Spire Healthcare Group plc

Spire Healthcare

Interim results for the six months ended 30 June 2018

London, UK, 18 September 2017, Spire Healthcare Group plc (LSE: SPI), one of the UK's leading independent hospital groups, today announces its interim results for the six months ended 30 June 2018.

SUMMARY GROUP RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

	Six months ended 30 June (Unaudited)		
(£ million)	**2018**	2017	Variance %
Revenue	**475.6**	**481.0**	**(1.1%)**
Operating profit before exceptional and other items	31.6	53.9	(41.4%)
Exceptional and other items	(15.3)	(32.1)	
Operating profit after exceptional and other items	16.3	21.8	(25.2%)
Profit after tax	8.2	8.9	(7.9%)
Adjusted profit after tax (2)	16.4	34.7	(52.7%)
EBITDA (1)	**66.1**	**83.2**	**(20.6%)**
Adjusted, basic earnings per share, pence (3)	**4.1**	**8.7**	**(52.9%)**
Interim dividend per share, pence	1.3	1.3	–
Operating cash flows	59.4	75.7	(21.5%)
Capital investments	33.5	59.5	(43.7%)
Net debt (4)	**458.1**	**436.1**	**5.0%**

1. Operating profit, adjusted to add back depreciation, loss on disposal of PPE and exceptional and other items, referred to hereafter as 'EBITDA'.
2. Adjusted profit is calculated as earnings after tax adjusted for exceptional and other items and related tax.
3. Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue. Adjusted profit is calculated as earnings after tax adjusted for exceptional and other items and related tax.
4. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.

GROUP FINANCIAL HIGHLIGHTS

- Underlying(1) H1 performance down on previous year reflecting significantly declining NHS admissions , lower than anticipated growth in Private admissions and planned investment in Clinical quality and Consumer engagement
- Revenue declined by 1.1% to £475.6m (H1 2017: £481.0m), while underlying revenue(5) decreased by 2.4% to £445.6m (H1 2017: £456.6m)
- EBITDA (1) declined 20.6% to £66.1m (H1 2017: £83.2m), while underlying EBITDA(5) decreased by 21.1% to £65.3m (H1 2017: £82.8m)
- Underlying EBITDA(1) margin of 14.7% (H1 2017: 18.1%), including an adverse margin impact of NHS tariff of 0.6% in the period
- Strong cash flow performance with EBITDA conversion to cash flow of 94.1% (H1 2017: 97.6%)
- Invested £33.5m (H1 2017: £59.5m) in capital expenditure funded by operating cash flows, with net debt at 30 June 2018 reduced to £458.1m (31 December 2017: £462.8m)
- Interim dividend maintained at 1.3p per share payable on 11 December 2018 (H1 2017: 1.3p)

1. Excludes the impact of Spire Manchester, Nottingham and St Anthony's hospitals (referred to as 'underlying' in this announcement further details are shown on page 16).

OPERATING HIGHLIGHTS

- Overall private income up 2.5%
- Completed the roll-out of Spire GP service in all Spire's hospitals with a view to adding digital Spire GP service in due course
- Good progress with quality improvements - Spire Nottingham achieved a CQC rating of "Outstanding" (Spire now has four "Outstanding" hospitals out of only 14 in the entire independent hospital sector) and Spire St Anthony's and Spire Wellesley were rerated by the CQC to "Good"
- Implemented new central online marketing strategy

SENIOR MANAGEMENT APPOINTMENTS

- Appointed Jitesh Sodha as Chief Financial Officer and as an Executive Director with effect from 1 October 2018
- Appointed John Forrest as Chief Operating Officer with effect from 8 October 2018

UPDATED OUTLOOK FOR FY 2018

- EBITDA will be in the range of £120 to £125 million, after charging non-recurring items of approximately £5 million
- Year end net debt will be broadly in line with 31 December 2017 and 30 June 2018

COMMENT FROM JUSTIN ASH, CHIEF EXECUTIVE OFFICER OF SPIRE HEALTHCARE

*"We presented at our Capital Markets Day in April a comprehensive reset of our approach to the market, setting out our corporate vision "**To become the go-to UK independent healthcare brand, famous for clinical quality and customer care"** and the two core strategies underlying that vision– to focus on clinical quality and to increase the private share of our business to at least 80% of our revenues. Events in the year so far have absolutely confirmed the appropriateness of our new approach.*

Government, regulators and payor groups have all upped their requirements on clinical quality from healthcare providers – not only is this of course the correct approach as far as patients are concerned, but it also provides Spire with the opportunity for a genuine commercial advantage.

On the payor side, the unprecedented decline (both in scale and speed) in NHS admissions has led to Spire having to announce disappointing H1 2018 results and a revised outlook for the financial year as a whole. Nonetheless our overall revenues are broadly flat as the growth opportunity in our private business, 2.5% in the period, continues to support our shift in strategic focus.

While the prolonged decline in NHS volumes had negative margin implications for us, overall our H1 2018 costs were in line with our budget, even after the previously indicated increases in spend on the clinical quality and our private proposition.

We continue to review our non-clinical costs to ensure optimal efficiency. We have also robustly reviewed our previously proposed capital expenditure plans, and now expect to maintain the quality and capability of our asset base with a reduced level of expenditure.

More broadly, the headwinds that Spire is facing, as the largest company in the sector by revenues and EBITDA, appear to be translating into significant business challenges for many sector participants, which in turn may lead to opportunities for Spire.

I believe our reset strategy is absolutely the right one for Spire and that Spire continues to be well positioned to reinforce its leading role in the independent sector and indeed in UK healthcare as a whole."

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ABOUT SPIRE HEALTHCARE

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

Spire delivered tailored, personalised care to approximately 134,000 in-patients and daycase patients in the six months ended 30 June 2018, and is the leading private provider, by volume, of knee and hip operations in the United Kingdom. Spire is uniquely positioned to capture a growing share of the expanding private healthcare market. The Group's well positioned and scalable hospitals have earned reputations as centres of excellence, delivering successful and award winning clinical outcomes, positioning the Group well with patients, consultants, the NHS, GPs and Private Medical Insurance ("PMI") providers. Spire treats patients through a variety of routes including PMI, Self-pay and the NHS, providing the Group with diversified access to the expected growth opportunities in the UK healthcare market, which faces significant supply challenges as a result of NHS operating constraints and increasing demand from a growing population with longer life expectancy.

CAUTIONARY STATEMENT

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

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

ANALYST AND INVESTOR MEETING

There will be an analyst and investor meeting today at 9.30am at Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HT.

A live audiocast of the presentation will be available at 9.30am from the Spire website at http://webcast.openbriefing.com/spire_healthcare_hy_2018/.

Operating Review

PERFORMANCE IN PERIOD

Group revenue decreased in the first six months of 2018 by 1.1% to £475.6 million (H1 2017: £481.0 million), while EBITDA declined 20.6% to £66.1 million (H1 2017: £83.2 million). In-patient and daycase admissions reduced by (4.1%) to 133,700 cases (H1 2017: 139,400 patients). Two of our "new" hospitals (Manchester and St Anthony's) have improved their profitability while there were continuing start-up losses from our new hospital in Nottingham.

Group underlying [(1)] revenue performance in the first six months of 2018 decreased by 2.4% to £445.6million (H1 2017: £456.6m). This has resulted in underlying EBITDA decline of 21.1% to £65.3 million (H1 2017: £82.8 million), with In-patient and daycase admissions decreasing by 5.3% to 126,500 patients (H1 2017: 133,500 patients).

Underlying [(1)] self-pay revenue growth was 7.0% for the period. Including the average 3.9% reduction in NHS tariff for Q1 2018 over the corresponding Q1 2017, NHS revenues declined 10.0% in the period. PMI performance was stable.

The main drivers of the Group's lower Operating profits between H1 2018 (£31.6m) and H1 2017 (£53.9m) were £5.4m of lower revenue, higher depreciation of £5.8m, £11.8m increase in other costs and £0.6m in lower loss on asset disposals. Of the increase in other costs the main drivers were, £7.2m was planned clinical staff cost and £3.6 million was the cost of drugs.

Revenue

- Overall, In-patient/daycase admissions declined and there was also a change in admissions mix in terms of type of procedure, with proprtionally less orthopaedic work and proportionally more oncology.
- The increase in Self-pay admissions and in the Private Payor Average Revenue Per Case was not sufficient to offset the significant decline in NHS revenue.
- NHS admissions and revenue were negatively impacted by widespread NHS cost constraints and referral management schemes which have undergone a shift change in severity in H1 2018.

Costs

- Planned increases in Clinical Staff cost due to Spire's drive to enhance Clinical Quality.
- Clinical Staff costs did not proportionately flex down with lower NHS activity levels due to (i) Spire's Clinical Quality agenda creating more governance and assurance overhead, and (ii) lower levels of theatre activity creating short term gaps in lists for which staff costs cannot be fully flexed.
- Drug costs rose, linked to the increased amounts of oncology admissions
- Planned investment in corporate costs to support strategic objectives; in recruitment and training, Clinical and other assurance (Health & Safety, Internal Audit, Engineering) activities.

