one-third of the bonus in respect of 2014 will be deferred into shares under the DBP. These shares will be deferred for a period of three years, conditional on continued employment. These shares will remain subject to a malus provision.

LONG-TERM INCENTIVES

No awards under the LTIP vested in the 2014 financial year and, subsequently, no award is shown in the single figure table above.

The first awards under the LTIP were granted on 30 September 2014. These awards were granted in the form of nil-cost options over Spire Healthcare Group plc shares, with the number of shares that may vest conditional on performance to the end of the 2016 financial year. The maximum award granted to executive directors was equivalent to 200% of base salary.

Shortly following Admission, the Committee considered the key long-term objectives over the 2014 to 2016 performance period. The Committee determined that the awards for the performance period to 31 December 2016 should be linked to the value created for shareholders over the period, and as a consequence that the awards should be equally weighted against relative TSR and EPS performance targets. Further details of the performance conditions are set out on page 84.

Directors' Remuneration Report
continued

EPS – 50% of award
Vesting of this element is based on the adjusted EPS outcome for the 2016 financial year.

2016 EPS	Percentage of the element vesting
Less than 20.6 pence	0%
20.6 pence	25%
23.9 pence or more	100%

Straight-line vesting operates between these points.

Relative TSR – 50% of award
Vesting of this element is based on TSR performance measured against the constituents of the FTSE 250 (excluding investment trusts).

TSR performance	Percentage of the element vesting
Below median	0%
Median	25%
Upper quartile	100%

Straight-line vesting operates between these points. Based on relative TSR performance from Admission to 31 December 2016.

The following table provides details of the awards made on 30 September 2014:

Name	Type of award	Number of shares	Face value at grant	End of performance period
Rob Roger (CEO)	Conditional Share Award (in the form of nil-cost options)	372,340	£1,050,000	31 December 2016
Simon Gordon (CFO)		248,226	£700,000	

The share price used to determine the number of shares under awards was £2.823, the average of the middle market quotation at close of business over the last five dealing days prior to the date of grant. The face value is equivalent to 200% of base salary.

LEGACY ARRANGEMENTS – VARIABLE INCENTIVES RELATING TO THE PERIOD PRIOR TO ADMISSION

As disclosed in the Prospectus, the Company granted, conditional on Admission, Accrued Incentive Payments and Share Bonus Plan Awards. These are legacy arrangements that were adopted and operated prior to Admission. These figures have been included in the single-figure table above in the interests of transparency; however, it should be noted that they relate to performance delivered prior to Admission.

LEGACY ARRANGEMENT – ACCRUED INCENTIVE PAYMENTS
Bonus awards were made to approximately 160 current and former employees of the Group, including the executive directors Rob Roger, Simon Gordon and Garry Watts (in respect of his pre-Admission role of Executive Chairman). Half of the award made to Simon Gordon was delivered in shares. All remaining awards were paid in cash.

LEGACY ARRANGEMENT – DIRECTORS' SHARE BONUS PLAN AWARDS
Awards were granted to Rob Roger, Simon Gordon and Garry Watts (in recognition of his performance in his pre-Admission role of Executive Chairman) to reflect their contribution to the Company prior to Admission. Details of these awards are set out below. In order to create further alignment with shareholders, these awards were made over shares in the form of nil-cost options and split into two equal tranches, which become exercisable on the first and second anniversary of Admission, respectively.

Although these awards were made in recognition of services provided to the Company prior to Admission and, as such, are not subject to continued employment, the Share Bonus Awards will only remain exercisable in full if the 90 day average share price prior to the first and second anniversary of Admission is at least 359 pence. If, at the relevant anniversary, the average share price is at or below 224 pence then the number of shares in the relevant tranche, to which the awards relate, will be reduced by approximately 35%. Where the average share price at the relevant anniversary is between 224 pence and 359 pence then the proportion exercisable will be reduced on a pro-rata basis.

As the awards were made in respect of the period prior to Admission, they are not subject to continued employment, except in the case of dismissal for cause, and remain subject to the malus provisions detailed in the remuneration policy. The amounts shown in the single-figure tables is the minimum number of shares that may vest valued at the share price on Admission (210 pence).

No further awards will be made under this arrangement.

The following table provides details of the Directors' Share Bonus Awards:

Name	Type of award	Minimum exercisable award No. of shares	Maximum exercisable award No. of shares	Face value of maximum	Vesting date
Rob Roger (CEO)	Conditional Share Award (in the form of nil-cost options)	491,000	766,000	£1,608,600	Vesting date for all participants:
Simon Gordon (CFO)		267,800	417,800	£877,380	
Garry Watts (in respect of previous role as Executive Chairman)		312,500	487,400	£1,023,540	50% – 23 July 2015 50% – 23 July 2016

These awards were granted on 4 July 2014. The face value shown is based on the maximum number of shares exercisable valued at the share price on Admission (£2.10).

SINGLE TOTAL FIGURE OF REMUNERATION – NON-EXECUTIVE DIRECTORS (AUDITED)

The following table sets out the total remuneration for the non-executive directors for the year ended 31 December 2014. This comprises the total remuneration received by them since the incorporation of the Company on 12 June 2014. Full year information is shown for the Chairman (including detail relating to his pre-Admission role as Executive Chairman)

As Spire Healthcare Group plc was a newly listed company during 2014, there is no disclosure in this report of prior year information.

£000's	Fees	Benefits	**Total**
John Gildersleeve	75.0	–	**75.0**
Simon Rowlands	–	–	**–**
Dr Supraj Rajagopalan	–	–	**–**
Tony Bourne	30.0	–	**30.0**
Dame Janet Husband	30.0	–	**30.0**
Robert Lerwill	30.0	–	**30.0**
Total	165.0	–	**165.0**

CHAIRMAN

£000's	Garry Watts (as Executive Chairman)	Garry Watts (as Non-Executive Chairman)
Salary/Fees	143.3	114.0
Benefits	2.2	1.0
Retirement benefits	–	–
Annual bonus	144.2	–
Long-term incentives	–	–
Sub-total	**289.7**	**115.0**
Variable incentives prior to Admission		
Legacy – Accrued Incentive Payment	1,298.7	–
Legacy – Share Bonus Award[1]	656.3	–
Total	**2,244.7**	**115.0**

1 The value of the Share Bonus Award is calculated at the date of Admission based on a share price of £2.10.

NOTES TO THE TABLE

FEES

The fees shown are paid to the non-executive director from the date of their appointment. The non-executive directors nominated by Cinven Funds, subject to the Relationship Agreement, do not receive any fees.

BENEFITS

Only Garry Watts has a contractual entitlement to benefits, which consist of private medical insurance for himself and family; life cover for himself only; annual health assessment for himself and spouse; and office facilities to enable him to perform his duties as Chairman.

Reasonable expenses incurred by any non-executive director will be reimbursed by the Company.

CHAIRMAN

As disclosed in the Prospectus, Garry Watts was entitled to a time pro-rated bonus for the period prior to Admission, in respect of his previous role as Executive Chairman. The amount shown is equivalent to 100% of his previous salary pro-rated for the period from 1 January 2014 to the date of Admission.

Details of the legacy awards relating to performance prior to Admission are set out on page 84.

Following Admission, Garry Watts was appointed as a non-executive Chairman and, in line with corporate governance guidelines, he will not participate in any future incentive plans.

Directors' Remuneration Report
continued

IMPLEMENTATION FOR 2015

The following table summarises how remuneration arrangements will be operated for 2015. Shareholders will note:

- salaries remain unchanged for the year; and
- the maximum opportunity under the incentive plans will remain unchanged.

Salary and benefits

- Following the year end, the Committee reviewed the base salary for executive directors as part of the annual salary review process and decided not to increase them at this point in time.

	On Admission	2015 salary
Rob Roger	£525,000	£525,000
Simon Gordon	£350,000	£350,000

- No changes to benefits for 2015 – benefits include private medical insurance, permanent health assurance, income protection, life assurance, an annual health assessment and car allowance. Company contributions to the executive directors' retirement benefits remain at 18% of salary.

Annual bonus

- The maximum opportunity for both executive directors will remain at 150% of salary.
- The performance targets in respect of the 2015 bonus will be based on EBITDA, and a balanced scorecard based on strategic targets linked to productivity, customer, quality and staff measures. The detail of targets for the coming year is commercially sensitive; however, the Committee will look to provide expanded disclosure regarding bonus outcomes in next year's report.
- One-third of any bonus earned will be deferred into shares for three years.

LTIP

- Conditional award over shares will be made in 2015 of 200% of base salary in the form of nil-cost options.
- Performance will be measured over the period from 1 January 2015 to 31 December 2017.
- Awards conditional on relative TSR and adjusted EPS targets:

	Threshold (25% vests)	Full vesting (100% vests)
TSR v FTSE 250 (excluding investment trusts) (50%)	Median	Upper quartile
Adjusted EPS – outcome in 2017 (50%)*	23.8 pence	27.5 pence

* Straight-line vesting between points shown. No vesting of element for performance below threshold.

Shareholding guideline

- Executive directors are expected to build up and maintain, over a period of five years, a shareholding equivalent to twice their respective base salaries.
- As at the date of this report, both executive directors have holdings that exceed this guideline.

Non-Executive Directors

- The current fees payable to the Chairman and non-executive directors are shown in the following table. These fees will be subject to review on the appointed date.

Role	Fee
Chairman	£257,000
Deputy Chairman/Senior Independent Director	£140,000
Basic fee for other non-executive directors	£50,000
Additional fee for chair of a Board Committee	£10,000

STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED)

The table below sets out the directors' shareholdings in the Group. As noted above, executive directors are expected to build up and maintain a holding equivalent to twice their base salary.

	Shareholding	Guidelines
	As at 31 December 2014	Proportion of shareholding guideline achieved[1]
Executive Directors		
Rob Roger	**518,216**	188%
Simon Gordon	**262,596**	143%
Non-Executive Directors		
Garry Watts	**266,532**	n/a
John Gildersleeve	**4,761**	n/a
Simon Rowlands	**0**	n/a
Dr Supraj Rajagopalan	**0**	n/a
Tony Bourne	**11,904**	n/a
Dame Janet Husband	**4,761**	n/a
Robert Lerwill	**23,809**	n/a

1 Calculated based upon the closing share price on 31 December 2014 of £3.80, both executive directors significantly exceed the guideline of 200% of salary.

The table below sets out the directors' interests in shares of the Group which remain unvested as at the year end.

	Shares	
Name	Unvested and subject to performance conditions[1]	Unvested and not subject to performance conditions[2]
Executive Directors		
Rob Roger	647,340	491,000
Simon Gordon	398,226	267,800
Non-Executive Directors		
Garry Watts	174,900	312,500
John Gildersleeve	–	–
Simon Rowlands	–	–
Dr Supraj Rajagopalan	–	–
Tony Bourne	–	–
Dame Janet Husband	–	–
Robert Lerwill	–	–

1 Awards granted under the LTIP (372,340 for Rob Roger and 248,226 for Simon Gordon), plus the proportion of the Directors' Share Bonus Plan that is delivered dependent on share price performance (275,000 for Rob Roger, 150,000 for Simon Gordon and 174,900 for Garry Watts).
2 Consists of the proportion of the Directors' Share Bonus Award that is not subject to performance (491,000 for Rob Roger, 267,800 for Simon Gordon and 312,500 for Garry Watts).

Unvested awards are structured as nil-cost options.

Directors' Remuneration Report
continued

LETTERS OF APPOINTMENT

Non-Executive Director	Date of appointment	Notice period	Date of expiry
G Watts	4 July 2014	12 months	23 July 2017
J Gildersleeve	24 June 2014	3 months	23 July 2017
T Bourne	24 June 2014	2 months	21 May 2018
R Lerwill	24 June 2014	2 months	21 May 2018
J Husband	24 June 2014	2 months	21 May 2018

SERVICE CONTRACTS

Each of the executive directors, who both put themselves up for re-election at the AGM to be held on 21 May 2015, are employed under ongoing service contracts with the Group. These contracts do not have a fixed term of appointment. A copy of each executive director's service contract is available at the registered office for inspection.

PERFORMANCE TABLE

The table below illustrates Spire Healthcare's TSR performance against the FTSE 250 (excluding investment trusts) since listing.

	23 July 2014	**31 Dec 2014**
FTSE 250	100	**107**
Spire Healthcare	100	**148**

The table below shows the total remuneration paid to the Chief Executive Officer since Admission.

Chief Executive Officer's remuneration	**2014**
CEO single figure of remuneration (£000's)	**398.6**
Annual bonus payout (% of maximum)	**34%**
LTIP vesting (% of maximum)	**N/A**

PERCENTAGE CHANGE IN REMUNERATION OF THE DIRECTOR UNDERTAKING THE ROLE OF CHIEF EXECUTIVE OFFICER

There is no comparative data from previous year, as shown in the single-figure table. Hence, there will be no percentage changes in salary, benefits and annual bonus for the CEO or for the comparator group of all UK permanent employees.

RELATIVE IMPORTANCE OF SPEND ON PAY

The table below illustrates the year-on-year change in the total remuneration costs for all employees and shareholder distributions.

£million	2013	**2014**	% change
Total remuneration	210.9	**283.1**[1]	34%
Distributions to shareholders	–	**–**	N/A

1 Included in total remuneration for the year ended 31 December 2014 are exceptional IPO bonuses; see notes 7 and 8 on pages 107 and 108 of the Notes to the financial statements for further detail.

