# Spire Healthcare reports its results for the year ended 31 December 2016

**London, UK, 2 March 2017**, Spire Healthcare Group plc (LSE: SPI), one of the UK's leading independent hospital groups, today announces its preliminary results for the year ended 31 December 2016.

## Summary Group results for the year ended 31 December 2016

| (£ million) | Year ended 31 December 2016 | 2015 | Variance % | Underlying variance excluding disposals % [1] |
|---|---|---|---|---|
| **Revenue** | **926.4** | **884.8** | **4.7%** | **5.4%** |
| Operating profit before exceptional items | 108.2 | 110.4 | (2.0%) | (1.7%) |
| Exceptional items | (15.2) | (15.7) | 3.2% | |
| Operating profit | 93.0 | 94.7 | (1.8%) | (1.5%) |
| Profit after tax | 53.6 | 60.0 | (10.7%) | |
| **EBITDA [2]** | **162.0** | **160.1** | **1.2%** | **1.4%** |
| Basic earnings per share, pence | **13.4** | **15.0** | **(10.7%)** | |
| Adjusted profit after tax [3] | 76.6 | 73.0 | 4.9% | |
| **Adjusted, basic earnings per share, pence [4]** | **19.2** | **18.3** | **4.9%** | |
| Total dividend paid/proposed per share, pence [5] | 3.8 | 3.7 | 2.7% | |
| Net cash from operating activities | 177.4 | 155.3 | 14.2% | |
| Capital investments | 149.5 | 109.5 | 36.5% | |
| **Net debt at the year end [6]** | **432.3** | **419.5** | **3.1%** | |

1. Excludes the impact of Spire St Saviour's Hospital which closed in September 2015 (referred to as 'Underlying' in this announcement).
2. Operating profit, adjusted to add back depreciation, profit and loss arising from the disposal of fixed assets and exceptional items, referred to hereafter as 'EBITDA'.
3. Adjusted profit is calculated as earnings after tax adjusted for exceptionals and related tax.
4. Calculated as adjusted profit after tax divided by the weighted average number of ordinary shares in issue.
5. A final dividend of 2.5 pence per ordinary share will be proposed at the Company's annual general meeting on 26 May 2017. If approved, it will be paid on 27 June 2017 to shareholders on the register of members as at 2 June 2017.
6. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.

## Group financial highlights

- Revenue increased by 4.7% to £926.4m (2015: £884.8m)
- Underlying revenue, which excludes prior year hospital closure, increased by 5.4% in the year
- EBITDA [2] up 1.2% to £162.0m (2015: £160.1m)
- Adjusted profit after tax [3] up 4.9% to £76.6m (2015: £73.0m)
- Strong cash flow performance with EBITDA conversion to cash flow of 115.0% (2015: 104.1%)
- Net debt increased to £432.3m, with leverage at 2.67 times EBITDA (2015: £419.5m and 2.62 times EBITDA) following significant capital investment of £149.5m (2015: £109.5m)
- Final dividend proposed of 2.5p per share payable on 27 June 2017 (2015: 2.4p). Total dividend paid or proposed for 2016 of 3.8p per share (2015: 3.7p)

## Operating highlights

- Grew in-patient and daycase admissions by 2.3% (underlying) to 274,100 cases (2015: 267,900 patients)
- Opened net five new operating theatres in the year
- Continued to invest significantly, particularly in the new Spire Manchester and Spire Nottingham hospitals, and theatre block development at Spire St Anthony's Hospital
- Continue to research opportunity to fill our Central London coverage gap

# Spire Healthcare reports its results for the year ended 31 December 2016 *continued*

Garry Watts, Executive Chairman of Spire Healthcare, said:

*"2016 saw growth in each of Spire's sales, EBITDA and patient admissions. I am particularly pleased with the excellent performance shown by our Self-pay and NHS businesses. Within the NHS business, the proportion of eReferral work versus Local Contract work rose to nearly 80%, a trend which is positive for planning, efficient timing and delivery at our hospitals. After adjusting for St Anthony's, our margin remained stable at an attractive 18.2%, while our EBITDA conversion to operating cash flow was a noteworthy 115% before exceptional items & tax.*