Cash flows

Our robust operating cash flows enabled us to continue to invest in our estate and our systems, as well as maintain the interim dividend. During the period, we invested £33.5 million (H1 2017: £59.5 million) in various projects, including the conclusion of the developments of the new Spire Manchester Pathology Centre, and major upgrades of the facilities at Spire Bushey, Spire Hull, Spire Cheshire and Spire Cambridge Lea Hospitals. Despite this, net debt fell slightly to £458.1 million (31 December 2017: £462.8 million).

1. Excludes the impact of Spire Manchester, Nottingham and St Anthony's hospitals (referred to as 'underlying' in this announcement further details are shown on page 16).

MARKET TRENDS

The demand for healthcare in the UK continues to rise, underpinned by a growing ageing population and advancement in medical technology. The NHS continues to experience a significant and growing funding gap, which many observers believe is likely to be at best only partly alleviated by productivity improvements, cost efficiencies and recently announced funding increases over the coming years.

The NHS continues to target available funding towards treatment of acute A&E care and chronic medical conditions and has continued to have relaxed management of performance within elective care in the last 12 months. Waiting lists have now grown to 4.3m patients, and are particularly impacted by further rationing of elective treatment.

We therefore remain of the view that, in the medium to long term, Spire will benefit from its inherent 'payor hedge' as growing numbers of individuals - recognising the resulting increases in NHS waiting lists and/or rationing or restricting of certain procedures - are likely to elect to pay for their healthcare.

Against this general healthcare sector background, in H1 2018:

- Our results indicate that the Self-Pay market continued to grow with a growth in the number of individuals requiring elective care increasingly choosing a private alternative over the NHS.
- The underlying dynamics of the PMI market also prevailed with the number of lives covered remaining stable and insurers actively managing their claims volumes tightly.
- For private providers, the impact in the NHS market has been unpredictable, with particular variation in certain localities. Overall NHS e-referral business has recovered in the later part of the first half, however orthopaedic work remains adverse, impacted by the growing influence of NHS triage applied by Clinical Commissioning Groups.

Although the Brexit referendum took place two years ago, it is still too early to assess the medium to long term impact of the result on future NHS funding levels, the UK healthcare sector as a whole (including clinical staffing levels) and Spire's position within that sector.

STRATEGIC RESET

At our Capital Markets Day presentation in April 2018, we set out in detail our evolving strategy. The basis of this is our ambition for Spire "to become the go-to UK independent healthcare brand, famous for clinical quality and customer care".

To achieve this we will focus on six core areas, which we term our **Strategic Goals and Key Enablers**

Strategic Goals and Key Enablers	What we are changing	What it delivers
First choice for private patients	Improve services Digital, marketing and telephony upgrade	Step-change in private growth
Plan and deliver operational excellence	Data driven, granular operations focus Use hospital clusters to drive efficiency	Stronger performance Leverage scale Deliver on new sites
Become best place to practise	Support consultants to grow their business Targeted equipment / facility investments	Growing Spire share of consultant practice
Become best place to work	Central recruitment focus	High performance culture

	Step change in communications and development	High capability people
Most recommended customer experience	Digitalise the patient journey Targeted investments in facilities	Number 1 in customer recommendations and referrals
Become famous for quality and clinical care	Robust clinical governance at all levels Meet new exacting CQC standards Data driven, embedded quality culture	A strong pull for customers to select Spire First choice for referrers

In terms of progress, we stated that FY 2018 would be overall a year of consolidation for Spire, focusing on Clinical quality, developing Self-Pay, driving recent hospital developments, investing in delivery infrastructure and minimising the impact of the volatile NHS market.

We also stated that the next five years would see rapid increases in growth, with a continuing focus on Clinical quality, an accelerating Self-Pay business, growth in PMI market share, reduction of NHS business to a selective basis, improving margins, lower but more targeted Capex, stronger free cash flows and a reduction in net debt.

We have also set ourselves the following three key targets in the next five year period:

- Private (i.e. non-NHS) revenues to be 80% of Spire's total revenues.
- All Spire hospitals to be rated "Good" or "Outstanding" by the CQC.
- Spire's EBITDA to be at least £200 million.

BUSINESS DEVELOPMENT

Investing in our businesses

- Work continues at Spire Cambridge Lea Hospital, comprising the expansion and refurbishment of the daycase unit, a new JAG accredited endoscopy suite and the upgrade of the Level 1 Critical Care extended recovery area – completion is expected in Q3 2018.
- Development work completed on the medical centre based in Elstree, Hertfordshire, designed as a 'satellite centre' to Spire Bushey Hospital, and which will increase our capacity to see patients for diagnostic and outpatient appointments.
- Development work began on Spire Bushey Hospital to provide a 6th theatre, new larger recovery unit and TSSU, as well as 10 new patient bedrooms. Work is due to complete in Q2 2019.
- Development work at Spire Methley Park (refurbishment of administration areas, bedrooms and theatres, and creation of a new day care suite and theatre) has completed and is opened for business.
- At the end June 2018, the Group has 134 operating theatres, including the new theatre at Spire Methley Park.
- We have closed the Spire Radiotherapy Specialist Care Centre at Baddow and are seeking buyers for the site.

Developing our service offering for growth

- We continue to update and extend our diagnostic network with investments in new MRI scanners.
- Our new Spire GP service has now been rolled out to all our hospitals and we are looking to grow this service offering further – we will also add (in due course) a digital Spire GP service to this physical GP service.
- We continue to finesse the design and responsiveness of our recently revamped website, which is key to attracting new patients to Spire.
- We have finalised and deployed our new central online marketing strategy.

Developing operational excellence

- We are seeking to improve the utilisation of spare theatre capacity to provide the opportunity to improve the recovery of fixed and semi-variable costs in the business.
- We continue to focus on delivering economies of scale in procurement, distribution and logistics and other in-house support services such as pathology and sterilisation.
- We are reducing staff numbers in several areas. Areas where actions have already been taken or are planned in FY 2018 include in H1 2018, procurement and purchasing and in H2 2018 central overhead and mainly non-clinical hospital costs. The estimated run rate savings from these actions for FY 2019 are in the high single digit £ millions. From FY 2019 onwards we expect to continue restructuring the cost base through further cost optimisation in central functions, procurement and the hospital cost bases.
- We retained our focus on recruitment and retention - improving the employer proposition to make Spire Healthcare an employer of choice plus introducing development programmes to 'grow our own'. We also hired a new specialist recruitment organisation – Cielo – to assist us in external recruitment across the country.
- We continue a major programme to review and simplify end to end processes to deliver a better customer experience alongside ease of doing business and process efficiencies.

SENIOR APPOINTMENTS

In July, the Company announced the appointment of Jitesh Sodha as Chief Financial Officer and an Executive Director from 1 October 2018. He replaces Simon Gordon who stood down from the Board on 2 March 2018 and left Spire at the end of that month. Jitesh will join Spire on 1 October 2018, bringing specific skills that will greatly benefit Spire including his track record in helping companies execute ambitious transformation plans. David Lomas has fulfilled the role of interim Chief Financial Officer since Simon's departure and will continue to do so until Jitesh joins. We would like to thank David Lomas very much for his contribution during his time with Spire.

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

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

REGULATION AND GOVERNANCE

As we strive to become famous for Clinical Quality and Customer Care, Spire continues to respond to areas of care identified as requiring improvement by the Care Quality Commission ('CQC') in both 'The state of care in independent acute hospitals' report, and within our own hospitals. We have increased our scrutiny of specialist service areas in our internal peer review programme, and have invested in championing best practice in these areas and wider practice.

Every Spire hospital and two Spire clinics in England have a rating under the revised CQC framework. Of those sites, four hospitals – Spire Sussex, Spire Cheshire, Spire Montefiore and Spire Nottingham – have received a rating of 'Outstanding', and those hospitals whose Children and Young People's services have been re-rated since the hospital's original inspection have demonstrated strong improvement. Following Spire St Anthony's review of Children and Young People's Services and Critical Care in June 2017, 22 hospitals and clinics have a rating of 'Good' and 11 hospitals have a rating of 'Requires Improvement'. Where CQC have advocated improvements, immediate actions have been put in place to address recommendations and progress is monitored on both a local and national level, with more recent CQC inspections indicating that these have been effective.

We have also invested in governance processes and information. This includes introducing "Freedom to Speak Up" guardians in all our hospitals, enhanced Root Cause Analysis, broader group quality KPIs and a monthly Learning from Deaths review.

Proving our commitment to transparency in our progress on continuous improvement in our quality and safety,

The Competitions and Markets Authority Private Healthcare Investigation Order requires doctors to send patients information regarding their fees with respect to their consultation and subsequent treatment as of February 2018. Spire Healthcare has worked with our Consultant community to successfully comply with these requirements as well as to review and approve their activity data prior to publication by the Private Health Information Network ("PHIN"). We continue to fund and support PHIN's objectives of improving transparency of private healthcare quality and have materially improved data quality to enable PHIN to publish accurate information regarding Spire hospitals. The next milestone is April 2019, by which PHIN intends to publish Consultant fee data online.