ADVICE PROVIDED TO THE REMUNERATION COMMITTEE

During the course of the year, Deloitte LLP was appointed by the Committee to provide external advice. Its total fees for advice provided to the Remuneration Committee were £60,500. Deloitte has voluntarily signed up to the Remuneration Consultants' Code of Conduct in relation to executive remuneration consulting during the year. The Committee is comfortable that the Deloitte LLP engagement partner and team that provides remuneration advice to the Committee do not have connections with the Company that may impair their independence. During the year, Deloitte also provided unrelated tax and consultancy services to the Group.

The Chairman, CEO, CFO and Simon Rowlands attended committee meetings by invitation in order to provide the Committee with additional context. The Company Secretary (or in his absence, the Deputy Company Secretary) act as the Committee's secretary. No individual participates in discussions regarding their own remuneration.

On behalf of the Remuneration Committee

Tony Bourne
Chair, Remuneration Committee
23 March 2015

Directors' Report

The directors submit their Annual Report together with the audited financial statements of the Group and of the Company, Spire Healthcare Group plc, for the year ended 31 December 2014.

Certain disclosure requirements for inclusion in this report have been incorporated by way of cross reference to the Strategic Report on pages 1 to 55 and the Directors' Remuneration Report on pages 74 to 88, and should be read in conjunction with this report. The following, included in the Strategic Report, also form part of this report:

- greenhouse gas emissions, which can be found in Corporate Social Responsibility on page 45;
- employees, which can be found in Our People on pages 42 and 43;
- the Corporate Governance statement, set out on pages 59 to 66; and
- Our Strategy set out on pages 18 to 21.

Information regarding the Company's charitable donations can be found in the Corporate Social Responsibility section on pages 44 and 45.

LISTING ON THE LONDON STOCK EXCHANGE

The Company's registered office and principal place of business is at 3 Dorset Rise, London EC4Y 8EN. On 23 July 2014, the entire issued ordinary share capital of the Company was admitted to the premium listing segment of the Official List of the Financial Conduct Authority and to unconditional trading on the London Stock Exchange plc's main market for listed securities.

DIVIDEND

The directors are recommending a final dividend in respect of 2014 of 1.8 pence per ordinary share which, if approved by shareholders at the AGM, will be paid on 30 June 2015 to shareholders on the register at 5 June 2015.

BOARD OF DIRECTORS

The directors of the Company were all appointed in June 2014, prior to Admission to Listing and their biographical information is set out on pages 56 and 57. All directors will retire at the AGM and offer themselves for re-election. Further information on the contractual arrangements of the executive directors is given on page 88. The non-executive directors do not have service agreements.

POWERS OF THE DIRECTORS

The business of the Company is managed by the directors who may exercise all the powers of the Company, subject to any relevant legislation, any directions given by the Company by passing a special resolution and to the Company's Articles of Association. The Articles, for example, contain specific provisions concerning the Company's power to borrow money and issue shares.

APPOINTMENT AND REMOVAL OF DIRECTORS

Rules relating to the appointment and removal of the directors are contained within the Company's Articles of Association.

DIRECTOR'S INDEMNITIES

See page 65 in the Corporate Governance section.

AMENDMENT OF ARTICLES OF ASSOCIATION

The Company may only make amendments to the Articles of Association of the Company, by way of special resolution of the shareholders, in accordance with the Companies Act.

EMPLOYEES

The Group is an equal opportunities employer and is committed to creating an environment which will attract, retain and motivate its people, by creating a working environment in which individuals are able to make best use of their skills, free from discrimination or harassment, and in which all decisions are based on merit. Spire Healthcare employs people who consider themselves to have a disability (a physical or mental impairment which has a substantial and long term adverse effect on their ability to carry out normal day to day activities). Employees who consider themselves to have a disability are under no obligation to inform their employer of this, however, we are fully aware of, and comply with, our obligations in accordance with the relevant provisions of The Equality Act 2010.

The Group gives full and fair consideration to applications for employment from disabled persons. Should an employee become disabled during their employment with Spire Healthcare, every effort is made to enable them to continue their service with the Group.

Further information on our employees can be found in Our People on pages 42 and 43.

POLITICAL DONATIONS AND EXPENDITURE

The Group made no political donations in the period since Admission. Although the Company does not make, and does not intend to make, donations to political parties, within the normal meaning of that expression, the definition of political donations under the Companies Act 2006 is very broad and includes expenses legitimately incurred as part of the process of talking to members of parliament and opinion formers to ensure that the issues and concerns of the Group are considered and addressed. These activities are not intended to support any political party and the Group's policy is not to make any donations for political purposes in the normally accepted sense.

A resolution (continuing the approval granted by shareholders as part of the IPO) will therefore be proposed at the AGM seeking shareholder approval for the directors to be given authority to make donations and incur expenditure which might otherwise be caught by the terms of the Companies Act 2006. The authority sought will be limited to a maximum amount of £100,000.

Directors' Report
continued

SHARE CAPITAL
As at the date of this report, the Company had an issued share capital of 401,081,391 ordinary shares of 1 pence each, being the total number of Spire Healthcare Group plc shares with voting rights.

The rights attaching to the shares are set out in the Articles of Association. There are no restrictions on the transfer of ordinary shares in the capital of the Company other than those which may be imposed by law from time to time. There are no special control rights in relation to the Company's shares and the Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights, except for the lock-ins agreed at the time of Admission as set out in the Prosepctus. In accordance with the Disclosure and Transparency Rules, certain employees are required to seek approval to deal in Spire shares.

Further information relating to the Company's issued share capital can be found in note 27 to the Company financial statements on page 119.

ALLOT SHARES AND PRE-EMPTION RIGHTS
Resolutions giving the directors the authority to allot further shares and make allotments of shares to persons other than existing shareholders in certain circumstances will be proposed for the first time at the AGM. See the Notice of Meeting contained within the AGM circular for additional detail.

VOTING RIGHTS
In a general meeting of the Company, on a show of hands, every member who is present in person or by proxy and entitled to vote shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are the holder.

RESTRICTIONS ON VOTING
Unless the directors otherwise determine, a shareholder shall not be entitled to vote either personally or by proxy;

- if any call or other sum presently payable to the Company in respect of that share remains unpaid, or
- having been duly served with a notice to provide the Company with information under Section 793 of the Companies Act, and has failed to do so within 14 days, for so long as the default continues.

DIRECTORS' INTERESTS IN SHARE
The directors' share interests in the Company are detailed on page 87.

MATERIAL INTERESTS IN SHARES
The Group has been notified in accordance with DTR 5 of the Disclosure and Transparency Rules of the following interests in its issued ordinary shares as at 23 March 2015:

	Current %
Cinven Funds	48.35
Woodford Investment Management	10.21
BlackRock Investment Management	4.18
Lazard Asset Management	3.84
Capital World Investors	3.82

SIGNIFICANT AGREEMENTS
The following agreements are considered to be significant in terms of their potential impact on the business of the Group as a whole and could alter or terminate on a change of control of the Group:

- the Group's bank facility agreement contains provisions entitling the counterparties to exercise termination or other rights in the event of a change of control;
- there are a number of contracts which allow the counterparties to alter or terminate those arrangements in the event of a change of control of the Company. These arrangements are commercially sensitive and confidential and their disclosure could be seriously prejudicial to the Group; and
- the Company's share incentive plans contain provisions relating to a change of control and full details of these plans are provided in the Directors' Remuneration Report on pages 75 to 88. Outstanding options and awards would normally vest and become exercisable on a change of control, subject to the satisfaction of performance conditions, if applicable, at that time.

As disclosed in the Prospectus, the Relationship Agreement is a material agreement between the Company and Cinven Funds as the principal shareholder. The agreement does not include a change of control provision but does terminate upon the earlier of the Shares ceasing to be listed and traded on the London Stock Exchange's main market for listed securities and the principal shareholder's ceasing to be entitled, in aggregate, to exercise or to control the exercise of 15 per cent. or more of the votes to be cast on all or substantially all matters of a general meeting of the Company.

COMPENSATION FOR LOSS OF OFFICE
There are no agreements between the Group and its directors or employees providing for compensation for loss of office or employment that occurs as a result of change of control.

DISCLOSURES REQUIRED UNDER LISTING RULE 9.8.4R

The following table is included to meet the requirements of Listing Rule section 9.8.4R. The information required to be disclosed by that section, where applicable to the Company, can be located in the Annual Report and financial statements at the references set out below.

Information required	Location in annual report
Amount of interest capitalised	Note 11 on page 109
Long-term incentive schemes	See DRR pages 74–88
Equity securities allotted for cash	Note 27 on page 119
Parent and subsidiary undertakings	Note 18 on page 114
Subsisting significant contracts	Note 33 on page 125
Controlling shareholder relationships	Pages 60 and 90

EVENTS AFTER THE REPORTING PERIOD

There have been no material events affecting the Group or Company since 31 December 2014.

GOING CONCERN

On Admission on 23 July 2014, the Group refinanced its bank loan facilities with a facility that matures in 2019. The proceeds from the issue of new ordinary shares, existing resources and £425.0 million from the new term loans, were applied in the repayment of all of the existing bank loan and interest rate swap liabilities. Loans from former parent undertakings were settled through the issue of new shares in the Company.

The directors have considered the Group's forecasts and projections, and the risks associated with their delivery, and are satisfied that the Group will be able to operate within the covenants imposed by the new bank loan facility for the foreseeable future. In relation to available cash resources, the directors have had regard to both cash at bank and a £100 million committed, undrawn revolving credit facility.

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

DISCLOSURE OF INFORMATION TO AUDITOR

Having made enquiries of fellow directors and of the Company's auditor, each of the directors confirms that:

- to the best of their knowledge and belief, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditor is aware of that information.

RE-APPOINTMENT OF AUDITOR

Resolutions for the re-appointment of Ernst & Young LLP as the Auditor of the Company and to authorise the directors to determine its remuneration are to be proposed at the AGM.

ANNUAL GENERAL MEETING (THE 'AGM')

The Annual General Meeting of Spire Healthcare Group plc will be held at Freshfields Bruckhaus Deringer, 65 Fleet Street, London EC4Y 1HS on Thursday 21 May 2015 at 11.00 am. The notice of meeting is contained within the AGM circular.

The Directors' Report has been approved by the Board and is signed on its behalf by:

Daniel Toner
General Counsel and Group Company Secretary
23 March 2015

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Accounts, including the consolidated financial statements and the Company financial statements, Directors' Report, including the Directors' Remuneration Report and the Strategic Report in accordance with applicable law and regulations. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with IFRS, as adopted by the EU.

Company law requires the directors to prepare such financial statements for each financial year. Under company law, the directors must not approve the financial statements, unless they are satisfied that they give a true and fair view of the state of affairs of the Company on a consolidated and individual basis, and of the profit or loss of the Company on a consolidated basis for that period.

In preparing these financial statements, the directors are 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 EU is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's and Company's financial position and financial performance;
- state that the Group's and Company's financial statements have complied with IFRSs as adopted by EU, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on a going-concern basis, unless it is not appropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, and disclose, with reasonable accuracy at any time, the Company's financial position and enable them to ensure compliance with the Companies Act 2006. They are also responsible for safeguarding the Company's assets and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the directors, whose names and functions are listed on pages 56 and 57, confirms that:

- to the best of their knowledge, the consolidated financial statements and the Company financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company on a consolidated and individual basis;
- to the best of their knowledge, the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks and uncertainties that it faces; and
- they consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board,

Rob Roger
Chief Executive Officer

Simon Gordon
Chief Financial Officer
23 March 2015

Independent auditor's Report
To the members of Spire Healthcare Group plc

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Spire Healthcare Group plc for the year ended 31 December 2014 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company Statements of Changes in Equity, the Group and Parent Company Cash Flow Statements and the related notes 1 to 34. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the Group and Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and for the Parent Company as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 92, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (ISAs) (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

OUR AUDIT OF THE FINANCIAL STATEMENTS

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

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatement that makes it probable that the economic decisions of a reasonably knowledgeable person, relying on the financial statements, would be changed or influenced.

We then determine a lower level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole. We determined materiality for the Group to be £4.2 million (2013: £3.6 million), which is calculated as 5% (2013: 5%) of adjusted profit before tax. We adjust the loss before tax as reported by the Group to exclude the impact of:

- exceptional items of £54.0 million (note 8 to the financial statements);
- profit on disposal of hospital properties of £18.5 million (note 9 to the financial statements); and
- interest on loans from former ultimate parent undertakings and management of £54.8 million (note 11 to the financial statements).

We exclude exceptional items and the profit on disposal of hospital properties with the intention of avoiding inappropriate fluctuations in our materiality from year to year as a result of non-recurring items that do not reflect the underlying trading performance of the Group. Similarly interest paid to the former shareholders prior to the Group being admitted to the London Stock Exchange on 23 July 2014 is excluded so that the pre-tax profit reflects the trading performance of the newly restructured Group. As a result of excluding these items, adjusted pre-tax profit from which we have calculated the 5% basis for materiality is £83.3 million.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement is that performance materiality for the Group should be 75% (2013: 75%) of materiality, namely £2.9 million (2013: £2.7 million), which reflects our assessment of the overall control environment and the history of no or very few audit adjustments. Our approach is designed to have a reasonable probability of ensuring that the total of uncorrected and undetected audit differences does not exceed our materiality of £4.2 million (2013: £3.6 million) for the financial statements as a whole.