*We made significant progress at Spire St Anthony's Hospital in 2016, having successfully opened a new 6 operating theatre block on schedule and on budget. Although Group performance has been impacted temporarily by integration issues at this hospital, we are confident that we now have the correct plan and management team in place to resolve these issues during 2017.*

*In the year we completed building the new Spire hospital in Manchester, which opened in January 2017. Our new hospital in Nottingham is also on track to open before Easter. Both of these hospitals have been designed around our philosophy of patient-centric care, and integrated clinical care, research and education to serve the needs of the local populations and beyond. We are confident they will rank amongst the finest independent hospitals in the country.*

*The first half of 2017 will still be a period of recovery at St Anthony's, and we will also have the start-up costs associated with our two new hospitals. As such, we expect modest sales growth for Financial Year 2017 at a slightly reduced margin, to give an EBITDA in line with 2016.*

*We are very positive about Spire's prospects overall; its fundamental business proposition is solid and we remain well placed to benefit from opportunities arising from the demographics of UK healthcare and constrained NHS capacity. We expect the Group to return to mid to high single digit EBITDA growth from Financial Year 2018 onwards."*

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### About Spire Healthcare

Spire Healthcare is a leading independent hospital group in the United Kingdom, with 38 private hospitals, 10 clinics and two Specialist Cancer Care Centres across England, Wales and Scotland.

Spire delivered tailored, personalised care to approximately 274,000 in-patients and daycase patients in 2016, 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 rapidly expanding private healthcare market. The Group's well located and scalable hospitals have earned reputations as centres of excellence, delivering successful and award winning clinical outcomes, positioning the Group well with patients, consultants, the NHS, GPs and Private Medical Insurance ("PMI") providers. Spire treats patients through a variety of routes including PMI, Self-pay and the NHS, providing the Group with diversified access to the expected growth opportunities in the UK healthcare market, which faces significant supply challenges as a result of NHS budget constraints and increasing demand from a growing population with longer life expectancy.

### Cautionary statement

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

# Spire Healthcare reports its results for the year ended 31 December 2016 *continued*

preliminary announcement will in fact be realised and no representation or warranty is given as to the completeness or accuracy of the forward-looking statements contained in this preliminary announcement.

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

## Analyst and investor meeting

There will be an analyst and investor meeting today at 10.30am at Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London EC4Y 1HS.

A live audiocast of the presentation will be available at 10.30am from the Spire website at http://webcast.openbriefing.com/spire_healthcare_fy_2016/.

# Operating Review

## Performance

Patient numbers and the value of the care we provided experienced differing performance among our three payor groups. Overall revenue increased by 4.7% to £926.4 million (2015: £884.8 million), of which our NHS business grew 12.0%, our Self-pay business grew 9.1%. and our PMI business declined by 1.3%.

Underlying revenue, which excludes the impact of the closure of Spire St Saviour's Hospital in September 2015, increased by 5.4% in 2016. This has resulted in underlying EBITDA growth of 1.4% to £162.0 million (2015: £159.8 million).

In-patient and daycase admissions grew by 2.3% (underlying) to 274,100 cases (2015: 267,900 patients).

During the year, we continued to invest significantly, particularly in the new Spire Manchester and Spire Nottingham hospitals, and the new six theatre block development at Spire St Anthony's Hospital. Despite this, strong working capital management led to stable year end net indebtedness at 2.67 times EBITDA (2015: 2.62 times).

## Market trends

We operate solely in the UK, a healthcare market dominated by the NHS and government spending, but subject to strong macro growth drivers. The population is growing and ageing. Acute and chronic long-term conditions such as cancer, obesity and diabetes are rising, as are the numbers of older patients with multiple co-morbidities and higher levels of acuity.

Increasing demand and continuing advances in healthcare mean that the NHS needs additional funding year on year of around 4% above inflation. Slow economic growth is constraining government spending and is likely to impact the NHS's ability to continue to provide universal healthcare free at the point of use. The NHS's Five Year Forward View (published in October 2014) assumed efficiency savings of £22bn by 2020/21 – higher than has ever been achieved by the NHS or indeed any other major health economy. It is unlikely to be achieved, as demonstrated by the Carter Report of January 2016.