DIVIDEND

The Board is pleased to announce the payment of a 1.3p interim dividend reflecting its confidence in the Company's strategy and future prospects.

OUTLOOK

As set out above in detail, Spire's trading performance for the first 6 months of the year was disappointing, based on a combination of lower than expected revenues and adverse changes in mix. Having reviewed results for the period 1 January 2018 to 31 July 2018, and assessed likely market conditions for the balance of the financial year, the Company announced on 6 August 2018 that it now expected EBITDA for the full financial year 2018 to be materially lower than for 2017, to which it had previously guided. For the financial year as a whole we have reviewed (i) the market for payor trends (particularly in the NHS business) and (ii) Spire's cost base and (iii) August trading.

August trading has seen:

- Overall revenues flat year on year
- NHS revenues declining by a mid-single digit percentage, offset by growth in private payor revenues
- Costs in line with the trend seen in the seven months to 31 July 2018

For the Financial Year 2018 as a whole, we now expect the following revenue performance:

- Self-pay: Continued good growth
- PMI: Moderate increase over H2 2017.
- NHS: eReferral and Local Contract work will be significantly lower than H2 2017

There will also be a change in mix, with continuing reduction in NHS orthopaedics, and some PMI shift from orthopaedic to cancer.

For the Financial Year 2018 year as a whole we now expect the following outcome:

- EBITDA will be in the range of £120 to £125 million, after charging non-recurring items of approximately £5 million
- Year end net debt will be broadly in line with 31 December 2017 and 30 June 2018

The Board believes that the medium term outlook for Spire remains positive:

- The overall demand for healthcare in the UK continues to rise ahead of the ability of the NHS to service it.
- The NHS is choosing to prioritise available funding towards treatment of acute and chronic conditions and as a consequence we expect the demand and supply gap within NHS secondary elective care services to continue to expand rapidly. This is in our view highly likely to enable Spire to continue to benefit from the growing numbers of individuals that are likely to elect to fund their own care in the future
- Spire's focus on clinical quality and care will give it a significant competitive advantage in the medium term.
- The sector is facing significant headwinds which appear to be translating into business challenges for many participants, which in turn may lead to the opportunity for consolidation. Spire, as the largest

company in the sector by revenues and EBITDA, and with a growing reputation for clinical quality, will monitor sector developments and look to take advantage of opportunities.

Financial Review

SELECTED FINANCIAL INFORMATION

(£ million)	Six months ended 30 June (Unaudited) 2018 Total before exceptional and other items	2018 Exceptional and other items (note 7)	2018 Total	2017 Total before exceptional and other items	2017 Exceptional and other items (note 7)	2017 Total	Variance (on total after exceptional and other items)%	Underlying % (1)
Revenue	**475.6**	**-**	**475.6**	**481.0**	**-**	**481.0**	**(1.1%)**	**(2.4%)**
Cost of sales	(251.6)	-	(251.6)	(249.5)	-	(249.5)	0.8%	
Gross profit	**224.0**	**-**	**224.0**	**231.5**	**-**	**231.5**	**(3.2%)**	
Other operating costs	(192.4)	(15.3)	(207.7)	(177.6)	(32.1)	(209.7)	(1.0%)	
Operating profit	**31.6**	**(15.3)**	**16.3**	**53.9**	**(32.1)**	**21.8**	**(25.2%)**	
Net finance costs	(11.2)	-	(11.2)	(9.7)	-	(9.7)	15.5%	
Profit before taxation	**20.4**	**(15.3)**	**5.1**	**44.2**	**(32.1)**	**12.1**	**(57.9%)**	
Taxation	(4.0)	7.1	3.1	(9.5)	6.3	(3.2)	(196.9%)	
Profit for the period	**16.4**	**(8.2)**	**8.2**	**34.7**	**(25.8)**	**8.9**	**(7.9%)**	
EBITDA [2]			**66.1**			**83.2**	**(20.6%)**	**(21.1%)**
Adjusted, basic earnings per share, pence [3]			**4.1**			**8.7**	**(52.9%)**	
Interim dividend per share, pence			**1.3**			**1.3**	**-**	
Operating cash flows			59.4			75.7	(21.5%)	
Capital investments			33.5			59.5	(43.7%)	
Net debt [4]			**458.1**			**436.1**	**5.0%**	

1. Excludes the impact of Spire Manchester, Nottingham and St Anthony's hospitals (referred to as 'underlying' in this announcement further details are shown on page 16).
2. Operating profit, adjusted to add back depreciation, loss on disposal of PPE and exceptional and other items, referred to hereafter as 'EBITDA'.
3. Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue. Adjusted profit is calculated as earnings after tax adjusted for exceptional and other items and related tax.
4. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.

(£ million)	Six months ended 30 June (Unaudited) 2018	2017	Variance %	Underlying % [1]
Total revenue	**475.6**	**481.0**	**(1.1%)**	**(2.4%)**
Of which:				
PMI	221.4	219.3	1.0%	(0.2%)
NHS	140.3	154.5	(9.2%)	(10.0%)
Self-pay	87.3	80.6	8.3%	7.0%
Partnerships	13.5	13.7	(1.5%)	(3.2%)
Other [2]	13.1	12.9	1.6%	(1.6%)
	475.6	**481.0**	**(1.1%)**	**(2.4%)**
Of which:				
In-patient/daycase	325.3	330.8	(1.7%)	(2.8%)
Out-patient	137.2	137.3	(0.1%)	(1.6%)
Other	13.1	12.9	1.6%	(1.6%)
	475.6	**481.0**	**(1.1%)**	**(2.4%)**
Number ('000s)				
Total in-patient/daycase admissions	**133.7**	**139.4**	**(4.1%)**	**(5.3%)**
Of which:				
PMI volumes	59.6	61.2	(2.6%)	(3.6%)
NHS volumes	48.5	53.0	(8.5%)	(9.6%)
Self-pay volumes	24.0	23.5	2.1%	0.7%
Partnerships volumes	1.6	1.7	(5.9%)	(9.9%)
Theatres				
Number of theatres [3]	**134**	**133**	**0.8%**	–
Theatre utilisation [4]	**58%**	**62%**	**(6.5%)**	**(4.6%)**

1. Excludes the impact of Spire Manchester, Nottingham and St Anthony's hospitals (referred to as 'underlying' in this announcement further details are shown on page 16).
2. Other revenue includes consultant revenue, third-party revenue streams (e.g. pathology services), secretarial services.
3. Represents the number of theatres in the Spire Healthcare hospital network.
4. Theatre utilisation is calculated by dividing utilised theatre hours by maximum theatre hours (maximum theatre hours is defined as 10 hours per weekday and 7 hours per Saturday for 50 weeks per year).

REVENUE

(£ million)	30 June 2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	Other	**30 June 2018**	**Growth**
Underlying total revenue [1]	456.6	(16.6)	7.9	(2.1)	(0.2)	**445.6**	**(2.4%)**
Non underlying revenue	24.4	4.1	(0.9)	2.0	0.4	**30.0**	**23.0%**
Total revenue	481.0					**475.6**	**(1.1%)**

Group revenue for the six months ended 30 June 2018 decreased by £5.4 million, or 1.1%, to £475.6 million (H1 2017: £481.0 million). The rate of growth in total revenues was impacted adversely by the volume of in-patient and daycase admissions decline, which was not offset by the H1 2018 rate increase. Revenues were also adversely impacted by the application of NHS tariff reductions in Q2 2017 which reduced prices for the basket of services offered to the NHS by Spire by approximately 3.9% with the impact flowing into Q1 2018, and the reduction in NHS local revenue as a result of reduced level of local contracting being carried out by the NHS Trusts following the relaxation of waiting list targets in mid-2017.

Notwithstanding this decline in NHS reimbursement rates the Group reported an overall improvement in in-patient and daycase rate per case:

- decrease in in-patients and daycase admissions of 4.1% drove a 2.6% decrease in total revenues;
- average revenue per case improved in the period, accounting for a 1.5% increase in total revenues; and
- Declining outpatient revenue performance had a minimal decrease in total revenues in the period.

PMI

(£ million)	30 June 2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	**30 June 2018**	**Growth**
Underlying PMI revenue [1]	204.1	(4.7)	4.8	(0.6)	**203.6**	**(0.2%)**
Non underlying revenue	15.2	1.4	(0.2)	1.4	**17.8**	**17.1%**
Total PMI revenue	219.3				**221.4**	**1.0%**

Group PMI revenue for the six months ended 30 June 2018 increased by £2.1 million, or 1.0%, to £221.4 million (H1 2017: £219.3 million). Non underlying PMI revenues increased in the period by 17.1% as a result of the growth of Spire Manchester, St Anthony's and Spire Nottingham hospitals since launch.

Underlying PMI revenue decreased by £0.5 million, or 0.2%, to £203.6 million (H1 2017: £204.1 million).