Independent auditor's Report
To the members of Spire Healthcare Group plc *continued*

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

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The Group continues to operate solely in the UK and with common financial systems, processes and controls covering all of its operations. Two trading entities account for 96% of the Group's revenue, and both were subject to full scope audits for the year ended 31 December 2014. Two other non-trading entities were also included within full scope audit procedures, resulting in 96.3% of the Group's revenue, 100% of the Group's operating profit before exceptionals and 46.5% of the Group's assets being covered through full scope audit procedures.

Specific scope audit procedures were performed for 26 other entities, the majority of which comprise the Group's head office and property functions and covered 52.6% of the Group's asset base. These entities were selected for specific scope audit procedures for which the extent of audit work was based on our assessment of the risks of material misstatement and of the materiality of those locations to the Group's business operations.

Combined full and specific scope audit procedures performed across the Group for the year ended 31 December 2014, covered over 99% of the Group's revenue, 100% of the Group's operating profit before exceptional items and 99% of the Group's total assets. The audits of all these components are performed at a materiality level calculated by reference to a proportion of the Group performance materiality appropriate to the relevant scale of the business concerned. The components were allocated a performance materiality threshold ranging between £0.6 million and £2.9 million.

The audit of all of the components within the Group is undertaken by one audit team which is led by the senior statutory auditor. Due to the nature of the main risk areas noted below, the audit team is supported by experts in taxation, property valuations, and the evaluation of appropriate discount rates used within value-in-use calculations.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

We consider that the following areas present the greatest risk of material misstatement in the financial statements and consequently have had the greatest impact on our audit strategy, the allocation of resources and the efforts of the engagement team, including the more senior members of the team. This is not a complete list of all risks identified and addressed through our audit procedures.

PRINCIPAL RISK AREA AND RATIONALE	AUDIT RESPONSE
Revenue recognition Consistent with the significant issues as identified by the Audit and Risk Committee, we considered that the complexity of the pricing structure, specifically the high volume of different procedures that are undertaken across the patient revenue streams creates a risk that systematic errors or manipulation of pricing could lead to an error in reported revenues (£856.0 million for the year ended 31 December 2014 (2013: £764.5 million)). This risk is considered to be higher in recording PMI and NHS related revenues where the extent of pricing variations is most significant and requires clinical input as appropriate. The Group's accounting policies themselves in respect of revenue recognition are not considered to present any significant risk of misstatement because revenue is recognised only on completion of medical procedures.	We identified the controls over the occurrence of revenue to be the most appropriate to test. The remaining audit procedures over revenue measurement and validation utilised a substantive approach. To address the risks of mis-statement in relation to the revenue recognition we performed a number of procedures, including: • transactional level pricing validation was performed on a sample of invoices across the Group and agreed back to source pricing documentation and evidence of input from clinical review as applicable; • post year end credit note testing to validate that pre year end revenue was not inappropriately recognised; • analysis of credit notes raised during through the period to consider if prior history indicated trends of errors in invoicing; • consideration and support of any payor pricing disputes, or likelihood thereof, during the period to gain evidence that there was no material inappropriate billing during the period under review; and • analytical review at a hospital level to consider unusual trends that could indicate material misstatement to revenue.

PRINCIPAL RISK AREA AND RATIONALE	AUDIT RESPONSE
Goodwill carrying amounts We focused on this area due to (i) the significance of the carrying value of the goodwill being assessed (£519.1 million as at 31 December 2014); and (ii) as a result of the level of subjectivity associated with the forecast assumptions which underpin management's assessment of value-in-use, including the degree of subjectivity of cash flow forecasts, associated growth rates and the appropriateness of the discount rate applied.	We examined the Group's forecast cash flows which underpin management's impairment review. We tested the basis of preparing those forecasts taking into account the accuracy of previous forecasts and the historic evidence supporting underlying assumptions. Future cash flow assumptions were challenged through comparison of current trading performance, seeking corroborative evidence and enquiry with management in respect of key growth and trading assumptions. The reasonableness of other key assumptions such as the discount rate and long term growth rate were tested with appropriate input from EY valuation experts and applying an independent assessment on general market indicators to conclude on the appropriateness of these assumptions. We also tested the mathematical integrity of management's model and carried out audit procedures on management's sensitivity calculations. We also tested management's assessment on whether any reasonably possible change in these key assumptions would result in an impairment of goodwill and therefore require disclosure under IAS 36 Impairment of Assets.
Appropriate recognition of deferred tax balances We consider that the Group's structure, including the changes arising during the year as a result of the Group reconstruction prior to IPO, results in there being a higher inherent risk associated with the calculation of current and deferred tax balances and the resulting tax position adopted by the Group. This is consistent with both the significant issue as identified by the Audit and Risk Committee and the significant judgement as set out in note 4 to these financial statements. We consider that there is a level of estimation in assessing the tax base of the property portfolio for the purposes of calculating the associated deferred tax liability (£91.7 million as at 31 December 2014). Such calculations are dependent on management's assumption on use or possible disposal of properties in the future. The scope for recognition of the Group's deferred tax assets (£43.6 million as at 31 December 2014) in accordance with IAS 12, particularly in respect of available losses is also a matter of judgement.	We considered the status of any recent and current tax audits and enquiries and reperformed management's true up to the corporation tax calculations from the tax returns submitted for the prior year. We understood and verified management's assumptions supporting the calculation of the deferred tax liability arising in respect of the property portfolio. Through our enquiries with management, we assessed the appropriateness of how the carrying amounts are assumed to be recovered with regard to Group's business plans and known developments. In respect of both current and deferred tax, we tested management's estimates of appropriate levels of allowed tax deductions where the final tax treatment is yet to be agreed by the relevant tax authority. This included examining any available correspondence with tax authorities or tax advisors at the time of our audit procedures to corroborate the treatment adopted by management. We considered the appropriateness of the taxation disclosures made in the financial statements.
Treatment of costs directly attributable to the Group's IPO We considered the judgement management has exercised in appropriately presenting significant costs incurred in respect of the IPO. Costs that are directly attributable to the issuance of new share capital may be allocated directly against share premium. This presents the risk that management may allocate costs to equity that are not directly attributable to the IPO, resulting a misstatement of profit. In addition costs directly incurred in raising new debt are required to be presented set off against the associated loan balance. This increases the risk that management may present costs in the balance sheet that are not directly related to raising new debt. We also considered the classification of employee bonus charges and other expenses incurred as a consequence of the IPO process as exceptional.	We have audited costs that are reported by management to be related to the IPO and in particular tested management's allocation of such costs that are presented as directly attributable to the share issuance (£11.4 million for the year ended 31 December 2014) or new debt (£5.6 million for the year ended 31 December 2014). We also considered the appropriateness of presenting the other IPO related costs as exceptional costs (£46.1 million for the year ended 31 December 2014) and concluded that such presentation was in accordance with the Group's accounting policy and the relevant 2013 FRC guidance.

Independent auditor's Report
To the members of Spire Healthcare Group plc *continued*

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the statement of directors' responsibilities, set out on page 92, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

David Hales
(Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
23 March 2015

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

Consolidated income statement

For the year ended 31 December 2014

(£ million)	Notes	2014	2013
Revenue	6	**856.0**	764.5
Cost of sales		**(436.6)**	(382.1)
Gross profit		**419.4**	382.4
Other operating costs		**(359.3)**	(282.8)
Operating profit	5	**60.1**	**99.6**
Exceptional items included within other operating costs	8	**(54.0)**	(11.5)
Operating profit before exceptional items		**114.1**	111.1
Profit on disposal of property, plant and equipment	9	**18.5**	44.2
Interest income	10	**0.3**	0.4
Finance costs	11	**(85.9)**	(153.9)
Exceptional finance costs	11	**–**	(42.2)
Total finance costs		**(85.9)**	(196.1)
Loss before taxation		**(7.0)**	**(51.9)**
Taxation	13	**13.0**	154.1
Profit for the year		**6.0**	**102.2**
Profit for the year attributable to owners of the Parent		**6.0**	102.2
Earnings per share – basic and diluted (in pence per share)	14	**1.9**	**40.9**

Consolidated statement of comprehensive income

For the year ended 31 December 2014

(£ million)	2014	2013
Profit for the year	**6.0**	102.2
Other comprehensive income for the year		
Net gain on cash flow hedges	**–**	39.4
Deferred tax on cash flow hedges taken to hedge reserve	**–**	(11.1)
Hedge loss recycled to income statement (note 11)	**–**	68.8
Deferred tax on recycled cash flow hedge losses	**–**	(13.8)
Other comprehensive income net of tax	**–**	83.3
Total comprehensive income for the year	**6.0**	185.5
Total comprehensive income for the year attributable to owners of the Parent	**6.0**	185.5

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

Consolidated statement of changes in equity

For the year ended 31 December 2014

(£ million)	Share capital	Share premium	Hedging reserve	Capital reserves	Retained earnings	Total equity
As at 1 January 2013	–	–	(83.3)	–	(358.5)	(441.8)
Profit for the year	–	–	–	–	102.2	102.2
Other comprehensive income	–	–	83.3	–	–	83.3
Total comprehensive income	–	–	83.3	–	102.2	185.5
Employee benefit trust	–	–	–	–	0.1	0.1
As at 1 January 2014	**–**	**–**	**–**	**–**	**(256.2)**	**(256.2)**
Profit for the year	**–**	**–**	**–**	**–**	**6.0**	**6.0**
Total comprehensive income	**–**	**–**	**–**	**–**	**6.0**	**6.0**
Group reorganisation	**2.5**	**525.0**	**–**	**376.1**	**–**	**903.6**
Shares issued on Admission	**1.5**	**313.3**	**–**	**–**	**–**	**314.8**
Transaction costs of shares issued	**–**	**(11.4)**	**–**	**–**	**–**	**(11.4)**
Share-based payments	**–**	**–**	**–**	**–**	**2.8**	**2.8**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**0.4**	**0.4**
Balance at 31 December 2014	**4.0**	**826.9**	**–**	**376.1**	**(247.0)**	**960.0**

Consolidated balance sheet

As at 31 December 2014

(£ million)	Notes	2014	2013
ASSETS			
Non-current assets			
Intangible assets	16	**519.1**	514.9
Property, plant and equipment	17	**851.9**	813.9
Deferred tax asset	24	**–**	17.1
		1,371.0	1,345.9
Current assets			
Inventories	19	**26.0**	26.2
Trade and other receivables	20	**139.9**	131.2
Cash and cash equivalents	21	**74.5**	111.5
		240.4	268.9
Total assets		**1,611.4**	1,614.8
EQUITY AND LIABILITIES			
Equity			
Share capital	27	**4.0**	–
Share premium		**826.9**	–
Capital reserves	27	**376.1**	–
Retained earnings		**(247.0)**	(256.2)
Equity attributable to owners of the Parent		**960.0**	(256.2)
Non-controlling interests		**–**	–
Total equity		**960.0**	(256.2)
Non-current liabilities			
Borrowings	22	**493.5**	882.1
Derivative financial instruments	25	**–**	52.4
Deferred tax liability	24	**48.1**	77.4
		541.6	1,011.9
Current liabilities			
Provisions	23	**6.2**	3.2
Borrowings	22	**5.3**	746.8
Derivative financial instruments	25	**–**	22.1
Trade and other payables	26	**98.3**	87.0
		109.8	859.1
Total liabilities		**651.4**	1,871.0
Total equity and liabilities		**1,611.4**	1,614.8

These Consolidated financial statements and the accompanying notes were approved for issue by the Board of Directors on 23 March 2015 and were signed on its behalf by:

Rob Roger
Chief Executive Officer

Simon Gordon
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 31 December 2014

(£ million)	Notes	2014	2013
Cash flows from operating activities			
Loss before taxation		**(7.0)**	(51.9)
Adjustments for:			
depreciation	5	**45.1**	43.0
goodwill impairment	16	**1.0**	0.9
share-based payments	28	**2.8**	–
profit on disposal of property, plant and equipment	9	**(18.5)**	(44.2)
interest income	10	**(0.3)**	(0.4)
finance costs	11	**85.9**	153.9
exceptional finance costs	11	**–**	42.2
		109.0	143.5
Movements in working capital:			
increase in trade and other receivables		**(9.3)**	(32.0)
decrease/(increase) in inventories		**1.5**	(0.7)
increase/(decrease) in trade and other payables		**9.5**	(10.7)
increase/(decrease) in provisions		**2.3**	(0.4)
Net cash from operating activities		**113.0**	99.7
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired	15	**(38.5)**	–
Purchase of property, plant and equipment		**(66.6)**	(53.7)
Proceeds from disposal of property, plant and equipment		**34.8**	700.4
Interest received		**0.3**	0.4
Net cash (used in)/generated from investing activities		**(70.0)**	647.1
Cash flows from financing activities			
Proceeds from issue of share capital		**317.2**	–
Share issue costs		**(10.3)**	–
Acquisition of minority interest		**–**	(0.6)
Interest paid		**(41.3)**	(59.2)
Repayments of borrowings		**(805.0)**	(789.3)
Proceeds from drawdown of long-term borrowing		**465.0**	80.0
Debt issuance costs		**(5.6)**	–
Net cash used in financing activities		**(80.0)**	(769.1)
Net decrease in cash and cash equivalents		**(37.0)**	(22.3)
Cash and cash equivalents at beginning of year		**111.5**	133.8
Cash and cash equivalents at end of year		**74.5**	111.5
Exceptional costs			
Exceptional costs included in the cash flow from operating activities		**51.2**	11.5
Total exceptional costs		**51.2**	11.5

Notes to the financial statements

1. GENERAL INFORMATION

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

The financial statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors of the Company on 23 March 2015.