At the same time, health spending is already much lower than in many other European countries and, in real-terms, NHS spending per person in England appears likely to go down based on current projections. The result is that resources are worked hard and capacity is always tight, with bed occupancy rates often over 90 per cent due to increasing demand and bed-blocking.

The private sector not only provides capacity for the NHS funded patients, but outstanding private healthcare for PMI and Self-pay customers. Because of its scale, reach and quality of care, Spire Healthcare is ideally positioned to be a leading player in the independent hospital sector.

## Business development

We are refining our strategy through a renewed focus on our customers.

Our business is built on patient choice. Our four pillar strategy puts the customer at the heart of everything we do. We aim to grow our business by attracting the maximum number of patients for our services, and treating them as efficiently as possible.

**Clinical quality**

- Continue to build on clinical experience and expertise to ensure every one of our hospitals becomes CQC rated 'Good' or 'Excellent'
- Continue to expand our higher acuity healthcare offer
- Continue to develop our cancer services
- Develop our consultant value proposition – helping new, mid and late career consultants to build, maintain and optimise their practices and deliver outstanding care for their patients
- Continue to engage with consultants to explore new services, developments and innovations to improve the quality and scope of our offer to patients

**Growth engine**

- Drive market share, develop and leverage facilities and services across all our existing hospitals
- Expand geographically to cover under-serviced areas
- Deepen and extend PMI relationships
- Drive volume growth by continuing to build relationships with patients and GPs
- Provide training and information to GPs to facilitate referrals
- Develop own network of GPs to shorten referral pathways
- Market directly to patients, highlighting the benefits of private hospitals
- Extend transparent pricing and quality reporting
- Digitally enable and provide guidance to help customers through their care pathway

# Operational review *continued*

**Operational excellence**

- Raise average theatre utilisation and increase theatre and diagnostic capability, optimising throughput
- Continually refine and develop operational efficiency, procurement and supply chain
- Minimise impact of likely NHS tariff changes through increased efficiency
- Optimise patient experience through better use of technology, delivering care in the most appropriate setting
- Drive operational synergies across the network
- Improve and standardise capabilities network-wide
- Refurbish and upgrade our patient bedrooms, and in-patient and out-patient facilities

**Our people**

- Improve clinical staff retention and recruitment strategy
- Invest in upskilling training to increase value of workforce
- Develop Spire Healthcare as a compelling career brand to maximise retention
- Develop programmes to increase supply of clinical professionals

## Corporate Governance Review

We are committed to the highest standards of corporate governance, including an Executive and Non-executive Board structure built around the separation of the role of the Chairman from Chief Executive, Chief Operating Officer and Chief Financial Officer. As previously stated, the Board envisages that the Executive Chairman's role currently being fulfilled as a result of Rob Roger's departure at the end of June 2016, will only continue until we have a suitable CEO and COO in post. In relation to this, we are pleased that the appointment of Catherine Mason as COO in December 2016 and the appointment of Andrew White as CEO, once he has made his recovery from the sustained medical treatment he is currently undergoing, will open the way to achieving our desired board structure.

In July we were pleased to announce the appointment of Adèle Anderson as an independent Non-Executive Director of the Company. She has a strong financial background and chairs the Company's Audit and Risk Committee.

We regretfully accepted the resignation of Robert Lerwill as a Non-Executive Director in June 2016, for personal reasons. Our Senior Independent Director, John Gildersleeve, has indicated that he wishes to step down from that role. John originally intended to leave the end of December 2016 but has agreed to remain until an appointment has been made, but will not stand for re-election at the AGM on 26 May 2017. The search to identify a new Senior Independent Director is ongoing and we hope to make a further announcement on an appointment in due course.

## Regulation and Governance

During the year under review the CQC completed their initial inspections of the majority of our hospitals and while we await the final reports we are pleased to report that our overall performance – based on the 20 final reports published so far on the CQC website – is in line with the rest of the private sector and far exceeds the NHS average. However, there are of course areas for improvement. We address all such areas as a matter of urgency and ensure that these improvements are carried out in a timely fashion.