Of the underlying decline in PMI revenue of 0.2%:

- a decline of 3.6% in in-patient and daycase admissions during the period decreased PMI revenues by 2.3%;
- average revenue per case improved in the period (notwithstanding an increase in the proportion of daycase patients treated) which increased PMI revenues by 2.4% over the prior period; and
- declining outpatient revenue performance contributed to a reduction in PMI revenues of 0.3% over the six months ended 30 June 2018.

NHS

(£ million)	30 June 2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	**30 June 2018**	**Growth**
Underlying NHS revenue [1]	151.5	(11.5)	(1.6)	(2.1)	**136.3**	**(10.0%)**
Non underlying revenue	3.0	1.3	(0.5)	0.2	**4.0**	**33.3%**
Total NHS revenue	154.5				**140.3**	**(9.2%)**

Group NHS revenue for the six months ended 30 June 2018 decreased by £14.2 million, or 9.2%, to £140.3 million (H1 2017: £154.5 million). Non underlying NHS revenues increased by 33.3% in the period as a result of the growth of Spire Manchester, St Anthony's and Spire Nottingham hospitals since launch.

Underlying NHS revenue decreased by £15.2million, or 10.0%, to £136.3 million (H1 2017: £151.5 million).

Of the underlying decline in NHS revenue of 10.0%:

- a decrease of 9.6% in in-patient and daycase admissions decreased NHS revenues by 7.6%;
- average revenue per case declined in the period, due to the national tariff contributing a decline in NHS revenues of 1.0%: and
- decline in outpatient revenues contributed 1.4% to revenue decline in the period;

The underlying revenue decline in NHS revenues is split as follows:

- 33.3% decline in local contract NHS revenue compared to prior period; and
- 5.6% decrease in NHS revenues arising from e-referral compared to prior period (previously known as 'choose and book').

Self-pay

(£ million)	30 June 2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	**30 June 2018**	**Growth**
Underlying Self-pay revenue [1]	76.1	0.4	3.9	1.0	**81.4**	**7.0%**
Non underlying revenue	4.5	1.2	(0.1)	0.3	**5.9**	**31.1%**
Total Self-pay revenue	80.6				**87.3**	**8.3%**

Self-pay revenue for the six months ended 30 June 2018 increased by £6.7 million, or 8.3%, to £87.3 million (H1 2017: £80.6 million). Non underlying self-pay revenues increased by 31.1% in the period as a result of the growth of Spire Manchester, St Anthony's and Spire Nottingham hospitals since launch.

Underlying Self-pay revenue increased by £5.3 million, or 7.0%, to £81.4 million (H1 2017: £76.1 million).

Of the underlying growth in Self-pay revenue of 7.0%:

- a 2.1% increase in the volume of in-patient and daycase admissions had a 0.6% impact on Self-pay revenues;
- average revenue per case improved in the period which increased Self-pay revenues by 5.1%; and
- increase in outpatient revenues contributed 1.3% to Self-pay revenue growth in the period.

Partnerships

Partnership revenue represents agreements and relationships directly with other bodies who provide their employees, members or customers access to healthcare treatment. Note in prior periods some of this revenue has been included within Self-Pay or Other, the restatement has been shown below. The Group internally reports Self-Pay as direct to consumer revenue and therefore we have restated the prior year comparatives to show a clear distinction between the two revenue streams.

(£ million)	30 June 2017	In-patient/ daycase volume	In-patient/ daycase rate	Out-patient	**30 June 2018**	**Growth**
Underlying Partnership revenue [1]	12.6	(0.4)	0.4	(0.4)	**12.2**	**(3.2%)**
Non underlying revenue	1.1	–	–	0.2	**1.3**	**18.2%**
Total Partnership revenue	13.7				**13.5**	**(1.5%)**

Group Partnership revenue for the six months ended 30 June 2018 decreased by £0.2 million, or 1.5%, to £13.5 million (H1 2017: £13.7 million). Underlying Partnership revenue decreased by £0.4 million, or 3.2%, to £12.2 million (H1 2017: £12.6 million).

Of the underlying decrease in Partnership revenue of 3.2%:

- a decline of 9.9% in-patient and daycase admissions during the period decreased Partnership revenues by 3.2%;
- average revenue per case improved in the period which increased Partnership revenues by 3.2%; and
- declining outpatient revenue performance contributed a reduction in Partnership revenues of 3.2% over the six months ended 30 June 2018.

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 £0.2 million, or 1.6%, in the period, to £13.1 million (H1 2017: £12.9 million).

Restated revenue

The Group has restated revenue for 2017, in order to reflect the measures that management use internally, shown below are the adjustments made to revenue for 30 June 2017:

(£ million)	30 June 2017 (As previously stated)	Partnership payors	CQUIN	**30 June 2017 (restated)**
Underlying NHS revenue [1]	148.8	–	2.7	**151.5**
Non underlying revenue	2.9	–	0.1	**3.0**
Underlying Self-pay revenue [1]	88.7	(12.6)	–	**76.1**
Non underlying revenue	5.7	(1.2)	–	**4.5**
Underlying Partnership revenue [1]	–	12.6	–	**12.6**
Non underlying revenue	–	1.2	(0.1)	**1.1**
Other	15.6	–	(2.7)	**12.9**

COST OF SALES AND GROSS PROFIT

Cost of sales increased in the period by £2.1 million, or 0.8%, to £251.6 million (H1 2017: £249.5 million). Underlying cost of sales (excluding Spire Manchester, Nottingham and St Anthony's hospitals) decreased in the period by £0.7 million or 0.3% to £232.4 million (H1 2017: £233.1 million).

Underlying gross margin for the six months ended 30 June 2018 was 47.8%, compared to 49.0% for the six months ended 30 June 2017 and 48.2% for the twelve months ended 31 December 2017.

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

	Group Six months ended 30 June		Underlying Six months ended 30 June		Group Year ended 31 December	Underlying Year ended 31 December
	2018	2017	**2018**	2017	2017	2017
Clinical staff	**19.8%**	18.8%	**19.1%**	18.0%	19.6%	18.8%
Direct costs	**22.5%**	22.0%	**22.4%**	21.9%	22.1%	21.9%
Medical fees	**10.6%**	11.0%	**10.7%**	11.2%	11.1%	11.1%
Cost of sales	**52.9%**	51.8%	**52.2%**	51.0%	52.8%	51.8%
Gross profit margin	**47.1%**	48.2%	47.8%	49.0%	47.2%	48.2%

Underlying gross profit margin has declined against prior year as a result of both:

- Revenue reductions arising from
  - NHS tariff declines in April 2017, 0.6% margin impact on the business
  - Loss of NHS local contracts following a relaxation of waiting list targets in mid-2017
- Cost pressures specifically in Clinical staff costs driven by:
  - The investment in clinical quality which has increased headcount in some locations
  - Supply side pressures increasing the rate of contracted staff and requiring the use of premium agency staff where gaps exist in contracted rotas

Management is focused on, and during H1 2018 has invested significantly in continuous improvement of recruitment, training and development process in the business. Medical fees and direct costs have been controlled in line with activity and case mix, with Oncology drug cost increases, linked to increased activity levels.

OTHER OPERATING COSTS

Other operating costs for the six months ended 30 June 2018 decreased by £2.0 million, or 1.0%, to £207.7 million (H1 2017: £209.7 million). Excluding exceptional and other items, other operating costs for the period increased by £14.8 million, or 8.3%, to £192.4 million (H1 2017: £177.6 million).

Underlying other operating costs decreased in the period by £7.4 million, or 3.7%, to £191.9 million (H1 2017: £199.3 million). Excluding exceptional and other items, underlying other operating costs for the period increased by £9.4 million, or 5.6%, to £176.6 million. Underlying operating costs were driven by the focus on strategic investments in areas such as HR, Clinical Quality and Assurance linked with our strategy to drive clinical quality and assurance and develop our recruitment and development capability in an increasingly challenging market.

	Group Six months ended 30 June		Underlying Six months ended 30 June		Group Year ended 31 December	Underlying Year ended 31 December
	2018	2017	**2018**	2017	2017	
Gross profit margin	**47.1%**	48.2%	**47.8%**	49.0%	47.2%	48.2%
Hospital and central overheads	**(26.3%)**	(24.3%)	**(25.7%)**	(23.9%)	(24.2%)	(23.6%)
Depreciation	**(7.2%)**	(5.9%)	**(6.5%)**	(6.1%)	(6.2%)	(6.1%)
Rent	**(6.9%)**	(6.6%)	**(7.4%)**	(6.9%)	(6.9%)	(7.3%)
Loss on disposal of assets	**–**	(0.1%)	**–**	(0.1%)	–	(0.1%)
Operating margin	**6.7%**	11.2%	**8.2%**	11.9%	9.9%	11.1%
EBITDA margin	**13.9%**	17.3%	**14.7%**	18.1%	16.1%	17.3%

EBITDA

EBITDA for the Group declined by 20.6% in the period from £83.2 million in H1 2017 to £66.1 million for H1 2018. The result includes post opening trading losses in Nottingham as the business establishes itself in a new market. The performance was also adversely impacted by NHS tariff reductions from Q2 2017.