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

2. BASIS OF PREPARATION

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

GROUP REORGANISATION DURING 2014

Spire Healthcare Group Limited was incorporated on 12 June 2014 and was subsequently re-registered as a public company on 23 June 2014 with the name Spire Healthcare Group plc.

With effect from 18 July 2014, the Company became the legal parent of Spire Healthcare Group UK Limited and Spire UK Holdco 2A Limited and their respective subsidiary undertakings. The Group was admitted to the premium segment of the London Stock Exchange on 23 July 2014 (the 'Admission').

These companies were under common management and control throughout the years presented and, therefore, these financial statements have been prepared as if the reorganisation had taken place as at the beginning of the earliest year presented herein.

The comparative financial statements comprised Spire Healthcare Group UK Limited and Spire UK Holdco 2A Limited, together with each of their subsidiaries, as included in note 18, and, until 17 January 2013, the comparative financial statements also included Spire UK Holdco 1A Limited, Spire UK Holdco 3A Limited and their subsidiaries.

As the group reorganisation did not lead to a change in control of the companies included in the Group, it has been accounted for using the pooling-of-interest method by aggregating the assets, liabilities, results, share capital and reserves, after eliminating intercompany balances and unrealised profits. The financial information, therefore, reflects the assets, liabilities and results of operations of the components of the Group that constituted the property ownership and trading businesses.

Transactions with Cinven Funds (the controlling party until Admission on 23 July 2014) and other entities under common control that were not acquired and, therefore, are not part of the Group, are disclosed as transactions with related parties (see note 33 for further information on related party transactions).

GOING CONCERN

On Admission on 23 July 2014, the Group refinanced its bank loan facilities with a facility that matures in 2019. The proceeds from the issue of new ordinary shares, existing resources and £425.0 million from the new term loans, were applied in the repayment of all of the existing bank loan and interest rate swap liabilities. Loans from former parent undertakings were settled through the issue of new shares in the Company.

The directors have considered the Group's forecasts and projections, and the risks associated with their delivery, and are satisfied that, the Group will be able to operate within the covenants imposed by the new bank loan facility for the foreseeable future. In relation to available cash resources, the directors have had regard to both cash at bank and a £100.0 million committed undrawn revolving credit facility. Accordingly, they have adopted the going concern basis in preparing these financial statements.

3. ACCOUNTING POLICIES

SIGNIFICANT ACCOUNTING POLICIES APPLIED

The principal accounting policies adopted are described below and were consistently applied for all periods presented, except as noted below.

Revenue recognition

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

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

Interest income

Interest is recognised on an effective interest rate basis.

Cost of sales

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

3. ACCOUNTING POLICIES *continued*

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

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

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

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

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, being the date on which the Group obtains control. The results of subsidiaries disposed of during the period are included in the accounts until the date of disposal or the Group's control ceases.

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements *continued*

3. ACCOUNTING POLICIES *continued*

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

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

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

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

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

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

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

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

Share-based payments
The Group operates a number of equity-settled share-based payment schemes under which the Group receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Where the share awards have non-market related performance criteria, the Group has used the Black Scholes valuation model to establish the relevant fair values. Where the share awards have total shareholder return ('TSR') market related performance criteria, the Group has used the Monte Carlo simulation valuation model to establish the relevant fair values (see note 28). The resulting fair values are recognised in the income statement over the vesting period of the options.

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

The social security contributions payable in connection with the grant of the share options is considered to be an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

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.

3. ACCOUNTING POLICIES *continued*

Taxation including deferred taxation

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

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

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

- goodwill not deductible for tax purposes;
- the initial recognition of an asset or liability in a transaction that is not a business combination and which, at the time of the transaction, affects neither the accounting profit nor the taxable profit or loss; and
- investments in subsidiary companies where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Derivative financial instruments

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

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

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

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

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

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are deducted from share premium. Where the employee benefit trust purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders in both the Company and the Consolidated balance sheet until the shares are cancelled or reissued.

Dividend distribution

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

NEW AND AMENDED STANDARDS AND INTERPRETATIONS

The following new and amended IFRS and IFRIC interpretations that are applicable to the Group and are effective from 1 January 2014 and have been applied to these financial statements:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- 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

These new and amended standards and interpretations did not have any significant effect on the financial position of the Group, or result in changes in accounting policy or any significant additional disclosure. There have been other new and amended standards and interpretations issued, or have come into effect, from 1 January 2014; however, they are not applicable to the Group and, hence, not included above.

Notes to the financial statements *continued*

3. ACCOUNTING POLICIES *continued*

STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET APPLIED

The standards and interpretations issued, but only effective for annual periods beginning on, or after, 1 January 2015 or later, which are considered applicable and may have significant impact on the Group financial statements, are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

- IFRS 9 Financial Instruments – The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. Subject to endorsement for use in the European Union, IFRS 9 is effective for annual periods beginning on, or after, 1 January 2018, with earlier application permitted. Retrospective application is required, but comparative information is not compulsory. The impact of the standard on the Group's performance and financial position will be evaluated.
- IFRS 15 Revenue from Contracts with Customers – The standard replaces all existing IFRS standards and interpretations that currently govern revenue recognition under IFRS and provides a single, principles based five-step model to be applied to all contracts with customers. It does not apply to insurance contracts, to financial instruments or to lease contracts, which fall within the scope of other IFRSs. The standard also requires entities to provide users of financial statements with more disclosures. Subject to endorsement for use in the European Union, IFRS 15 is effective for annual periods beginning on, or after, 1 January 2017, and is to be applied retrospectively, with earlier application permitted. The impact of the standard on the Group's performance and financial position is being evaluated.

4. SIGNIFICANT JUDGEMENTS AND ESTIMATES

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

JUDGEMENTS

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

  The Group owns a portfolio of freehold and leasehold property interests. The Group has recognised a deferred tax liability in its financial statements in respect of capital gains tax and other taxes based on the assumption that a proportion of the freehold properties will be disposed of in future years, with the remaining properties being realised through use. This calculation requires judgement about the timing and number of the related property disposals, which is potentially impacted by changes to plans made by the business over time and, in particular, changes in business plans in respect of the holding or disposing of properties.
- Leases
  In the determination of the classification of a number of leases over hospital properties as operating leases, assumptions have been made about the discount rate applied to the annual rent payable over the remainder of the lease term and of the useful economic life of the hospitals. Further information about commitments under these leases is given in note 29.
- Exceptional items
  Judgements are required as to whether items that are material in size, unusual or infrequent in nature should be disclosed as exceptional. Deciding which items meet this definition requires the Group to exercise its judgement. Details of these items categorised as exceptional are outlined in note 8.

ESTIMATES

- Estimation of useful lives and residual values
  Property, plant and equipment are depreciated over their useful lives, taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining lives of the assets and projected disposal values. The estimated useful lives of property, plant and equipment are set out in note 3.
- Goodwill
  Goodwill is considered for impairment at least annually or more frequently if there is an indication that goodwill may be impaired. This is achieved by comparing the value-in-use of the goodwill with its carrying value in the accounts. The value-in-use calculations require the Group to estimate future cash flows expected to arise in the future, taking into account market conditions. The present value of these cash flows is determined using an appropriate discount rate.

  The assumptions considered to be most critical in reviewing goodwill for impairment are contained in note 16.
- Share-based payments
  At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

5. OPERATING PROFIT

Operating profit has been arrived at after charging:

(£ million)	2014	2013
Rent of land and buildings under operating leases	**60.7**	54.9
Depreciation of property, plant and equipment	**45.1**	43.0
Impairment of intangible assets	**1.0**	–
Staff costs (see note 7)	**283.1**	210.9

6. SEGMENTAL REPORTING

In determining the Group's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the executive management team and the Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the Group has a single operating segment, being the provision of healthcare services.

All revenue is attributable to and all non-current assets are located in the United Kingdom.

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

(£ million)	2014	2013
Insured	**432.4**	413.7
NHS	**245.9**	191.4
Self-pay	**146.1**	132.9
Other	**31.6**	26.5
Total	**856.0**	764.5

7. STAFF COSTS

EMPLOYEES

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

No.	2014	2013
Clinical	**3,762**	3,650
Non-clinical	**3,408**	3,294
	7,170	6,944

The aggregate payroll costs of these persons were as follows:

(£ million)	2014	2013
Wages and salaries	**244.1**	180.9
Social security costs	**24.0**	15.8
Other pension costs	**15.0**	14.2
	283.1	210.9

Included in wages and salaries, social security costs and share-based payments for year ended 31 December 2014 are exceptional items of £38.9 million, £5.8 million and £2.5 million, respectively. Refer to note 8 for further details.

Other pension costs are in respect of the defined contribution scheme; unpaid contributions at 31 December 2014 were £1.5 million (2013: £1.3 million).

Notes to the financial statements
continued

8. EXCEPTIONAL ITEMS

(£ million)	2014	2013
Initial Public Offering ('IPO') related:		
Costs incurred in relation to the IPO	**43.6**	–
Share-based payment (Directors' share bonus award) (note 28)	**2.5**	–
	46.1	–
Non-IPO related:		
Business reorganisation and hospital set up costs	**3.9**	3.0
Corporate restructuring and financing costs	**–**	3.5
Regulatory costs	**4.0**	5.0
	7.9	11.5
Total exceptional costs	**54.0**	11.5

IPO RELATED

In July 2014, the Group was listed on the London Stock Exchange. The costs charged to the income statement relate to costs incurred as a result of the listing, but not directly related to the issues of new shares. These costs include such items as IPO bonuses, marketing expenditure, professional and other services. These costs were largely tax deductible. A deferred tax asset was recognised in relation to the share-based payments.

NON-IPO RELATED

In the year ended 31 December 2014, reorganisation and set up costs were mainly associated with the costs of acquisition of St Anthony's Hospital, which as a material acquisition in the current year, has been treated as exceptional. Regulatory costs include costs relating to the Competition and Markets Authority ('CMA') enquiry and £3.3 million of estimated liabilities payable to third parties, arising from uninsured, or partly uninsured, claims for damages in respect of the supply of medical products and other legal claims made in respect of services previously supplied to patients. These costs were largely tax deductible except for the costs of acquisition of St Anthony's Hospital.

In the year ended 31 December 2013, reorganisation and set up costs were mainly associated with the dual running IT costs and an onerous lease. Corporate restructuring and refinancing costs related to advisers' fees associated with the sale of twelve property owning companies on 17 January 2013, subject to leases ('2013 Freehold Sale'), and other refinancing activity. Regulatory costs mainly comprised the costs of the CMA enquiry.

9. PROFIT ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT

On 15 August 2014, the Group completed the disposal of the assets of Spire Fertility (Disposal) Limited (formerly London Fertility Centre Limited) for a consideration of £3.0 million. The assets had a net book value at the disposal date of £3.8 million.

On 11 March 2014, the Group completed the sale of a long leasehold interest in the land and buildings of the Spire Washington Hospital, Washington, Tyne and Wear, for a consideration of £32.3 million. The property and associated plant and equipment had a net book value at the disposal date of £12.3 million.

For the year ended 31 December 2013, the profit on disposal included that arising on the 2013 Freehold Sale on 17 January 2013. Total consideration received was £704.0 million and the net cash proceeds of the transaction were used to repay bank borrowings and interest rate swaps.

10. INTEREST INCOME

(£ million)	2014	2013
Interest income on bank deposits	**0.3**	0.4

11. FINANCE COSTS

(£ million)	2014	2013
Interest on loans from former ultimate parent undertakings and management	**54.8**	90.7
Interest on bank facilities	**26.9**	56.6
Finance charges payable under finance leases	**7.6**	7.5
Change in fair value of interest rate derivatives	**(2.8)**	(0.1)
	86.5	154.7
Finance costs capitalised in the year	**(0.6)**	(0.8)
	85.9	153.9
Exceptional finance costs	**–**	42.2
Total finance costs	**85.9**	196.1

Finance costs capitalised during the year were calculated based on a weighted cost of borrowing of 8% (2013: 8%).

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

Other items arising in the year ended 31 December 2013 include a credit related to the partial waiver of bank debt and interest rate swap liabilities on settlement, net of the unamortised debt costs. This resulted in a total net credit of £26.6 million.

12. AUDITOR'S REMUNERATION

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

(£ million)	2014	2013
Amounts receivable by auditor and their associates in respect of:		
Audit of the Company's annual financial statements	**0.3**	–
Audit of the Company's subsidiaries	**0.2**	0.4
Other assurance services (IPO related services)	**0.5**	–
Other services*	**–**	0.1
	1.0	0.5

* Other services relates to financial and accounting advice.

13. TAX ON LOSS

(i) Analysis of tax credit in the year:

(£ million)	2014	2013
Current tax		
UK Corporation tax arising in subsidiaries on loss for the year	**–**	–
Adjustments in respect of prior years	**0.7**	(7.4)
Total current tax	**0.7**	(7.4)
Deferred tax		
Released on disposal of property	**–**	(102.3)
Origination and reversal of other temporary differences	**(11.9)**	(13.4)
Change in tax rates	**–**	(15.5)
Adjustments in respect of prior years	**(1.8)**	(1.7)
Total excluding deferred tax on recycling of ineffective hedges	**(13.7)**	(132.9)
Recycling of deferred tax relating to ineffective hedges	**–**	(13.8)
Total deferred tax	**(13.7)**	(146.7)
Tax on loss	**(13.0)**	(154.1)

Corporation tax is calculated at 21.5% (2013: 23.25%) of the estimated taxable profit or loss for the year.