## Outlook

Management expects continued growth in Self-pay and NHS patient volumes in the underlying business in 2017. However expectations for trading results for the year ending 31 December 2017 are influenced by the following factors:

- The impact of the 3.9% reduction in NHS tariff applicable to the basket of services delivered by Spire to the NHS. This price reduction will be applicable from April 2017 and is expected to cost the Group approximately £7 million in the year.
- The recovery from loss to profitability of Spire St Anthony's Hospital over the course of 2017 as the restructuring plan is delivered.
- The contribution to revenue and earnings of the new site openings in Manchester (January 2017) and Nottingham (April 2017). In line with previous guidance, we do not expect Spire Nottingham Hospital to reach EBITDA breakeven within its first year of operation.

Overall, management anticipates for the 2017 financial year as a whole:

- Revenue growth of 3% – 5% over 2016;
- EBITDA to be in line with 2016 at £162 million;
- Capital expenditure of between £140 million – £165 million, which includes £40 million of carried over expenditure from 2016 committed capital schemes; and
- Net debt of approximately 3.0 times EBITDA at the 2017 year end.

# Financial review

## Selected financial information

| (£ million) | 2016 Total before exceptional and other items | 2016 Exceptional and other items [5] | 2016 Total | 2015 Total before exceptional and other items | 2015 Exceptional and other items [5] | 2015 Total | Variance (on total after exceptional and other items) % | Underlying variance excluding disposals % [1] |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | 926.4 | – | 926.4 | 884.8 | – | 884.8 | 4.7% | 5.4% |
| Cost of sales | (485.9) | – | (485.9) | (460.0) | – | (460.0) | (5.6%) | (6.6%) |
| **Gross profit** | 440.5 | – | 440.5 | 424.8 | – | 424.8 | 3.7% | 4.1% |
| Other operating costs | (332.3) | (15.2) | (347.5) | (314.4) | (15.7) | (330.1) | (5.3%) | (5.7%) |
| **Operating profit** | 108.2 | (15.2) | 93.0 | 110.4 | (15.7) | 94.7 | (1.8%) | (1.5%) |
| Net finance costs | (19.8) | – | (19.8) | (21.1) | – | (21.1) | 6.2% | |
| **Profit before taxation** | 88.4 | (15.2) | 73.2 | 89.3 | (15.7) | 73.6 | (0.5%) | |
| Taxation | (11.8) | (7.8) | (19.6) | (16.3) | 2.7 | (13.6) | (44.1%) | |
| **Profit for the year** | 76.6 | (23.0) | 53.6 | 73.0 | (13.0) | 60.0 | (10.7%) | |
| | | | | | | | | |
| **EBITDA** [2] | | | 162.0 | | | 160.1 | 1.2% | 1.4% |
| **Basic earnings per share, pence** | 19.2 | (5.8) | 13.4 | 18.3 | (3.3) | 15.0 | (10.7%) | |
| Total dividend paid/proposed per share, pence [3] | | | 3.8 | | | 3.7 | 2.7% | |
| Net cash from operating activities | 183.9 | (6.5) | 177.4 | 159.8 | (4.5) | 155.3 | 14.2% | |
| Capital investments | | | 149.5 | | | 109.5 | 36.5% | |
| **Net debt at the year end** [4] | | | 432.3 | | | 419.5 | 3.1% | |

Year ended 31 December

1. Excludes the impact of Spire St Saviour's Hospital which closed in September 2015 (referred to as 'Underlying' in this announcement).
2. Operating profit, adjusted to add back depreciation, profit and loss arising from the disposal of fixed assets and exceptional items, referred to hereafter as 'EBITDA'.
3. A final dividend of 2.5 pence per ordinary share will be proposed at the Company's annual general meeting on 26 May 2017. If approved, it will be paid on 27 June 2017 to shareholders on the register of members as 2 June 2017.
4. Net debt is calculated as total debt (comprising obligations under finance leases and borrowings), less cash and cash equivalents.
5. Exceptional and other items includes the before and after taxation impact of exceptional operating expenditure in each year and the Group's review of its deferred tax approach on freehold properties giving rise to a material taxation charge in 2016 of £8.4 million (2015: £nil).