Underlying EBITDA decreased by 21.1% to £65.3 million (H1 2017: £82.8 million) and underlying margin declined by 3.4% from 18.1% in H1 2017 to 14.7% in H1 2018, as a result of revenue reduction and cost increases linked to strategic investments.

Depreciation

Group depreciation charge for the six months ended 30 June 2018 increased by £5.8 million, or 20.3%, to £34.4 million (H1 2017: £28.6 million).

Underlying depreciation charge for the six months ended 30 June 2018 increased by £2.7 million, or 10.4%, to £28.6 million (H1 2017: £25.9 million).

Rent

Rent of land and buildings for the period increased by £0.9 million, or 2.8%, to £32.8 million (H1 2017: £31.9 million).

Share-based payments

During the period, grants were made to executive directors and members of the executive management team under the Company's deferred bonus plan and long term incentive plan. For the six months ended 30 June 2018, the charge to the income statement was £0.5 million (H1 2017: £0.6 million), or £0.6 million inclusive of NI (H1 2017: £0.7 million). Further details are contained in note 16 of this announcement.

Exceptional and other items included in other operating costs

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Ian Paterson claims and related costs	**(0.6)**	27.6
Property impairment	**12.6**	–
Business reorganisation	**1.0**	1.3
Hospitals set up and closure costs	**1.8**	3.2
Total exceptional costs	**14.8**	32.1
Other costs		
Compliance set-up costs	**0.5**	–
Total exceptional and other costs	**15.3**	32.1

Property impairment relates to the Spire Alexandra hospital; this is a site that has underperformed in recent years. The performance in the first six months continued to deteriorate which has now resulted in impairment being recognised. Business reorganisation costs include internal group reorganisation costs associated with the strategic review that commenced in Q4 2017. Hospital set up and closure costs include the provision of impairment for fixed assets at the Windsor clinic; this is subsequent to discussions with the landlord following which Spire have agreed to terminate the lease early in September 2018, along with further decommissioning costs of the former Manchester hospital site. Further details of exceptional and other items are disclosed in note 8 of this interim announcement.

OPERATING PROFIT BEFORE AND AFTER EXCEPTIONAL AND OTHER ITEMS

Operating profit after exceptional and other items decreased by 25.2% in the period to £16.3 million. Before exceptional and other items, operating profit decreased by 41.4%, to £31.6 million for the six months ended 30 June 2018 (H1 2017: £53.9 million). Excluding the results of Spire Manchester, Nottingham and St Anthony's hospitals in H1 2018, underlying operating profit before exceptional and other items decreased by 34.8%, from £56.3 million to £36.7 million.

NET FINANCE COSTS

Net finance costs increased by 15.5% to £11.2 million (H1 2017: £9.7 million) as a result of applicable interest rates on borrowings in the period.

TAXATION

The taxation charge for the six months ended 30 June 2018 consisted of a £1.9 million charge for corporation tax and a credit of £5.0 million for deferred tax. The effective tax rate for the six months ended 30 June 2018 was credit 60.8% (before exceptional and other items 19.6%).

The taxation charge for the six months ended 30 June 2017 consisted of a £0.6 million charge for corporation tax and a charge of £2.6 million for deferred tax. The effective tax rate for the six months ended 30 June 2017 was 26.4% (before exceptional and other items 21.5%).

PROFIT FOR THE PERIOD

The profit after taxation for the six months ended 30 June 2018 was £8.2 million (H1 2017: £8.9 million).

ADJUSTED FINANCIAL INFORMATION

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

Non-GAAP financial measures

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

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

Adjustments have been made to exclude the trading results of any new hospital development, closure or disposal in both current and prior periods. We have therefore excluded the results of Spire Manchester, Spire Nottingham and Spire St Anthony hospitals in arriving at 'underlying' in this 2018 interim Report. Manchester hospital was transitioned to a new and larger site during January 2017 (which resulted in a period of operational closure), the new hospital in Nottingham was operational in late April 2017 and St Anthony's was redeveloped in 2017, including the construction of a new 6 surgical theatre complex which opened in late 2016.

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Revenue	**475.6**	**481.0**
Adjustments:		
New hospital openings (Spire Nottingham and Spire Manchester hospitals)	(16.4)	(10.5)
Hospital redevelopment (Spire St Anthony's Hospital)	(13.6)	(13.9)
Underlying revenue	**445.6**	**456.6**

Operating profit before exceptional and other items	**31.6**	**53.9**
Adjustments:		
New hospital openings (Spire Nottingham and Spire Manchester hospitals)	5.4	2.4
Hospital redevelopment (Spire St Anthony's Hospital)	(0.3)	0.6
Underlying operating profit before exceptional and other items	**36.7**	**56.9**
Depreciation and amortization on underlying assets	**28.6**	**25.9**
Underlying EBITDA	**65.3**	**82.8**

EBITDA	**66.1**	**83.2**
Adjustments:		
New hospital openings (Spire Nottingham and Spire Manchester hospitals)	0.3	(0.5)
Hospital redevelopment (Spire St Anthony's Hospital)	(1.1)	0.1
Underlying EBITDA	**65.3**	**82.8**

Adjusted profit after tax and earnings per share

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

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Profit before taxation	**5.1**	12.1
Adjustment for:		
Exceptional and other items	**15.3**	32.1
Adjusted profit before tax	**20.4**	44.2
Taxation (1a)	**(4.0)**	(9.5)
Adjusted profit after tax	**16.4**	34.7
Weighted average number of ordinary shares in issue (No.)	**400,806,961**	400,542,797
Adjusted basic earnings per share (pence)	**4.1**	8.7

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

CASH FLOWS ANALYSIS FOR THE PERIOD

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Opening cash balance	**39.2**	**67.9**
Operating cash flows before exceptional and other items and income tax paid	**62.2**	**81.2**
Exceptional and other items (1b)	(1.4)	(4.9)
Income tax paid	(1.4)	(0.6)
Operating cash flows after exceptional and other items and income tax paid	59.4	75.7
Net cash used in investing activities	(33.4)	(59.1)
Net cash used in financing activities	(20.1)	(19.6)
Closing cash balance	**45.1**	**64.9**
Closing net indebtedness	**458.1**	**436.1**

1b. Comprising exceptional and other items paid of £1.4 million (H1 2017: £4.9 million) included within movements in working capital (H1 2017: £0.4 million credit included within charge).

EBITDA CASH FLOW CONVERSION RATE AND DEBT LEVERAGE COVENANT

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Operating cash flows before exceptional and other items and income tax paid	**62.2**	81.2
EBITDA	**66.1**	83.2
Cash conversion rate	**94.1%**	97.6%

(£ million)	Six months ended 30 June (Unaudited) 2018	2017
Debt leverage[(1)]	**3.4x**	3.1x

1. Total net debt to EBITDA excluding exceptional and non-recurring items must not be greater that 4:1. Tested semi-annually.Included within the H1 2018 debt leverage calculation is some £2m of non-recurring items.

Operating cash flows before exceptional and other items and income tax paid

The cash inflow from operating activities before exceptional and other items and income tax paid for the six months ended 30 June 2018 was £62.2 million, which constitutes a cash conversion rate from EBITDA for the period of 94.1% (H1 2017: £81.2 million or 97.6%). The net cash inflow from movements in working capital in the period was £5.8 million (H1 2017: inflow £23.9 million) mainly due to the increase in trade and other receivables, of this £6.4 million relates a non cash item for the IFRS 9 transition.

Investing and financing cash flows

Net cash used in investing activities for the six months ended 30 June 2018 was £33.4 million. Capital expenditure for the purchase of property, plant and equipment in the period totalled £33.5 million, which included the ongoing upgrades of facilities notably at Spire Hull, Spire Bushey, Spire Cheshire and Spire Cambridge Lea Hospitals.

Net cash used in investing activities for the six months ended 30 June 2017 was £59.1 million. Capital expenditure for the purchase of property, plant and equipment in the period totalled £59.5 million, which included the completion of the new Spire Manchester and Spire Nottingham hospitals and ongoing upgrades of facilities notably at Spire Hull, Spire Bushey and Spire Cambridge Lea Hospitals.

Net cash used in financing activities for the six months ended 30 June 2018 was £20.1 million (H1 2017: £19.6 million), including interest paid of £10.1 million (H1 2017: £9.6 million) and final 2017 dividend paid to shareholders of £10.0 million (H1 2017: £10.0 million).

DIVIDEND

The Board has approved a 2018 interim dividend of 1.3 pence per share (H1 2017: 1.3 pence) payable on 11 December 2018.

RELATED PARTY TRANSACTIONS

There were no significant related party transactions during the period under review.

Principal risks

The Board has overall responsibility for the Group's risk management and internal control systems.