Notes to the financial statements
continued

13. TAX ON LOSS *continued*

(ii) Factors affecting the tax credit

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

(£ million)	2014	2013
Weighted rate of corporation tax	**21.5%**	23.25%
Loss before taxation	**(7.0)**	(51.9)
Tax credit on loss at weighted rate of corporation tax	**(1.5)**	(12.1)
Effects of:		
Deferred tax released on disposal of property	**–**	(130.8)
Expenses not deductible for tax purposes	**10.4**	20.1
Deferred tax credit on property assets	**(3.7)**	(12.2)
Non-taxable profit on disposal of property, plant and equipment	**(3.3)**	(10.8)
Movements on deferred tax asset previously not recognised	**(13.7)**	–
Difference in tax rates	**–**	2.3
Adjustments to prior years	**(1.1)**	(9.1)
Other items	**(0.1)**	(1.5)
Total tax credit for the year	**(13.0)**	(154.1)

As at 31 December 2014, subsidiary undertakings of the Group have the following to offset against future trading profits:

- unused capital allowances of £277.6 million (31 December 2013: £237.6 million); and
- unutilised losses totalling £155.5 million (2013: £117.2 million).

With effect from Admission, the Group was restructured. This allows the recognition, for deferred tax, of previously unrecognised losses and results in the overall tax credit for the year.

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

14. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares. For year ended 31 December 2014, the calculation is based on the 401,081,391 shares that were in issue on Admission on 23 July 2014. For shares prior to the Admission date, as a proxy, the calculation is based on the 250,000,000 shares that were issued to Cinven, the former ultimate parent undertaking of the Group, and current and former management on Admission on 23 July 2014 in exchange for the liabilities to the former ultimate shareholders and management.

For year ended 31 December 2013, the calculation is based on the 250,000,000 shares mentioned above.

(£ million)	2014	2013
Profit for the year attributable to owners of the Parent	**6.0**	102.2
Weighted average number of ordinary shares in issue	**317,055,302**	250,000,000
Basic earnings per share (in pence per share)	**1.9**	40.9

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

(£ million)	2014	2013
Profit for the year attributable to owners of the Parent	**6.0**	102.2
Weighted average number of ordinary shares in issue	**317,055,302**	250,000,000
Adjustment for weighted average number of contingently issuable shares	**875,653**	–
	317,930,955	250,000,000
Diluted earnings per share (in pence per share)	**1.9**	40.9

14. EARNINGS PER SHARE *continued*

PRO-FORMA ADJUSTED EARNINGS PER SHARE

Pro-forma adjusted earnings per share is calculated by dividing the pro-forma adjusted profit after taxation for the year by the number of ordinary shares in issue on Admission on 23 July 2014. There have been no changes to the number of ordinary shares in issue since Admission to the London Stock Exchange.

(£ million)	
Loss before taxation	(7.0)
Adjustments:	
Exceptional items – IPO	46.1
Exceptional items – other	7.9
Profit on disposal of property, plant and equipment[1]	(18.5)
Financing adjustments:	
Finance costs shareholder loans[2]	54.8
Finance costs bank loans[3]	10.4
Pro-forma profit before taxation	93.7
Taxation[4]	(20.2)
Pro-forma profit after taxation	73.5
Number of ordinary shares in issue on Admission	401,081,391
Pro-forma basic earnings per share (pence)	**18.3**
Number of ordinary shares in issue on Admission, weighted average[5]	401,957,044
Pro-forma diluted earnings per share (pence)	**18.3**

1 Profit on disposal of Spire Washington Hospital, net of the loss arising on the disposal of trade and assets of the fertility business.
2 Removes finance costs in the year relating to shareholder loans capitalised on Admission.
3 Reduces bank finance costs; revised costs calculated as if the bank refinancing had occurred on 1 January 2014 and the new loan facility had been entered into on that date.
4 Taxation is calculated at the statutory rate of 21.50% of the pro-forma profit before taxation before taking account of available tax losses.
5 Dilution relates to weighted average number of share options awarded in the period.

15. BUSINESS COMBINATION

On 22 May 2014, the Group acquired St Anthony's Hospital for a total consideration of £38.5 million. St Anthony's Hospital is a 92-bed private hospital based in Cheam, Surrey. This acquisition supports the Group's strategy of increasing its presence in the Greater London region.

The fair values of the identifiable assets and liabilities as at the acquisition date are set out below. Accounting standards permit up to 12 months for provisional acquisition accounting to be finalised following the acquisition date, if any subsequent information provides better evidence of the item's fair value at the date of acquisition.

FAIR VALUE OF IDENTIFIABLE ASSETS AND LIABILITIES ACQUIRED

(£ million)	
Property and equipment	30.5
Inventory	1.2
Trade and other receivables	2.7
Trade and other payables	(0.6)
Deferred tax liability	(1.9)
Fair value of net assets acquired	31.9
Goodwill	6.6
Net assets acquired	38.5
Cash consideration	38.5
Total consideration	**38.5**

Notes to the financial statements *continued*

15. BUSINESS COMBINATION *continued*

The total consideration of £38.5 million comprised of the following:

- a cash payment of £38.0 million, which was made in May 2014; and
- a deferred consideration contingent upon the working capital of the business on completion date. This amount was determined to be £0.5 million by the parties involved in August 2014 and the amount was settled at that time.

Goodwill arises on the acquisition primarily because of the geographical location of the established hospital, procurement and other synergies, relationships with consultants and other clinical personnel, as well as deferred tax liability recognition on the property.

St Anthony's Hospital contributed revenue of £19.2 million and an operating profit of £0.1 million in the period from the date of acquisition to the balance sheet date.

If the acquisition had taken place on 1 January 2014, the first day of the financial year, revenue would have been £31.2 million. Management is not disclosing the profit or loss of the combined entity for the current reporting year due to impracticability, as this disclosure could potentially be misleading and does not reflect the actual results that would have arisen if the hospital had been trading under the ownership of the Spire Group. St Anthony's Hospital was previously a not-for-profit organisation.

Acquisition costs of £2.0 million have been expensed in the income statement.

16. INTANGIBLE ASSETS

(£ million)	Goodwill
Cost:	
At 1 January 2013	516.2
Additions in the year	–
At 1 January 2014	516.2
Additions in the year	6.6
Disposal in the year	(2.7)
At 31 December 2014	520.1
Impairment:	
At 1 January 2013	0.4
Charge for the year	0.9
At 1 January 2014	1.3
Charge for the year	1.0
Disposal in the year	(1.3)
At 31 December 2014	1.0
Net book value:	
At 31 December 2014	**519.1**
At 31 December 2013	514.9

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 relation to an investment in a medical practice of £1.0 million was impaired following a CMA Final Order, whereby consultants are allowed to practise wherever they wish. The prior year's impairment of £0.9 million relates to Spire Fertility (Disposal) Limited (formerly London Fertility Centre Limited), a business disposed of by the Group during the year. The directors do not believe that any further impairment is required in the financial period.

IMPAIRMENT TESTING

Goodwill arose principally from separate acquisitions of two hospital businesses:

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

The balance of £14.0 million arose on subsequent acquisitions.

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

In order to estimate the value-in-use, management have used trading projections covering the four year period to December 2018, which were extended to cover the five year period to December 2019.

16. INTANGIBLE ASSETS *continued*

Management identified a number of key assumptions relevant to the value-in-use calculations, being revenue growth, which is impacted by an interaction of a number of elements of the operating model, including pricing trends, volume growth and the mix and complexity of discharges, assumptions regarding cost inflation and discount rates. These variables are interdependent and the forecast cash flows reflect management's expectations based on current market trends. Revenue growth is projected to be in line with past experience and expectations of future performance, averaging 5.9% for the five year period (2013: 6.5%). Cost assumptions are consistent with the Group's historic track record, after taking account of headline inflation at 3.3% (2013: 3.3%).

A long-term growth rate of 2.25% (2013: 2.25%) has been applied to cash flows beyond 2019, which is based on historic growth rates achieved by the sector, which have typically exceeded RPI. Pre-tax discount rates were based on the capital asset pricing model, utilising a sector specific Beta in arriving at the equity premium and cost of debt based on current bank lending rates. A specific pre-tax discount rate was calculated to reflect the profile of cash flows inherent to that specific cash-generating unit and this was 10.2% (2013: 10.2%).

The recoverable amount from acquisitions is calculated based on cash flow forecasts that reflect the assumptions stated above. A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. For example, an increase of 3% in the pre-tax discount rate to 13.2%, with all other assumptions held constant, did not identify any impairments. Similarly, zero growth in the period beyond 2019, with all other assumptions held constant or combined with a 1% increase in the pre-tax discount rate, did not identify any impairments.

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.

17. PROPERTY, PLANT AND EQUIPMENT

(£ million)	Freehold property	Long leasehold property	Equipment	Assets in the course of construction	Total
Cost:					
At 1 January 2013	1,178.5	292.1	220.3	–	1,690.9
Additions	0.1	11.1	37.1	6.2	54.5
Disposals	(610.8)	(116.7)	(23.0)	–	(750.5)
At 1 January 2014	567.8	186.5	234.4	6.2	994.9
Additions	23.1	10.2	32.5	1.4	67.2
Additions on business combination	27.1	–	3.4	–	30.5
Disposals	(0.2)	(17.4)	(7.3)	–	(24.9)
Transfers	6.1	–	0.1	(6.2)	–
At 31 December 2014	623.9	179.3	263.1	1.4	1,067.7
Depreciation:					
At 1 January 2013	119.8	31.3	76.8	–	227.9
Charge for the year	12.7	4.7	25.6	–	43.0
Disposals	(64.0)	(7.4)	(18.5)	–	(89.9)
At 1 January 2014	68.5	28.6	83.9	–	181.0
Charge for the year	15.6	9.4	20.1	–	45.1
Disposals	(0.2)	(3.8)	(6.3)	–	(10.3)
At 31 December 2014	83.9	34.2	97.7	–	215.8
Net book value:					
At 31 December 2014	540.0	145.1	165.4	1.4	**851.9**
At 31 December 2013	499.3	157.9	150.5	6.2	813.9

On 17 January 2013, twelve hospital properties with a net book value of £661.0 million were disposed of as a result of the 2013 Freehold Sale.

On 11 March 2014, the long leasehold interest in the Spire Washington Hospital, with a net book value of £12.3 million, was disposed of.

As at 31 December 2014, included in the net book value of property, plant and equipment above is £29.0 million (2013: £32.5 million) relating to assets held under finance leases on which there was a depreciation charge of £1.5 million in the year (2013: £1.2 million).

Notes to the financial statements
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18. SUBSIDIARY UNDERTAKINGS

The Group comprises a large number of companies, most of which are incorporated in, and whose operations are conducted in, the United Kingdom. It is not practical to include all of them in a list in this report; therefore, the Group discloses below only those companies that have a more significant impact on the profit or assets of the Group. A full list of Group companies will be included in the Company's Annual Return to the Registrar of Companies. These companies are wholly-owned, unless otherwise stated.

Incorporated and registered in the UK	Principal activity	Class of share
Spire Healthcare Finance Limited*	Holding company	Ordinary
Spire Healthcare Group UK Limited	Holding company	Ordinary
Spire UK Holdco 2A Limited	Holding company	Ordinary
Spire UK Holdco 4 Limited	Holding company	Ordinary
Spire Healthcare Holdings 1 (formerly Spire UK Holdco 6)	Holding company	Ordinary
Spire Healthcare Holdings 2 Limited (formerly Spire UK Finance Limited)	Holding company	Ordinary
Spire Healthcare Holdings 3 Limited (formerly Spire Healthcare Group Limited)	Holding company	Ordinary
Spire Healthcare (Holdings) Limited	Holding company	Ordinary
SHC Holdings Limited	Holding company	Ordinary
Spire Healthcare Limited	Health provision	Ordinary
Spire Healthcare Properties Limited	Hospital leasing	Ordinary
Fox Healthcare Holdco 1 Limited	Holding company	Ordinary
Fox Healthcare Holdco 2 Limited	Holding company	Ordinary
Fox Healthcare Acquisitions Limited	Holding company	Ordinary
Classic Hospitals Group Limited	Holding company	Ordinary
Classic Hospitals Property Limited	Property company	Ordinary
Classic Hospitals Limited	Health provision	Ordinary
GX Holdco Limited	Holding company	Ordinary
Lifescan Limited	Health provision	Ordinary
Spire Fertility (Disposal) Limited (formerly London Fertility Centre Limited)	Non-trading company	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 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

* Direct shareholding of the Company.
† Ownership interest is 50.1%.

19. INVENTORIES

(£ million)	2014	2013
Prostheses, drugs, medical and other consumables	**26.0**	26.2

Cost of sales for the year ended 31 December 2014 includes inventories recognised as an expense amounting to £160.0 million (2013: £134.1 million).