# Financial review *continued*

| (£ million) | Year ended 31 December 2016 | 2015 | Variance % | Underlying variance excluding disposals % [1] |
|---|---|---|---|---|
| **Total revenue** | **926.4** | **884.8** | **4.7%** | **5.4%** |
| Of which: | | | | |
| PMI | 429.3 | 434.8 | (1.3%) | (0.9%) |
| NHS | 293.4 | 262.0 | 12.0% | 13.5% |
| Self-pay | 170.4 | 156.2 | 9.1% | 9.4% |
| Other [2] | 33.3 | 31.8 | 4.7% | 5.7% |
| | **926.4** | **884.8** | **4.7%** | **5.4%** |
| Of which: | | | | |
| In-patient/daycase | 629.9 | 598.3 | 5.3% | 5.8% |
| Out-patient | 263.2 | 254.7 | 3.3% | 4.4% |
| Other | 33.3 | 31.8 | 4.7% | 5.0% |
| | **926.4** | **884.8** | **4.7%** | **5.4%** |
| **Number ('000s)** | | | | |
| **Total in-patient/daycase admissions** | **274.1** | **270.0** | **1.5%** | **2.3%** |
| Of which: | | | | |
| PMI volumes | 123.5 | 126.4 | (2.3%) | (1.9%) |
| NHS volumes | 104.2 | 100.2 | 4.0% | 5.4% |
| Self-pay volumes | 46.4 | 43.4 | 6.9% | 7.4% |

1. Excludes the impact of Spire St Saviour's Hospital which closed in September 2015 (referred to as 'Underlying' in this announcement).
2. Other revenue includes consultant revenue, third-party revenue streams (e.g. pathology services), secretarial services and commissioning for quality and innovation payments (earned for meeting quality targets on NHS work) ('CQUIN').

## Growing revenue

| (£ million) | 2015 | In-patient/daycase volume | In-patient/daycase rate | Out-patient | Other | 2016 | Growth |
|---|---|---|---|---|---|---|---|
| Underlying total revenue | 879.0 | 14.7 | 19.8 | 11.1 | 1.8 | **926.4** | **5.4%** |
| Disposals | 5.8 | | | | | **–** | |
| Total revenue | 884.8 | | | | | **926.4** | **4.7%** |

Revenue for the year ended 31 December 2016 increased by £41.6 million, or 4.7%, to £926.4 million (2015: £884.8 million).

Underlying growth, excluding revenue of £nil (2015: £5.8 million) relating to Spire St Saviour's Hospital which was closed in September 2015, was 5.4%.

Of the underlying revenue growth of 5.4%:

- an increase of 2.3% in the volume of in-patient and daycase admissions accounted for a 1.7% increase in revenue in the year, with admissions growth in both NHS and Self-pay activity compensating for a small volume decline in PMI business;
- the Group reported a 3.5% increase in the rate for in-patient and daycase admissions (average revenue per case) equivalent to an increase to total revenue of 2.3%. This was the result of growth in average revenue per case across all payor groups, most particularly in NHS and Self-pay activity in the year; and
- out-patient activities increased with the volume of admissions and this accounted for a further 1.3% growth in underlying revenue in the year.

# Financial review *continued*

## PMI

| (£ million) | 2015 | In-patient/daycase volume | In-patient/daycase rate | Out-patient | **2016** | **Growth** |
|---|---|---|---|---|---|---|
| Underlying PMI revenue | 433.2 | (5.4) | 0.4 | 1.1 | **429.3** | **(0.9%)** |
| Disposals | 1.6 | | | | **–** | |
| Total PMI revenue | 434.8 | | | | **429.3** | **(1.3%)** |

PMI revenue for the year ended 31 December 2016 decreased by £5.5 million to £429.3 million (2015: £434.8 million). Underlying revenue, excluding revenue relating to Spire St Saviour's Hospital, declined by 0.9%.

Of the underlying decline in PMI revenue of 0.9%:

- a decrease of 1.9% in the volume of in-patient and daycase admissions accounted for a 1.2% reduction in PMI revenue in the year;
- overall, the proportion of lower yielding PMI daycase admissions remained comparable to that in 2015 (having increased significantly between 2014 and 2015). Case mix complexity in in-patient admissions was slightly inferior to that in 2015 but was offset by an increase in rate on daycase admissions. Overall these offsetting effects resulted in a net positive rate increase of 0.3% over 2015 which contributed to growth of 0.1% in underlying PMI revenue; and
- notwithstanding the decline in in-patient and daycase admissions activity, out-patient revenue grew in the year and contributed growth of 0.2% in underlying PMI revenue. The Group continues to invest in the expansion of its diagnostic capability and outpatient capacity.