The principal risks and mitigating factors are described in more detail on pages 52 to 55 of the Group's Annual Report and Accounts for the year ended 31 December 2017 (a copy of which is available on the Group's website at www.spirehealthcare.com). The Board have reconsidered the Group's key risks and believe the only additional risk to be considered is Brexit and that all remaining risks are appropriate for the remaining six months period to 31 December 2018.

- Clinical care
- Government policy; including the commissioning of NHS services
- Compliance with laws, regulations and other applicable requirements
- Insurance
- Concentration of the PMI market
- Availability of key medical staff
- Macroeconomic conditions
- Competitor challenge
- Cybersecurity
- Investment plans and execution
- Liquidity and covenant risk
- Brexit

Directors' responsibilities statement

We confirm that to the best of our knowledge:

- This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 ('IAS 34') as adopted by the EU.
- The interim management report, which is incorporated into the Non-Executive Chairman's message, Operating Review and Financial Review, includes a fair review of the information as required by:
  - DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of the important events that have occurred during the six months of the current financial year and their impact on the condensed consolidated interim financial information and a description of the principal risks for the remaining six months of the year; and
  - DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially impacted the financial position or performance of the Group during the period and any material changes in the related party transactions described in the Group's Annual Report and Accounts for the year ended 31 December 2017.

By order of the Board

Justin Ash	**Garry Watts**
Chief Executive Officer	Non-Executive Chairman

17 September 2018

Independent review report to the members of Spire Healthcare Group plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises the Consolidated interim income statement, Consolidated interim statement of comprehensive income, Consolidated interim statement of changes in equity, Consolidated interim balance sheet, Consolidated interim statement of cash flows and related explanatory notes 1 to 17 that have been reviewed. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
17 September 2018

Condensed financial statements

Consolidated interim income statement

For the six months ended 30 June 2018

(£ million)	Notes	2018 Total before exceptional and other items	2018 Exceptional and other items (note 8)	2018 Total	2017 Total before exceptional and other items	2017 Exceptional and other items (note 8)	2017 Total
		Six months ended 30 June (Unaudited)					
Revenue	7	**475.6**	**-**	**475.6**	481.0	-	481.0
Cost of sales		(251.6)	-	(251.6)	(249.5)	-	(249.5)
Gross profit		**224.0**	**-**	**224.0**	231.5	-	231.5
Other operating costs		(192.4)	(15.3)	(207.7)	(177.6)	(32.1)	(209.7)
Operating profit	6	**31.6**	**(15.3)**	**16.3**	53.9	(32.1)	21.8
Finance income		-	-	-	-	-	-
Finance costs	9	(11.2)	-	(11.2)	(9.7)	-	(9.7)
Profit before taxation		**20.4**	**(15.3)**	**5.1**	44.2	(32.1)	12.1
Taxation	10	(4.0)	7.1	3.1	(9.5)	6.3	(3.2)
Profit for the period		**16.4**	**(8.2)**	**8.2**	34.7	(25.8)	8.9
Profit for the period attributable to owners of the Parent		**16.4**	**(8.2)**	**8.2**	34.7	(25.8)	8.9
Earnings per share – basic (in pence per share)	12	**4.1**	(2.1)	**2.0**	8.7	(6.5)	2.2
Earnings per share –diluted (in pence per share)	12	**4.1**	(2.1)	**2.0**	8.6	(6.4)	2.2

Consolidated interim statement of comprehensive income

For the six months ended 30 June 2018

(£ million)	Six months ended 30 June (Unaudited) 2018	2017
Profit for the period	**8.2**	8.9
Other comprehensive income for the period	**–**	–
Total comprehensive income for the period attributable to owners of the Parent	**8.2**	8.9

Consolidated interim statement of changes in equity

For the six months ended 30 June 2018 (Unaudited)

(£ million)	Notes	Share capital	Share premium	Capital reserves	EBT share reserves	Retained earnings	Total equity
As at 1 January 2017		4.0	826.9	376.1	(2.2)	(169.5)	1,035.3
Profit for the period		–	–	–	–	8.9	8.9
Other comprehensive income for the period		–	–	–	–	–	–
Share-based payments	16	–	–	–	–	0.7	0.7
Deferred tax on share-based payments		–	–	–	–	0.1	0.1
Utilisation of EBT shares for Directors' Share Bonus Award		–	–	–	0.8	(0.8)	–
Dividend paid	11	–	–	–	–	(10.0)	(10.0)
Balance at 30 June 2017		4.0	826.9	376.1	(1.4)	(170.6)	1,035.0
As at 1 January 2018		**4.0**	**826.9**	**376.1**	**(0.9)**	**(168.2)**	**1,037.9**
IFRS 9 transition adjustment	4	**–**	**–**	**–**	**–**	(6.4)	(6.4)
Restated as at 1 January 2018		**4.0**	**826.9**	**376.1**	**(0.9)**	**(174.6)**	**1,031.5**
Profit for the period		**–**	**–**	**–**	**–**	8.2	8.2
Other comprehensive income for the period		**–**	**–**	**–**	**–**	**–**	**–**
Share-based payments	16	**–**	**–**	**–**	**–**	0.5	0.5
Deferred tax on share-based payments		**–**	**–**	**–**	**–**	0.1	0.1
Utilisation of EBT shares for Directors' Share Bonus Award		**–**	**–**	**–**	0.1	(0.1)	**–**
Dividend paid	11	**–**	**–**	**–**	**–**	(10.0)	(10.0)
Balance at 30 June 2018		**4.0**	**826.9**	**376.1**	**(0.8)**	**(175.9)**	**1,030.3**

Consolidated interim balance sheet

(£ million)	Notes	As at **30 June 2018 (Unaudited)**	 31 December 2017 (Audited)
ASSETS			
Non-current assets			
Intangible assets		517.8	517.8
Property, plant and equipment	13	1,021.9	1,036.9
		1,539.7	1,554.7
Current assets			
Inventories		29.0	30.1
Trade and other receivables		108.6	104.5
Cash and cash equivalents		45.1	39.2
		182.7	173.8
Non-current assets held for sale		5.6	5.6
		188.3	179.4
Total assets		**1,728.0**	**1,734.1**
EQUITY AND LIABILITIES			
Equity			
Share capital		4.0	4.0
Share premium		826.9	826.9
Capital reserves		376.1	376.1
EBT share reserves		(0.8)	(0.9)
Retained earnings		(175.9)	(168.2)
Equity attributable to owners of the Parent		**1,030.3**	**1,037.9**
Total equity		**1,030.3**	**1,037.9**
Non-current liabilities			
Borrowings	14	499.1	498.0
Deferred tax liabilities		67.6	72.6
		566.7	570.6
Current liabilities			
Provisions	15	19.2	17.9
Borrowings	14	4.1	4.0
Trade and other payables		105.2	101.5
Income tax payable		2.5	2.2
		131.0	125.6
Total liabilities		**697.7**	**696.2**
Total equity and liabilities		**1,728.0**	**1,734.1**

Consolidated interim statement of cash flows

For the six months ended 30 June 2018

(£ million)	Notes	Six months ended 30 June (Unaudited) 2018	2017
Cash flows from operating activities			
Profit before taxation		5.1	12.1
Adjustments for:			
Depreciation	6	34.4	28.6
Impairment of property, plant and equipment		13.9	–
Share-based payments		0.5	0.7
Loss on disposal of property, plant and equipment		0.1	0.7
Finance income		–	–
Finance costs	9	11.2	9.7
		65.2	**51.8**
Movements in working capital:			
(Increase)/decrease in trade and other receivables		(10.5)	2.3
Decrease/(increase) in inventories		1.1	(0.4)
Increase /(decrease) in trade and other payables		3.7	(4.8)
Increase in provisions		1.3	27.4
Income tax paid		(1.4)	(0.6)
Net cash from operating activities		**59.4**	**75.7**
Cash flows from investing activities			
Purchase of property, plant and equipment		(33.5)	(59.5)
Proceeds from disposal of property, plant and equipment		0.1	0.4
Interest received		–	–
Net cash used in investing activities		**(33.4)**	**(59.1)**
Cash flows from financing activities			
Interest paid		(10.1)	(9.6)
Repayment of borrowings		–	–
Dividend paid to equity holders of the Parent		(10.0)	(10.0)
Net cash used in financing activities		**(20.1)**	**(19.6)**
Net increase/(decrease) in cash and cash equivalents		**5.9**	**(3.0)**
Cash and cash equivalents at beginning of period		39.2	67.9
Cash and cash equivalents at end of period		**45.1**	**64.9**
Exceptional and other items			
Exceptional and other items paid included in the cash flow from operating activities		(1.4)	(4.9)
Total exceptional and other items	8	(15.3)	(32.1)

Notes to the consolidated interim 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 Company is a public limited company, which is listed on the London Stock Exchange, incorporated, registered and domiciled in England (registered number: 09084066). The address of its registered office is 3 Dorset Rise, London EC4Y 8EN.

The condensed consolidated interim financial information for the six months ended 30 June 2018 was approved by the Board on 17 September 2018.