20. TRADE AND OTHER RECEIVABLES

(£ million)	2014	2013
Amounts falling due within one year:		
Trade receivables	**108.0**	87.9
Other receivables	**4.0**	20.9
Prepayments	**27.9**	22.4
	139.9	131.2

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

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

The ageing of trade receivables at the reporting date was:

(£ million)	2014	2013
Not past due and not impaired	**62.0**	55.1
Past due 0–30 days, not impaired	**20.1**	17.2
Past due 31–90 days, not impaired	**13.1**	11.8
More than 3 months, not impaired	**12.8**	3.8
Total	**108.0**	87.9

Trade receivables comprise the following wider customer/payor groups:

(£ million)	2014	2013
Private medical insurers	**48.0**	39.3
NHS	**49.9**	37.5
Patient debt	**1.0**	0.8
Other	**9.1**	10.3
Total	**108.0**	87.9

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

(£ million)	2014	2013
At 1 January	**5.0**	3.5
Provided in the year	**2.4**	3.4
Utilised during the year	**(1.5)**	(1.9)
At 31 December	**5.9**	5.0

Notes to the financial statements
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21. CASH AND CASH EQUIVALENTS

(£ million)	2014	2013
Cash at bank	**65.4**	33.9
Short-term investments	**9.1**	77.6
	74.5	111.5

Short-term investments are money market deposits.

22. BORROWINGS

(£ million)	2014	2013
Unsecured borrowings		
Amount due to former ultimate parent undertaking and management	**–**	846.5
Secured borrowings		
Bank loans	**422.2**	702.7
Obligations under finance leases	**76.6**	79.7
	498.8	782.4

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

Total borrowings (measured at amortised cost)

(£ million)	2014	2013
Amount due for settlement within 12 months	**5.3**	746.8
Amount due for settlement after 12 months	**493.5**	882.1
	498.8	1,628.9

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

	2014		2013	
(£ million)	Minimum payments	Present value of payments	Minimum payments	Present value of payments
Within one year	**7.3**	**4.1**	7.7	4.9
After one year but not more than five years	**29.1**	**13.5**	31.9	17.1
More than five years	**174.2**	**59.0**	181.4	57.7
Total minimum lease payments	**210.6**	**76.6**	221.0	79.7
Less amounts representing finance charges	**(134.0)**	**–**	(141.3)	–
Present value of minimum lease payments	**76.6**	**76.6**	79.7	79.7

Property leases, with a present value liability of £75.1 million (2013: £74.9 million), expire in 2040 and carry an implicit interest rate of 9.1% (2013: 9.1%).

22. BORROWINGS *continued*

Terms and debt repayment schedule

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

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

(£ million)	Maturity	Margin over LIBOR	2014	2013
Senior finance facility (a)	July 2019	2.25%	**422.2**	–
Term loan – operating companies (b)	June 2015	1.75% – 3.0%	**–**	104.5
Term loan – operating companies (b)	June 2015	3.0%	**–**	80.1
Capex loan – operating companies (b)	June 2015	1.75%	**–**	50.0
Term loan – property companies (b)	June 2015	1.25% – 2.35%	**–**	421.4
PIK loan – property companies (b)	June 2015	7.05%	**–**	46.7
			422.2	702.7
Revolving credit facility (undrawn committed facility)			**100.0**	28.5

(a) On Admission on 23 July 2014, the Group was refinanced, and it entered into a new bank loan facility with a syndicate of banks, comprising a 5 year, £425.0 million term loan and a 5 year £100.0 million revolving facility. The proceeds of these facilities, together with existing funds of the Group, have been used in the full repayment of the existing bank debt and interest rate swap liabilities. The new loans are non-amortising and carry interest at an initial margin of 2.25% over LIBOR. On the same date, the amounts due to the former ultimate parent undertakings and management were capitalised in exchange for the issue of ordinary shares.

(b) On 17 January 2013, following a partial refinancing of the Spire Group under the 2013 Freehold Sale, 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 carrying amounts drawn (after issue costs and including interest accrued) under facilities in place at the previous balance sheet date were as follows:

(£ million)	Maturity	2014	2013
Former ultimate parent undertaking	August 2037	**–**	707.6
Former ultimate parent undertaking	March 2038	**–**	138.9
		–	846.5

The principal amounts drawn under these facilities were partially settled on Admission via the issuance and exchange of the Company's new ordinary shares. These loans were unsecured and interest bearing at 12% per annum.

23. PROVISIONS

(£ million)	2014	2013
At beginning of year	**3.2**	3.6
Acquired on acquisition of subsidiary undertaking	**0.7**	–
Charge for the year	**3.5**	–
Utilised during the year	**(1.2)**	(0.4)
At end of year	**6.2**	3.2

Provisions relate to onerous tenancy contracts, end of life dilapidations under leases, commitments to patients in respect of the removal or replacement of the PIP brand of breast implants, and estimated liabilities arising from claims for damages in respect of services previously supplied to patients.

Provisions as at 31 December 2014 are expected to be utilised within 3 years.

Notes to the financial statements
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24. DEFERRED TAXATION

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

(£ million)	2014	2013
Temporary differences on:		
Property, plant and equipment	**91.7**	99.9
Derivative financial instruments	**–**	(14.9)
Losses and other items	**(43.6)**	(24.7)
	48.1	60.3
Presented as:		
Deferred tax asset	**–**	(17.1)
Deferred tax liability	**48.1**	77.4
	48.1	60.3

Deferred tax on property, plant and equipment has arisen on differences between the carrying value of the relevant assets and the tax base. Other deferred tax items relate to temporary 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.

The Group has unrecognised deferred tax assets as at 31 December 2014 of £11.4 million, comprising £1.9 million of trading losses and £9.5 million of capital losses (2013: £17.1 million, comprising £1.4 million of trading losses and £15.7 million of capital losses). A deferred tax asset has not been recognised in respect of these amounts due to uncertainties as to the timing of future profits that the trading losses could be set against and whether capital gains will arise against which the capital losses could be utilised.

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

(£ million)	Property, plant and equipment	Derivative financial Instruments	Losses and other	Total
At 1 January 2013	250.8	(54.6)	(14.1)	182.1
Recognised in profit or loss	(150.9)	14.8	(10.6)	(146.7)
Recognised in other comprehensive income	–	24.9	–	24.9
At 1 January 2014	99.9	(14.9)	(24.7)	60.3
Recognised in profit or loss	(10.1)	14.9	(18.5)	(13.7)
Additions on business combination	1.9	–	–	1.9
Recognised in equity	–	–	(0.4)	(0.4)
At 31 December 2014	**91.7**	**–**	**(43.6)**	**48.1**

25. DERIVATIVE FINANCIAL INSTRUMENTS

(£ million)	2014	2013
Amounts arising within 12 months	**–**	22.1
Amounts arising after 12 months	**–**	52.4
	–	74.5

On 23 July 2014, interest rate swap liabilities with a value of £59.2 million were repaid and the related instruments were terminated. Further information regarding the interest rate swap contracts is contained in note 32.

26. TRADE AND OTHER PAYABLES

(£ million)	2014	2013
Trade payables	**50.8**	38.0
Other payables	**4.8**	9.6
Corporation tax	**0.7**	–
Other taxation and social security	**6.1**	5.2
Accruals	**35.9**	34.2
	98.3	87.0

27. SHARE CAPITAL AND RESERVES

Share capital of Spire Healthcare Group plc

	2014			
	£0.01 ordinary shares		£1 redeemable preference shares	
	Shares	£'000	Shares	£'000
Issued and fully paid				
At date of incorporation (a)	**100**	**–**	**49,999**	**50**
Acquisition of a subsidiary undertaking (b)	**1**	**–**	**–**	**–**
On capitalisation of loans:				
– shareholder loans (c)	**248,699,063**	**2,487**	**–**	**–**
– managers' loan notes (c)	**1,300,836**	**13**	**–**	**–**
New shares issued:				
Directors' and managers' Accrued Incentive Payments (d)	**1,036,156**	**10**	**–**	**–**
Subscribed for by non-executive directors (e)	**45,235**	**–**	**–**	**–**
New shares (f)	**150,000,000**	**1,500**	**–**	**–**
Redemption (a)	**–**	**–**	**(49,999)**	**(50)**
At 31 December 2014	**401,081,391**	**4,010**	**–**	**–**

GROUP REORGANISATION

(a) On 12 June 2014, the Company issued 100 ordinary shares of £0.01 each to the initial shareholder, Spire Healthcare Limited Partnership.

On 12 June 2014, the Company issued 49,999 non-voting redeemable preference shares of £1 each to Spire Healthcare Limited Partnership. These shares were subsequently redeemed on 23 July 2014.

(b) On 23 July 2014, the Company acquired the entire issued share capital of Spire Healthcare Group UK Limited in exchange for the issue of 1 new ordinary share of £0.01 to Spire Healthcare Limited Partnership.

(c) The Company subsequently reorganised its share capital. On 23 July 2014, the Company issued 248,699,063 ordinary shares and 1,300,836 ordinary shares of £0.01 each at a premium of £2.09 per share to Rozier S.à. r.l in exchange for settlement of the former ultimate parent loan notes and to the Management team in exchange for settlement of the Management loan notes, respectively.

(d) On 23 July 2014, the Company issued 1,036,156 ordinary £0.01 shares at a premium of £2.09 each to members of the executive management team and a director, Simon Gordon, in order to reflect their contribution to the past performance of the Group and to the Group achieving Admission ('Accrued Incentive Payments').

(e) On 23 July 2014, the Company issued 45,235 ordinary £0.01 shares at a premium of £2.09 each to certain non-executive directors, namely, John Gildersleeve, Tony Bourne, Dame Janet Husband and Robert Lerwill.

(f) On Admission on 23 July 2014, the Company issued 150,000,000 new ordinary shares, generating cash proceeds of £306.9 million, net of costs.

CAPITAL RESERVES

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

Notes to the financial statements
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28. SHARE-BASED PAYMENTS

The Group operates a number of share-based payment schemes for executive directors and other employees, all of which are equity settled. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £2.8 million in the year ended 31 December 2014 (2013: £nil). Employer's NI is being accrued, where applicable, at the rate of 13.8%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. The total NI charge for the year was £0.9 million (2013: £nil).

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

	2014	
(£ million)	Charge £m	Number of options (thousands)
Directors' share bonus award*	2.5	1,671
Long term incentive plan	0.3	1,063
Deferred bonus plan	–	–
	2.8	2,734

* Disclosed as an exceptional item – see note 8

A summary of the main features of the scheme is shown below:

DIRECTORS' SHARE BONUS AWARD

At the time of the IPO on 23 July 2014, the Company granted nil cost share options to executive directors to reflect their contribution prior to Admission. The maximum number of shares underlying the awards total 1,671,200. Each award has been divided into two equal tranches, which will become exercisable on the first and second anniversaries of Admission. The number of options that will vest will depend on conditions relating to share price on the relevant date. For further details, see the Directors' Remuneration Report, on pages 74 to 88

LONG TERM INCENTIVE PLAN

The long term incentive plan ('LTIP') is open to executive directors and designated senior managers, and awards are made at the discretion of the Remuneration Committee. Awards are subject to market and non-market performance criteria and vest over a 2.4 year period.

DEFERRED BONUS PLAN

The deferred bonus plan is a discretionary executive share bonus plan under which the Remuneration Committee determines that a proportion of a participant's annual bonus will be deferred. The market value of the shares granted to any employee will be equal to one-third of the total annual bonus that would otherwise have been payable to the individual. The awards will be granted on the day after the announcement of the Group's annual results. The awards will normally vest over a three year period.

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

	As at 31 December 2014			
	Directors' share bonus award* (thousands)	LTIP (TSR condition) (thousands)	LTIP (EPS condition) (thousands)	Deferred bonus plan (thousands)
At 1 January	–	–	–	–
Granted	1,671	531	531	–
At 31 December	1,671	531	531	–
Grant date	23/07/2014	30/09/2014	30/09/2014	n/a
Vesting date	Immediately upon grant	31/12/2016	31/12/2016	–
Expiry date	23/07/2024	30/09/2024	30/09/2024	–

* Divided into two equal tranches

28. SHARE-BASED PAYMENTS *continued*

The following information is relevant to the determination of the fair value of the awards granted during the year under the schemes:

	Directors' share bonus award	LTIP (TSR condition)	LTIP (EPS condition)	Deferred bonus plan
Option pricing model	Modified Black-Scholes	Monte Carlo	Fair value at grant date	n/a
Weighted average share price at grant date	2.1	2.85	2.85	n/a
Exercise price	£2.24–3.59	0p	0p	n/a
Weighted average contractual life	1–2 years	2.4 years	2.4 years	n/a
Expected dividend yield	1.6%	n/a	n/a	n/a
Risk-free interest rate	0.5–1.0%	1.1%	n/a	n/a
Volatility	26%	26%	n/a	n/a

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

29. COMMITMENTS

(a) Operating leases

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

	2014		2013	
(£ million)	Land and buildings	Other	Land and buildings	Other
Not later than one year	**61.9**	**0.7**	56.3	–
Later than one year and not later than five years	**244.0**	**1.4**	229.7	0.7
Later than five years	**1,353.0**	**–**	1,340.9	2.2
	1,658.9	**2.1**	1,626.9	2.9

On 17 January 2013, the Group sold twelve of its property-owning companies to a consortium of investors, comprising Malaysia's Employees Provident Fund (EPF), affiliated funds of Och-Ziff Capital Management Group and Moor Park Capital. This sale involved varying the terms of lease agreements, which, until that date, had been in place between these property-owning companies and other operating companies in the Group.

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

(b) Consignment stock

At 31 December 2014, the Group held consignment stock on sale or return of £19.3 million (31 December 2013: £17.6 million).