## NHS

| (£ million) | 2015 | In-patient/daycase volume | In-patient/daycase rate | Out-patient | **2016** | **Growth** |
|---|---|---|---|---|---|---|
| Underlying NHS revenue | 258.6 | 12.2 | 14.8 | 7.8 | **293.4** | **13.5%** |
| Disposals | 3.4 | | | | **–** | |
| Total NHS revenue | 262.0 | | | | **293.4** | **12.0%** |

NHS revenue for the year ended 31 December 2016 increased by £31.4 million, or 12.0%, to £293.4 million (2015: £262.0 million). Underlying growth, excluding revenue relating to Spire St Saviour's Hospital, was 13.5%.

Of the underlying growth in NHS revenue of 13.5%:

- an increase of 5.4% in the volume of in-patient and daycase admissions accounted for a 4.7% increase in NHS revenue in the year;
- against the backdrop of a weighted increase to NHS tariff for the Group of 0.6% for the financial year, the average revenue per case for NHS admissions increased by 7.0% over 2015. This was the result of a further concentration of case mix to higher yielding procedures (notably in orthopaedics) which supplemented the loss of lower yielding NHS local contract revenue. Growth in in-patient and daycase rate contributed 5.7% to underlying NHS revenue growth in the year; and
- outpatient revenue increased both as a consequence of the increase in NHS admissions and the bias in growth towards NHS eReferrals relative to NHS local contract work. Most NHS local contract work does not include an out-patient element as the focus is often on access to Spire surgical capacity. Growth in out-patients revenue contributed 3.1% to underlying NHS revenue growth in the year.

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

- eReferral (previously NHS Choose and Book) revenue grew by 16.9% in the year ended 31 December 2016; and
- NHS local revenue grew by 1.5% in the same period. Management had expected NHS local contract revenue to stabilise in 2016 following the decline experienced in 2015; and
- eReferrals revenue account for 79.8% of underlying NHS revenue in the year ended 31 December 2016, up from 77.4% in the prior year.

# Financial review *continued*

## Self-pay

| (£ million) | 2015 | In-patient/ daycase volume | In-patient/ daycase rate | Out-patient | 2016 | Growth |
|---|---|---|---|---|---|---|
| Underlying Self-pay revenue | 155.7 | 7.9 | 4.6 | 2.2 | **170.4** | **9.4%** |
| Disposals | 0.5 | | | | **–** | |
| Total Self-pay revenue | 156.2 | | | | **170.4** | **9.1%** |

Self-pay revenue for the year ended 31 December 2016 increased by £14.2 million, or 9.1%, to £170.4 million (2015: £156.2 million). Underlying growth, excluding revenue relating to Spire St Saviour's Hospital, was 9.4%.

Of the underlying growth in Self-pay revenue of 9.4%:

- an increase of 7.4% in the volume of in-patient and daycase admissions accounted for a 5.0% increase in Self-pay revenue in the year;
- the average revenue per case for Self-pay in-patient and daycase admissions grew by 4.6% over the prior year, contributing 3.0% to the increase in Self-pay revenue in the year. Price increases in 2016 were largely inflationary, with the balance of the increase in average rate per case arising from improved case mix complexity; and
- outpatient activities in 2016 grew in line with admissions while, price increases were tempered in an attempt to drive demand. Overall the increase in Self-pay outpatient revenue drove 1.4% of the 9.4% increase in underlying Self-pay revenue for the year.

**Other revenue**

Other revenue, which includes fees paid to the Group by consultants (e.g. for the use of Group facilities and services) and third-party revenue (e.g. pathology services to third-parties), increased by £1.5 million, or 4.7%, in the year, to £33.3 million (2015: £31.8 million).

## Cost of sales and gross profit

Cost of sales increased in the year by £25.9 million, or 5.6%, to £485.9 million (2015: £460.0 million). Underlying cost of sales (excluding Spire St Saviour's Hospital) increased in the year by £29.9 million, or 6.6%.