2. BASIS OF PREPARATION

Basis of preparation of interim statements

The condensed consolidated interim financial information has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 Interim Financial Reporting, as adopted by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with information contained in the Group's Annual Report and Accounts for the year ended 31 December 2017. The condensed consolidated interim financial information has been reviewed, not audited.

The financial information for the year ended 31 December 2017 does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 for that year, but it is derived from those accounts. Statutory accounts for the year ended 31 December 2017 were approved by the Board of Directors on 1 March 2018 and delivered to the Registrar of Companies. The report of the auditor on those accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under section s498 (2) or (3) of the Companies Act 2006.

Going concern

During July 2018, the Group renewed its finance facility with a bank loan that matures in July 2022. The directors have considered the Group's forecasts and projections, and the risks associated with their delivery, and are satisfied that the Group will be able to operate within the covenants imposed by the bank loan facility for 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 this condensed consolidated interim financial information.

3. ACCOUNTING POLICIES

In preparing the condensed consolidated interim financial information, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2017. The accounting policies are consistent with those of the previous financial year and corresponding interim reporting period with the exception of the adoption of new and amended standards as set out below.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting standards ('IFRS') as adopted by the EU.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

3. ACCOUNTING POLICIES (CONTINUED)

IFRS 16 *LEASES*

The Group is continuing to assess the impact of IFRS 16 *Leases* which will be concluded by the end of the year.

New and amended standards adopted by the Group

A number of new and amended accounting standards became applicable for the current reporting period and the Group had to change its accounting policies and make adjustments as a result of adopting the following standards:

IFRS9 *Financial Instruments*
IFRS 15 *Revenue from contracts with customers*

The impacts of adoption of these accounting standards are disclosed in note 4 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

4. CHANGES IN ACCOUNTING POLICIES

IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 replaces *IAS 39 Financial Instruments: Recognition and Measurement* bringing all three aspects of the accounting together for financial instruments: classification and measurements; impairment; and hedge accounting.

The adoption of IFRS *9 Financial Instruments* from 1 January 2018, resulted in a change of accounting policy and adjustments through opening retained earnings. The new accounting policy is set out below.

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

To measure the expected credit losses, trade receivables have been grouped based on shared characteristics and the days past due. The Group has concluded that the expected loss rates for trade receivables, are a reasonable approximation of the loss rates for each ageing bucket based on historical debt trends of our portfolio of customers for the last 2 reporting periods.

The loss allowance as at 1 January 2018 was determined as follows for trade receivables:

	Current	0-30 days	31-90 days	91-364 days	1-2 years	Total
Expected loss rate	**1.1%**	**6.7%**	**16.2%**	**50%**	**100%**	
Carrying amount (£ million)	36.3	5.9	4.3	3.8	6.9	57.2
Loss allowance	**0.4**	**0.4**	**0.7**	**1.9**	**6.9**	**10.3**

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

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

The loss allowance decreased by £4.8 million to £5.5 million for trade receivables during the six months to 30 June 2018. The bad debt provision decrease would have been £2.2 million for the period to bring the provision down to £1.7 million under the incurred loss model of IAS 39.

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

4. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Accounting policy

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

IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

The Group adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018 which has not resulted in a material change in accounting for revenue. In accordance with IFRS 15, the Group has adopted the new rules using the modified retrospective approach, no adjustments were required at the date of application.

Accounting policy

PMI, Self-pay, Partnerships and NHS revenue

The Group's patient revenue for PMI, Self-pay, Partnerships and NHS is recognised when services have been delivered to the patient, this includes in-patient cases for which services are simultaneously received and consumed by the patient and outpatient cases which the revenue is recognised on an individual component basis when the performance obligations are satisfied.

Other revenue

Other revenue includes consultant revenue, third party revenue streams such as room rental, medical secretary services, training and hire of facilities. Revenue from providing these services or facilities is recognised in the accounting period in which the services are rendered.

5. SIGNIFICANT JUDGEMENTS AND ESTIMATES

The preparation of the condensed consolidated interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities, income and expense. Actual results may differ from these estimates.

The significant judgements and estimates used in the application of the Group's accounting policies are the same as those described in the Group's Annual Report and Accounts for the year ended 31 December 2017.

6. OPERATING PROFIT

Operating profit for the period has been arrived at after charging:

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Rent of land and buildings under operating leases	**32.8**	31.9
Depreciation of property, plant and equipment	**34.4**	28.6
Impairment of property, plant and equipment	**13.9**	–
Loss on disposal of property, plant and equipment	**0.1**	0.7
Staff costs	**147.8**	137.6

7. SEGMENTAL REPORTING

In determining the Group's operating segment, management has primarily considered the financial information in the internal reports that are reviewed and used by the executive management team and the Board of Directors (in aggregate the chief operating decision maker) in assessing performance and in determining the allocation of resources. The financial information in those internal reports in respect of revenue and expenses has led management to conclude that the Group has a single operating segment, being the provision of healthcare services.

Partnership revenue represents agreements and relationships directly with other bodies who provide their employees, members or customers access to healthcare treatment. Note in prior periods some of this revenue has been included within Self-Pay or Other. The Group internally reports Self-Pay as direct to consumer revenue and therefore we have restated the prior year comparatives to show a clear distinction between the two revenue streams.

(£ million)	30 June 2017 (As previously stated)	Partnership payors	CQUIN	**30 June 2017 (restated)**
Underlying NHS revenue [1]	148.8	–	2.7	**151.5**
Non underlying revenue	2.9	–	0.1	**3.0**
Underlying Self-pay revenue [1]	88.7	(12.6)	–	**76.1**
Non underlying revenue	5.7	(1.2)	–	**4.5**
Underlying Partnership revenue [1]	–	12.6	–	**12.6**
Non underlying revenue	–	1.2	(0.1)–	**1.1**
Other	15.6	–	(2.7)	**12.9**

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)	Six months ended 30 June (Unaudited) **2018**	2017
Insured	**221.4**	219.3
NHS	**140.3**	154.5
Self-pay	**87.3**	80.6
Partnerships	**13.5**	13.7
Other	**13.1**	12.9
Total	**475.6**	481.0

8. EXCEPTIONAL AND OTHER ITEMS

(£ million)	Six months ended 30 June (Unaudited) **2018**	2017
Ian Paterson claims and related costs	**(0.6)**	27.6
Impairment of property, plant and equipment	**12.6**	–
Business reorganisation	**1.0**	1.3
Hospitals set up and closure costs	**1.8**	3.2
Total exceptional costs	**14.8**	32.1
Income tax credit on exceptional items	**(2.6)**	(6.3)
Net total	**12.2**	25.8

In the six months ended 30 June 2018:

Property impairment relates to the Spire Alexandra hospital; this is a site that has underperformed in recent years. The performance in the first six months continued to deteriorate which has now resulted in impairment being recognised. Business reorganisation costs include internal group reorganisation costs associated with the strategic review commenced in Q4 2017. Hospital set up and closure costs include the provision of impairment for fixed assets at the Spire Windsor clinic; this is subsequent to discussions with the landlord following which

8. EXCEPTIONAL AND OTHER ITEMS (CONTINUED)

Spire have agreed to terminate the lease early in September 2018, along with further decommissioning costs of the former Manchester hospital site. All 2018 exceptional costs are expected to be tax deductible.

In the six months ended 30 June 2017:

Business reorganisation mainly comprised staff restructuring costs. Hospitals set up and closure costs refer to pre-opening costs for the new Manchester and Nottingham hospitals and decommissioning costs for the old Manchester site. Except for the disposal costs, which were capital in nature, all other exceptional costs in 2017 are expected to be tax deductible.

Following the completion of the criminal proceedings against Ian Paterson (a consultant who previously had practicing privileges at Spire Healthcare) earlier in 2017, Spire has entered into an agreement in principle to settle all current and known claims against Spire relating to his practice at Spire. In this connection Spire has made a provision amounting to £27.6m for the potential cost of such settlement in the results for the period. This provision has been determined before account is taken of any potential further recoveries from insurers.

Other items	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Compliance set-up costs	**0.5**	–
Total other items	**0.5**	–
Deferred tax on properties	**(4.4)**	–
Income tax credit on other items	**(0.1)**	–
Total post tax other items	**(4.0)**	–

Compliance set up costs include amounts incurred in 2018 to meet the requirements of General Data Protection Regulation ('GDPR') which was effective from 25 May 2018. The initial tranche of costs were incurred and recognised in H2 2017 and management expect further material costs to be incurred to fulfil its expanded obligations by the end of 2018.

During the current period, the Group reassessed the basis of deferred tax on two properties that have been classified as held for sale, this has given rise to a prior year exceptional tax credit.

9. FINANCE COSTS

	Six months ended 30 June (Unaudited)	
(£ million)	**2018**	2017
Interest on bank facilities	**6.6**	5.8
Finance charges payable under finance leases	**4.6**	4.6
	11.2	10.4
Finance costs capitalised in the period	**–**	(0.7)
Total finance costs	**11.2**	9.7

No finance costs were capitalised during the period. In the prior period they were calculated based on a weighted cost of borrowing of 2.5%.