(c) Capital expenditure commitments

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

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

(£ million)	2014	2013
Contracted but not provided for	**6.4**	25.0

Notes to the financial statements
continued

30. CONTINGENT LIABILITIES

The Group had the following guarantees at 31 December 2014:

- Spire Healthcare Limited, a subsidiary undertaking of the Group, has entered into an Authorised Guarantee Agreement (AGA) with regard to the premises of the former customer contact centre at Victoria Harbour City, Manchester. Under the AGA, Spire Healthcare Limited will act as a guarantor to the new tenants until the end of the lease term, January 2016. The maximum contingent liability at the balance sheet date was £0.8 million (2013: £1.3 million).
- The bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2013: £1.5 million) in relation to contractual pension obligations and statutory insurance cover in respect of the Group's potential liability to claims made by employees under The Employers' Liability (Compulsory Insurance) Act 1969.
- Under certain lease agreements entered into on 26 January 2010, the Group has given undertakings relating to obligations in the lease documentation and the assets of the Group are subject to a fixed and floating charge.

31. CAPITAL MANAGEMENT

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

The Board closely manages trading capital, defined as net assets plus net debt. The Group's net assets at 31 December 2014 were £960.0 million (2013: £256.2 million net liabilities) and net debt, calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents, amounted to £424.3 million (2013: £670.9 million).

Principal focus of capital management revolves around working capital management and compliance with externally imposed financial covenants. Throughout the period, the Group complied with all covenants required by our lending group.

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

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

(£ million)	2014	2013
Committed undrawn revolving credit facility	**100.0**	28.5
Cash and cash equivalents	**74.5**	111.5

32. FINANCIAL RISK MANAGEMENT

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

- credit risk;
- liquidity risk; and
- market risk.

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

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

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

CREDIT RISK

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

- Trade and other receivables

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

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

32. FINANCIAL RISK MANAGEMENT *continued*

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

- Investments

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

LIQUIDITY RISK

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

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

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

- £100 million of revolving credit facility, which was fully undrawn as at 31 December 2014.

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 2014

(£ million)	Carrying amount	Contractual cash flows	1 year or less	1–2 years	More than 2 years
Non-derivative financial liabilities					
Secured bank facility	422.2	499.1	12.9	14.2	472.0
Obligations under finance leases	76.6	210.6	7.3	7.3	196.0
Trade and other payables	54.5	54.5	54.5	–	–
Derivative financial liabilities					
Interest rate swaps	–	–	–	–	–
As at 31 December 2014	**553.3**	**764.2**	**74.7**	**21.5**	**668.0**

At 31 December 2013

(£ million)	Carrying amount	Contractual cash flows	1 year or less	1–2 years	More than 2 years
Non-derivative financial liabilities					
Amount due to former ultimate parent undertakings	846.5	926.9	–	–	926.9
Secured bank facilities	702.7	721.3	721.3	–	–
Obligations under finance leases	79.7	221.0	7.7	7.9	205.4
Trade and other payables	47.6	47.6	47.6	–	–
Derivative financial liabilities					
Interest rate swaps	74.5	81.7	24.3	23.1	34.3
	1,751.0	1,998.5	800.9	31.0	1,166.6

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

Notes to the financial statements *continued*

32. FINANCIAL RISK MANAGEMENT *continued*

Fair value hierarchy

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

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

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

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

Bases of valuation

As of 31 December 2014, the Group did not hold financial instruments that are included in level 1, 2 or 3 of the hierarchy. Interest rate swaps existing on 31 December 2013 were repaid in full on Admission.

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

The carrying value of the other financial instruments, being finance leases and debt, is approximately equal to their fair value, except for floating rate debt, which is after the deduction of £5.1 million (2013: £1 million) of issue costs, based on a review of current terms against market and expected short term settlements.

As at 31 December 2014, the Group did not hold any financial instruments measured at fair value.

During the year ended 31 December 2014, there were no transfers between the levels in the fair value hierarchy.

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

Liabilities measured at fair value

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

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

MARKET RISK

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

Interest rate risk

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

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

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

(£ million)	Variable	Fixed	Total	Undrawn facility
31 December 2014	**425.0**	–	**425.0**	**100.0**
Effective interest rate	**2.80%**	–	**2.80%**	
31 December 2013	260.8	442.2	703.0	28.5
Effective interest rate	3.06%	7.97%	6.15%	

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

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

32. FINANCIAL RISK MANAGEMENT *continued*

SENSITIVITY ANALYSIS

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

	Profit or loss		Equity	
(£ million)	**25 bp increase**	**25 bp decrease**	**25 bp increase**	**25 bp decrease**
At 31 December 2014				
Variable rate instruments	**(0.3)**	**0.3**	**(0.3)**	**0.3**
Interest rate swaps	–	–	–	–
Sensitivity (net)	**(0.3)**	**0.3**	**(0.3)**	**0.3**

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

33. RELATED PARTY TRANSACTIONS

RELATIONSHIP AGREEMENT

On 7 July 2014, the Group and Cinven Funds, the former ultimate parent undertakings, entered into the Relationship Agreement, which, upon Admission, regulates the ongoing relationship between the Group and Cinven Funds. The principal purpose of the Relationship Agreement is to ensure that the Group is capable of carrying on its business independently of Cinven Funds, that transactions and relationships with Cinven Funds (including any transactions and relationships with any member of the Group) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of the Group are maintained.

The directors believe that the terms of the Relationship Agreement will enable the Group to carry on its business independently of Cinven Funds.

TRADING TRANSACTIONS

Group companies entered into the following transactions:

(£ million)

Counterparty	Nature of transaction	**2014**	2013
Former parent undertakings:			
Cinven Limited	Monitoring fees*	**0.4**	0.6
Rozier Finco Limited	Interest payable	**45.1**	75.8
Rozier Finco 2 Limited	Interest payable	**9.1**	14.9
Other related party:			
Management team of Spire Group	Interest payable	**0.3**	0.5
Subsidiary undertakings:			
Montefiore House Limited**	Management services	**0.5**	0.3
Montefiore House Limited **	Property rentals	**1.8**	1.7
Montefiore House Limited**	Interest receivable	**1.0**	1.5

* In respect of the monitoring of the performance of the Group on behalf of Cinven Funds.

** Montefiore House Limited ('MHL') is a hospital operating company which is owned 50.1% by the Group. A subsidiary company of the Group provides management services to MHL, leases the hospital property to MHL in exchange for the payment of rent by MHL and loan finance.

Notes to the financial statements *continued*

33. RELATED PARTY TRANSACTIONS *continued*

AMOUNTS OWED (TO)/BY RELATED PARTIES

(£ million)	Nature of relationship	2014	2013
Cinven Limited	Former parent undertakings	–	0.1
Rozier No. 1A Limited Partnership	Former parent undertakings	–	12.6
Montefiore House Limited	Subsidiary undertaking	**22.1**	18.6

LOANS DUE TO RELATED PARTIES

(£ million)	Nature of relationship	2014	2013
Spire Healthcare Limited Partnership	Former parent undertakings	–	2.6
Rozier Finco Limited	Former parent undertakings	–	707.6
Rozier Finco 2 Limited	Former parent undertakings	–	138.9
Management team	Other related party	–	4.4

As part of Admission, the loans due to former parent undertakings and the Management team were either capitalised or repaid.

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

TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. They include the Board and executive management team, as identified on pages 56 to 58.

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

(£ million)	Notes	2014	2013
Short-term employee benefits		**17.3**	1.5
Post-employment pension		**0.3**	0.2
Share-based payments	28	**2.8**	–
Total		**20.4**	1.7

Included within short-term employee benefits are IPO bonuses of £14.2 million.

34. EVENTS AFTER THE REPORTING PERIOD

2014 FINAL DIVIDEND

For 2014, the Board has recommended a final dividend of 1.8 pence per share, amounting to approximately £7.2 million, to be paid on 30 June 2015 to shareholders on the register at the close of business on 5 June 2015.

Company balance sheet

As at 31 December 2014
(Registered number: 9084066)

(£ million)	Notes	2014
ASSETS		
Non-current assets		
Investments	C10	**830.0**
		830.0
Current assets		
Other receivables	C7	**7.8**
Cash and cash equivalents	C6	**38.6**
		46.4
Total assets		**876.4**
EQUITY AND LIABILITIES		
Equity		
Share capital	27	**4.0**
Share premium		**826.9**
Retained earnings		**38.9**
Total equity		**869.8**
Current liabilities		
Trade and other payables	C8	**6.6**
		6.6
Total liabilities		**6.6**
Total equity and liabilities		**876.4**

The financial statements on pages 127 to 132 were approved by the Board of Directors on 23 March 2015 and signed on its behalf by:

Rob Roger
Chief Executive Officer

Simon Gordon
Chief Financial Officer

Company statement of changes in equity

For the period ended 31 December 2014

(£ million)	Share capital	Share premium	Retained earnings	Total
At date of incorporation	**–**	**–**	**–**	**–**
Profit for the year	**–**	**–**	**36.1**	**36.1**
Other comprehensive income	**–**	**–**	**36.1**	**36.1**
Group reorganisation	**2.5**	**525.0**	**–**	**527.5**
Shares issued on Admission	**1.5**	**313.3**	**–**	**314.8**
Transaction costs of shares issued	**–**	**(11.4)**	**–**	**(11.4)**
Share-based payment	**–**	**–**	**2.8**	**2.8**
Balance at 31 December 2014	**4.0**	**826.9**	**38.9**	**869.8**

Company statement of cash flows

For the period ended 31 December 2014

(£ million)	Notes	2014
Cash flows from operating activities		
Loss before taxation		**(0.2)**
Adjustments for:		
interest income		**(0.1)**
		(0.3)
Movements in working capital:		
increase in trade and other receivables		**(7.7)**
increase in trade and other payables		**5.5**
Net cash used in operating activities		**(2.5)**
Cash flows from investing activities		
Additional investment in subsidiary		**(302.2)**
Interest received		**0.1**
Dividends received		**36.3**
Net cash used in investing activities		**(265.8)**
Cash flows from financing activities		
Proceeds from issue of share capital		**317.2**
Share issue costs		**(10.3)**
Net cash generated from financing activities		**306.9**
Net increase in cash and cash equivalents		**38.6**
Cash and cash equivalents at beginning of period		**–**
Cash and cash equivalents at end of period		**38.6**

Notes to the Parent Company financial statements

This section contains the notes to the Company financial statements.

The issued share capital is consistent with the Spire Healthcare Group plc Group financial statements. Refer to note 27 of the Group financial statements.

C1. BASIS OF PREPARATION

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

Spire Healthcare Group Limited was incorporated on 12 June 2014 and was subsequently re-registered as a public company on 23 June 2014 with the name Spire Healthcare Group plc.

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

Spire has used the exemption granted under s408 of the Companies Act 2006 that allows for the non-disclosure of the Income Statement of the Parent Company.

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

The profit attributable to the Company for the period ended 31 December 2014 was £36.1 million.

These financial statements have been prepared for the period from the Company's incorporation, 12 June 2014, to 31 December 2014.

C2. SIGNIFICANT ACCOUNTING POLICIES IN THIS SECTION

INVESTMENT IN SUBSIDIARIES

The Company's investments in subsidiaries are carried at cost less provisions resulting from impairment. In testing for impairment, the carrying value of the investment is compared to its recoverable amount, being its fair value less costs of disposal. The fair value is calculated using the same assumptions as noted for the testing of goodwill impairment in note 16 to the Group financial statements.

SHARE-BASED PAYMENTS

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

C3. KEY ESTIMATES AND ASSUMPTIONS IN THIS SECTION

IMPAIRMENT TESTING OF INVESTMENTS IN SUBSIDIARIES

The Company's investments in subsidiaries have been tested for impairment by comparison against the underlying value of the subsidiaries' assets based on fair values calculated using the same assumptions as noted for the testing of goodwill impairment in note 16 of the Group financial statements.

C4. STAFF COSTS AND DIRECTORS' REMUNERATION

The Company had no employees during the period, except for the directors. The information on compensation for the directors is disclosed in note C13.

C5. AUDITOR'S REMUNERATION

During the period, the Company obtained the following services from the Company's external auditors, as detailed below:

(£ million)	2014
Amounts receivable by auditor and their associates in respect of:	
Audit of the Company's annual financial statements	–
Other assurance services (IPO related services)	0.5
	0.5

C6. CASH AND CASH EQUIVALENTS

(£ million)	2014
Cash at bank	38.6
	38.6

C7. OTHER RECEIVABLES

(£ million)	2014
Amounts owed by subsidiary undertakings	7.8
	7.8

The amounts owed by subsidiary undertakings bear interest at LIBOR plus 2.25%. The amounts are unsecured and repayable on demand.

C8. TRADE AND OTHER PAYABLES

(£ million)	2014
Amounts owed to subsidiary undertakings	5.5
Accruals	1.1
	6.6

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

C9. FINANCIAL INSTRUMENTS

(£ million)	2014
Financial assets: Carrying amount and fair value	
Loans and receivables	
Cash and cash equivalents	38.6
Amounts owed by subsidiary undertakings	7.8
	46.4

All of the above financial assets are current and unimpaired.

(£ million)	2014
Financial liabilities: Carrying amount and fair value	
Amortised cost	
Accruals	1.1
Amounts owed to subsidiary undertakings	5.5
	6.6

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

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

C10. INVESTMENT IN SUBSIDIARIES

(£ million)	Subsidiary undertakings	Total
Net book value		
At date of incorporation	–	–
Additions	830.0	830.0
At 31 December 2014	830.0	830.0

Details of the Company's principal subsidiaries at the balance sheet date are in note 18. A full list of subsidiaries can be found on the Annual Return.