10. TAXATION

(£ million)	Six months ended 30 June (Unaudited) 2018	2017
Current tax		
UK Corporation tax arising in the period	**1.9**	0.6
Total current tax	**1.9**	0.6
Deferred tax		
Origination and reversal of temporary differences	**(0.6)**	2.6
Adjustment in respect of prior years	**(4.4)**	–
Total deferred tax charge	**(5.0)**	2.6
Taxation in the period	**(3.1)**	3.2

The tax charge for the period has been calculated using an estimate of the effective annual rate of tax for the full year. This rate has been applied to the pre-tax profits for the six months ended 30 June 2018. The Group has separately calculated the tax rates applicable to exceptional and other items for the period. Tax rate changes that were substantively enacted at the balance sheet date have been factored into the calculation of the effective tax rates.

10. DIVIDENDS

(£ million)	Six months ended 30 June (Unaudited) 2018	2017
Amounts recognised as distributions to equity holders in the period:		
- final dividend for the year ended 31 December 2017 of 2.5 pence per share	**10.0**	–
- final dividend for the year ended 31 December 2016 of 2.5 pence per share	**–**	10.0
	10.0	10.0

An interim dividend of 1.3 pence per share (H1 2017: 1.3 pence), amounting to a total interim dividend of approximately £5.2 million (H1 2017: £5.2 million), was proposed by the Board on 17 September 2018. The interim dividend is payable on 11 December 2018 to shareholders who are on the register at 16 November 2018. In accordance with IAS 10 *'Events after the balance sheet date'*, dividends declared after the balance sheet date are not recognised as a liability in this condensed consolidated interim financial information.

11. EARNINGS PER SHARE

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

	Six months ended 30 June (Unaudited) 2018	2017
Profit for the period attributable to owners of the Parent (£ million)	8.2	8.9
Weighted average number of ordinary shares	401,081,391	401,081,391
Adjustment for weighted average number of shares held in the EBT	(274,430)	(538,594)
Weighted average number of ordinary shares in issue (No.)	400,806,961	400,542,797
Basic earnings per share (in pence per share)	**2.0**	**2.2**

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

11. EARNINGS PER SHARE (CONTINUED)

	Six months ended 30 June (Unaudited)	
	2018	2017
Profit for the period attributable to owners of the Parent (£ million)	8.2	8.9
Weighted average number of ordinary shares in issue	400,806,961	400,542,797
Adjustment for weighted average number of contingently issuable shares	1,599,822	1,296,410
Diluted weighted average number of ordinary shares in issue (No.)	402,406,783	401,839,207
Diluted earnings per share (in pence per share)	**2.0**	**2.2**

12. PROPERTY, PLANT AND EQUIPMENT

(£ million)	Freehold property	Long leasehold property	Equipment	Assets in the course of construction	Total
Net book value					
At 1 January 2018	575.2	265.4	191.6	4.7	1,036.9
Additions	–	14.2	11.4	7.9	33.5
Disposals	–	–	(0.2)	–	(0.2)
Impairment	(12.6)	(1.2)	(0.1)	-	(13.9)
Depreciation	(4.5)	(9.3)	(20.6)	–	(34.4)
At 30 June 2018	**558.1**	**269.1**	**182.1**	**12.6**	**1,021.9**

During the period, additions included the ongoing upgrade of facilities at Spire Hull, Cheshire and Cambridge hospitals.

During the period, impairment was recognised in relation to leasehold improvements and equipment as part of the termination of the lease for the Windsor clinic. Impairment of Freehold property relates to the Spire Alexandra hospital (refer note 8).

Capital expenditure commitments

Capital commitments authorised and contracted for, but not provided in the accounts as at 30 June 2018 amounted to £24.8 million (31 December 2017: £65.5 million).

13. BORROWINGS AND FINANCIAL INSTRUMENTS

	As at	
(£ million)	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Secured borrowings		
Bank loans	**426.1**	425.1
Obligations under finance leases	**77.1**	76.9
	503.2	502.0

The bank loans and finance leases are secured on fixed and floating charges over both the present and future assets of material subsidiaries of the Group.

Total borrowings (measured at amortised cost)

	As at	
(£ million)	**30 June 2018 (Unaudited)**	31 December 2017 (Audited)
Amount due for settlement within 12 months	**4.1**	4.0
Amount due for settlement after 12 months	**499.1**	498.0
	503.2	502.0

13. BORROWINGS AND FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments

The Group's financial assets and liabilities, other than trade and other receivables and cash and short-term deposits, held by the Group at the balance sheet date were as set out below:

At 30 June 2018 (Unaudited) (£ million)	Carrying amount	Contractual cash flows	1 year or less	1–2 years	More than 2 years
Non-derivative financial liabilities					
Secured bank facilities	426.1	442.2	13.7	428.5	–
Obligations under finance leases	77.1	252.7	8.6	8.9	235.2
Trade and other payables	63.2	63.2	63.2	–	–
	566.4	**758.1**	**85.5**	**437.4**	**235.2**

At 31 December 2017 (Audited) (£ million)	Carrying amount	Contractual cash flows	1 year or less	1–2 years	More than 2 years
Non-derivative financial liabilities					
Secured bank facilities	425.1	445.8	11.5	434.3	–
Obligations under finance leases	76.9	265.6	8.7	8.7	248.2
Trade and other payables	59.0	59.0	59.0	–	–
	561.0	770.4	79.2	443.0	248.2

Bases of valuation

At 30 June 2018, the Group did not hold financial instruments measured at fair value (31 December 2017: nil).

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

The carrying value of the other financial instruments, being finance leases and debt, is approximately equal to their fair value, based on a review of current terms against market and expected short term settlements. The debt is presented after the deduction of £1.2 million (31 December 2017: £1.8 million) of issue costs.

14. PROVISIONS

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

(£ million)	Medical malpractice	Business reorganisation and other	Total
At 1 January 2017	14.3	2.4	16.7
Utilised	(0.6)	(1.0)	(1.6)
Additions	29.0	–	29.0
At 30 June 2017	42.7	1.4	44.1
Utilised	(30.4)	(0.6)	(31.0)
Additions	6.2	0.7	6.9
Released	(1.7)	(0.4)	(2.1)
As at 31 December 2017	16.8	1.1	17.9
Utilised	**(3.1)**	**(0.5)**	**(3.6)**
Additions	**3.6**	**1.9**	**5.5**
Released	**(0.6)**	**–**	**(0.6)**
At 30 June 2018	**16.7**	**2.5**	**19.2**

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

14. PROVISIONS

the case and the ongoing public enquiry. This provision has been determined before account is taken of any potential further recoveries from insurers.

Business reorganisation and other includes staff restructuring costs, closure costs relating to an onerous contract and provision for payor claims.

The provisions are shown gross of any expected reimbursement from insurers of the related risks. The reimbursement is recognised as a separate receivable when receipt of it is judged sufficiently probable. The amount in receivables in that respect was £9.1 million (31 December 2017: £7.5 million).

Provisions as at 30 June 2018 are materially considered to be current and expected to be utilised at any time within three years.

15. SHARE-BASED PAYMENTS

During the six months ended 30 June 2018, the Group made further grants under its existing share-based payment schemes, as follows:

Long term incentive plan ('LTIP')

On 28 March 2018, the Company granted Justin Ash 576,058 share options and 1,017,432 share options to other senior managers. The options will vest based on earnings per share ('EPS') (35%) targets for the financial year ending 31 December 2020, relative total shareholder return ('TSR') (35%) targets on performance over the three-year period to 31 December 2020 and operational excellence ('OE')(30%) targets based on net promotor scores and regulatory ratings for the current portfolio of hospitals, subject to continued employment. Upon vesting, the options will remain exercisable until 28 March 2028.

On 16 April 2018, the Company granted senior management 74,474 share options. The options will vest based on EBITDA (50%) target for the financial year ending 31 December 2020 and Regulatory rating (50%) for Manchester hospital, subject to continued employment. Upon vesting, the options will remain exercisable until 16 April 2028.

For the six months ended 30 June 2018, the total cost recognised in the income statement was £0.5 million (H1 2017: £0.6 million). Employer's NI is being accrued, where applicable, at the rate of 14.3%, which management expects to be the prevailing rate at the time the options are exercised, based on the share price at the reporting date. For the six months ended 30 June 2018, the total NI charge was £0.1 million (H1 2017: £0.1 million).

16. EVENTS AFTER THE REPORTING PERIOD

2018 interim dividend

The Board has approved a 2018 interim dividend of 1.3 pence per share, amounting to approximately £5.2 million, to be paid on 11 December 2018 to shareholders on the register at the close of business on 16 November 2018.

Borrowings extension

During July 2018, the Group renewed its finance facility with a bank loan that matures in July 2022.

Shareholders' information

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CORPORATE WEBSITE

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

FINANCIAL CALENDAR

Ex-div date for 2018 interim dividend	15 November 2018
Record date for 2018 interim dividend	16 November 2018
Payment date for 2018 interim dividend	11 December 2018
Announcement of 2018 preliminary results	March 2019