During 2014, the Company acquired 100% of the share capital of Spire Healthcare Finance Limited.

On 23 July 2014 the Company acquired the entire issued share capital of Spire Healthcare Group UK Limited in exchange for the issue of 1 new ordinary share of £0.01 to Spire Healthcare Limited Partnership. Subsequently, the Company sold the entire issued share capital of Spire Healthcare Group UK Limited to Spire Healthcare Finance Limited in exchange for the issue of 1 new ordinary share of £0.01 to the Company.

On 23 July 2014 Spire Healthcare Finance Limited issued 52,500,000,000 ordinary shares of £0.01 each as consideration for the assignment of the amounts due to former ultimate parent undertaking and management.

On Admission on 23 July 2014, the Company subscribed to a further 30,221,906,259 ordinary shares of £0.01 each in Spire Healthcare Finance Limited in exchange for cash of £302.2 million.

A further £2.8 million was recognised as additions relating to Spire Healthcare Limited for the awards of share options of the Company to the employees of Spire Healthcare Limited.

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

C11. CONTINGENT LIABILITIES

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

Notes to the Parent Company financial statements *continued*

C11. CONTINGENT LIABILITIES *continued*

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

The Company is a party to this guarantee.

LEASE AGREEMENTS ENTERED INTO BY CLASSIC HOSPITALS LIMITED

Under lease agreements entered into on 26 January 2010 by Classic Hospitals Limited, a subsidiary undertaking of the Company, the Company has undertaken to guarantee the payment of rentals over the lease term to August 2040, and to ensure that the other covenants in the lease are observed. The initial rentals payable under the leases in 2010 were £6.3 million per annum, which will be subject to an increase in future years. As part of these arrangements, the assets of the Company are subject to a fixed and floating charge.

C12. CAPITAL MANAGEMENT

The objective and management of the Company's capital structure is consistent with the Group (see note 31 to the Group financial statements).

The Company's net assets at 31 December 2014 were £869.8 million and cash amounted to £38.6 million.

C13. RELATED PARTY TRANSACTIONS

The Company's principal subsidiaries are listed in note 18 to the Group financial statements. The following table provides the Company's balances which are outstanding with subsidiary companies at the balance sheet date:

(£ million)	2014
Amounts owed from subsidiary undertakings	7.8
Amounts owed to subsidiary undertakings	(5.5)
	2.3

The amounts outstanding are unsecured and repayable on demand.

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

(£ million)	2014
Amounts invoiced to subsidiaries	7.8
Amounts invoiced by subsidiaries	5.5
Dividend received from subsidiaries	36.3

DIRECTORS' REMUNERATION

The remuneration of the non-executive directors of the Company is set out below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 74 to 88.

(£ million)	2014
Emoluments*	0.3
Pension contributions	–
Share-based payments*	–
Total	0.3

* Emoluments and share-based payment charge for the executive directors and executive chairman prior to Admission are borne by a subsidiary company, Spire Healthcare Limited.

Directors' interests in share-based payment schemes

Refer to note 28 to the Group financial statements for further details of the share options held by the Chairman and executive members of the Board of Directors.

OTHER TRANSACTIONS

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

C14. EVENTS AFTER THE REPORTING PERIOD

2014 FINAL DIVIDEND

For 2014, the Board has recommended a final dividend of 1.8 pence per share, amounting to approximately £7.2 million, to be paid on 30 June 2015 to shareholders on the register at the close of business on 5 June 2015.

Additional shareholder information

REGISTERED OFFICE AND GROUP HEAD OFFICE
Spire Healthcare Group plc
3 Dorset Rise
London EC4Y 8EN
Tel +44 (0)20 7427 9000
Fax +44 (0)20 7427 9001
(Registered in England & Wales No. 09084066)

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

CORPORATE ADVISERS

AUDITOR
Ernst & Young LLP, 1 More London Place, London, SE1 2AF

BROKERS
Bank of America Merrill Lynch, 2 King Edward Street, London, EC1A 1HQ

JPMorgan Cazenove, 25 Bank Street, Canary Wharf, London, E14 5JP

LEGAL ADVISERS
Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS

REMUNERATION CONSULTANTS
Deloitte LLP, 2 New Street Square, London, EC4A 3BZ

REGISTRARS
Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA

ENQUIRIES
Shareholder enquiries should be addressed to the Company's share registrar at the above address, or as follows:

Equiniti Limited
Tel (UK only) 0871 384 2030
Tel (non-UK) +44 (0)121 415 7047

For the hard of hearing, Equiniti offers a special Textel service that can be accessed by dialling 0871 384 2255 (or +44 (0)121 415 7028 from outside the UK).

All other shareholder enquiries not related to the share register should be addressed to the Company Secretary at the Registered Office or emailed to: companysecretary@spirehealthcare.com.

SHAREVIEW
A website, www.shareview.co.uk, is operated by Equiniti Limited, enabling shareholders to access details of their shareholdings online. The website provides information useful to the management of investments together with an extensive schedule of frequently asked questions. In order to gain access to information on shareholdings the shareholder reference number is required, which can be found at the top of the Company's share certificates.

DEALING SERVICES
UK resident shareholders can now sell shares on the Internet or by phone using Equiniti's Shareview Dealing facility by either logging onto www.shareview.co.uk/dealing or by calling 0845 603 7037 between 8.00am and 4.30pm on any business day (excluding Bank Holidays).

In order to gain access to this service, the shareholder reference number is required, which can be found at the top of the Company's share certificates.

OVERSEAS PAYMENT SERVICE
Equiniti provides a dividend payment service in over 30 countries that automatically converts payments into the local currency by an arrangement with Citibank Europe PLC. Further details, including an application form and terms and conditions of the service, are available on www.shareview.co.uk or from Equiniti by calling +44 (0)121 415 7047 or writing to Equiniti, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, United Kingdom (please quote Overseas Payment Service with details of the Company and your shareholder reference number).

Additional shareholder information *continued*

"BOILER ROOM" SCAMS

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based "brokers" who target UK shareholders, using persuasive and high-pressure tactics to lure investors into scams in what often turn out to be worthless, non-existent or high-risk shares in US or UK investments. These operations are commonly known as "boiler rooms".

A firm authorised by the FCA will not contact you out of the blue with an offer to either buy or sell shares.

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Always:

Check the Financial Services Register from www.fca.org.uk to see if the person contacting you is authorised by the FCA;

Make sure you get the correct name of the person and organisation;

Use the contact details from the Register to call them back – not those given to you;

Report the matter to the FCA by calling 0800 111 6768; and

If the calls persist, hang up.

If approached by fraudsters, please tell the FCA using the share fraud reporting form at www.fca.org.uk/scams.

FINANCIAL CALENDAR

2015 Annual General Meeting	21 May 2015
Ex-div date for Final 2014 dividend	4 June 2015
Record date for Final 2014 dividend	5 June 2015
Payment date of Final 2014 dividend	30 June 2015
Announcement of 2015 half year results	August 2015

ANALYSIS OF ORDINARY SHAREHOLDERS

As at 31 December 2014

	Investor type			Shareholdings			
	Private	Institutional and other	Total	1–1,000	1,001–50,000	50,001–500,000	500,001+
Number of holders	**30**	**309**	**339**	**45**	**167**	**69**	**58**
Percentage of holders	**8.85%**	**91.15%**	**100%**	**13.28%**	**49.26%**	**20.35%**	**17.11%**
Percentage of shares held	**0.23%**	**99.77%**	**100%**	**0.01%**	**0.50%**	**3.13%**	**96.36%**

Glossary

The following definitions apply throughout the Annual Report, unless the context requires otherwise:

2013 Freehold Sale	sale, in 2013, of the companies holding freehold and leasehold interests, subject to long term institutional leases, in 12 of Spire's hospitals
Act	The Companies Act 2006, as amended
Acute care	active but short-term treatment for a severe injury or episode of illness
Adjusted EBITDA	represents the Group's operating profit, adjusted to add back depreciation and exceptional operating items
Admission	the admission of the Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
AGM	Annual General Meeting
Articles	the Articles of Association of the Company
Audit Committee	Audit and Risk Committee
Board	the Board of Directors of the Company
c.difficile	Clostridium difficile
CAGR	compound annual growth rate
Cardiac catheterisation	insertion of a catheter into a chamber or vessel of the heart
Cardiology	speciality which encompasses the treatment of patients with cardiovascular disease
CCG	Clinical Commissioning Group
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CGSC	Clinical Governance and Safety Committee
Cinven	Cinven Partners LLP
Cinven Funds	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 FCPR, Fourth Cinven Fund (UBTI) Limited Partnership, Fourth Cinven Fund Co-Investment Partnership and Fourth Cinven (MACIF) Limited Partnership
City Code	the City Code on Take-overs and Mergers
CMA	the UK Competition and Markets Authority
CNST	the NHS Clinical Negligence Scheme for trusts administered by the NHS Litigation Authority
Company or Group	Spire Healthcare Group plc
CQC	Care Quality Commission
CO_2e	carbon dioxide equivalent
CQUIN	commissioning for quality and innovation payment which is earned for meeting quality targets on NHS work
CREST	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK and Ireland Limited is the operator
CRM	customer relationship management system /software
CT	computerised tomography
DBP	Deferred Bonus Plan
Directors	the executive and non-executive directors
EBIT	earnings before interest and taxes represents the Group's operating profit
EBITDA	earnings before interest, taxes, depreciation and amortisation; represents the Group's operating profit, adjusted to add back depreciation
EBITDAR	earnings before interest, taxes, depreciation, amortisation and rent; represents Adjusted EBITDA, adjusted to add back rent expense
EfW	Energy from Waste
EPS	earnings per share
ESOS	Energy Saving Opportunity Scheme
EU	the European Union
Executive Directors	the executive directors of the Company
EY	Ernst and Young LLP, the external auditor
FCA	the Financial Conduct Authority
Final Order	the Private Healthcare Market Investigation Order 2014, issued by the CMA
GDP	gross domestic product
GHG	greenhouse gas
GP	General Practitioner
HCA Holdings, Inc.	Hospital Corporation of America
HD	hospital director
Health & Safety Act	The Health & Safety at Work etc Act 1974
HMRC	HM Revenue & Customs
IFRS	International Financial Reporting Standards, as adopted by the EU
IPO	initial public offering of Shares to certain institutional and other investors
ITU	Intensive Therapy Unit
KPI	key performance indicator
Lifescan	part of Spire Healthcare offering advanced healthcare CT scans, health checks and blood tests
Legacy award	Directors' Share Bonus Plan Awards
Legacy award	accrued incentive payments
LinAc	linear accelerator enabling intensity modulated and image guided radiotherapy treatment

Glossary
continued

Listing Rules	the listing rules of the FCA made under section 74(4) of the FSMA
London Stock Exchange	London Stock Exchange plc
LTIP	Long term incentive plan
MAC	Medical Advisory Committee
Monitor	an executive non-departmental public body of the Department of Health that acts as the sector regulator for health services in England
MRgFUS	Magnetic Resonance guided Focused Ultrasound treatment
MRI	magnetic resonance imaging
MRSA	Methicillin-resistant Staphylococcus aureus
MSSA	Methicillin-sensitive Staphylococcus aureus
NDC	Spire's national distribution centre in Droitwich
NHS	the National Health Services in England, Scotland, Wales and Northern Ireland, collectively
NI	National Insurance
NICE	the National Institute for Health and Care Excellence
non-executive directors or NEDs	the non-executive directors of the Company
Official List	the record of whether a company's shares are officially listed, maintained by the FCA (the UKLA Official List)
Oncology	speciality which encompasses the treatment of people with cancer
Perform	part of Spire Healthcare, specialises in sports medicine, rehabilitation and human performance.
PIK	payment in kind
PILON	payment in lieu of notice
PIP Claims	the claims relating to the supply of alleged faulty PIP breast implants
PMI	private medical insurance/insurer
PPE	property, plant and equipment
PPU	Private Patient Unit
PRisM	Property and Risk Management system
Prospectus	the final prospectus of the Company approved by the FCA as a prospectus prepared in accordance with the Prospectus Rules made under section 73A of the FSMA
Public Health England	the executive agency, whose purpose is to protect and improve the nation's health and wellbeing, and reduce wealth inequalities
Registrars	Equiniti Limited
Registration Regulations	the Care Quality Commission (Registration) Regulations 2009
Regulated Activities Regulations	the Health and Social Care Act 2008 (Regulated Activities) Regulations 2010
Relationship Agreement	the relationship agreement dated 7 July 2014 entered into between the Company and Cinven Funds
Reorganisation	the reorganisation of the Group in preparation for the IPO
RIDDOR	Reporting of Injuries, Diseases and Dangerous Occurrences Regulations
RNOH	Royal National Orthopaedic Hospital
ROCE	return on capital employed
RQIA	the independent health and social care regulator for Northern Ireland is the Regulation and Quality Improvement Authority
SAC	standard acute contract issued by NHS England
SAP	global software developer/software
Self-pay	when a procedure or treatment provided is funded by the patient directly
Shareholders	the holders of shares in the capital of the Company
Shares	the ordinary shares of the Company, having the rights set out in the Articles
tCO_2e	tonnes of equivalent carbon dioxide
TSR	total shareholder return
UK	the United Kingdom of Great Britain and Northern Ireland
UK Code	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time
VTE	Venous thromboembolism (the impact of a loose blood clot travelling within the blood)
YTD	year to date

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