Underlying gross margin for the year of 2016 was 47.6%, compared to 48.1% in 2015.

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

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Clinical staff | **18.9%** | 18.9% |
| Direct costs | **22.3%** | 21.6% |
| Medical fees | **11.3%** | 11.4% |
| Cost of sales | **52.5%** | 51.9% |

Trading losses for the year at Spire St Anthony's Hospital had a significant impact on overall cost of sales for the underlying Group. Excluding Spire St Anthony's Hospital from the analysis provides the following comparison on an adjusted underlying basis and as a percentage of relevant revenue:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| Clinical staff | **18.3%** | 18.3% |
| Direct costs | **22.1%** | 21.7% |
| Medical fees | **11.4%** | 11.6% |
| Cost of sales | **51.8%** | 51.6% |

Overall the Group has substantially mitigated the impact on gross margin arising from the increase in the proportion of revenue derived from the NHS which has increased to 31.7% of total revenue in 2016 from 29.6% in 2015.

Despite supply-side constraints of nursing resource, clinical staff costs as a percentage of revenue were in line with the prior year. Management is focused on continuous improvement of recruitment, training and development process in the business as well as rostering and productivity improvements designed to limit use of agency staff.

The impact on direct costs arising from the improvements in case mix complexity in 2016, which has driven growth in average revenue per case in both NHS and Self-pay revenue, has been largely offset by supply chain cost management initiatives.

## Other operating costs

Other operating costs for the year ended 31 December 2016 increased by £17.4 million, or 5.3%, to £347.5 million (2015: £330.1 million). Excluding exceptional items, other operating costs for the year increased by £17.9 million, or 5.7%, to £332.3 million.

Underlying other operating costs (excluding Spire St Saviour's Hospital) increased in the year by £18.8 million, or 5.7%, to £347.5 million (2015: £328.7 million). Excluding exceptional items, underlying other operating costs for the year increased by £19.3 million, or 6.2%, to £332.3 million.

# Financial review *continued*

**Depreciation**
Excluding depreciation relating to Spire St Saviour's Hospital, the underlying depreciation charge for the year increased by £3.6 million, or 7.5%, to £51.9 million (2015: £48.3 million).

**Rent**
Rent of land and buildings for the year decreased by £0.2 million, or 0.3%, to £62.7 million (2015: £62.9 million). The decrease is mainly due to low inflationary uplifts in relation to annual rent indexation in line with RPI and the closure of two clinics during the year.

**Share-based payments**
During the year, grants were made to Executive Directors (excluding the Executive Chairman) and members of the Senior Leadership Team under the Company's Long Term Incentive Plan. For the year ended 31 December 2016, the charge to the income statement was £0.4 million (2015: £0.7 million), or £0.6 million inclusive of national insurance (2015: £0.8 million). Further details are contained in note 19 of this announcement.

**Exceptional items**

| | Year ended 31 December | |
|---|---|---|
| (£ million) | **2016** | 2015 |
| Business reorganisation | **4.8** | 3.1 |
| Write-off of intangible assets | **1.3** | – |
| Hospitals set up costs | **1.0** | – |
| Hospital (reversal of)/impairment on property, plant and equipment | **(1.9)** | 5.7 |
| Hospital closure | **0.1** | 6.9 |
| Corporate restructuring | **0.5** | – |
| Loss on disposal of property, plant and equipment (also referred to as the Asset Swap Transaction) | **8.9** | – |
| Other | **0.5** | – |
| | **15.2** | 15.7 |

In the year ended 31 December 2016, business reorganisation costs mainly comprised staff restructuring costs and the closure costs relating to an onerous contract. In the year, the Group's goodwill in relation to the Lifescan business was written-off following a strategic review and the closure of this operation. Hospitals set up costs refer to pre-opening costs for the new Manchester and Nottingham hospitals. The reversal of the impairment is the result of the extension of the lives of medical and other equipment following the relocation of the assets from the previous Spire Manchester Hospital to the new hospital facility and other Group hospitals following its closure.

On 31 August 2016, as a result of the development of a new hospital facility in Manchester and the closure of the previous Spire Manchester Hospital (previously held under an operating lease), the freehold interest in Spire Wirral Hospital with a net book value of £11.5 million was disposed of, and leased back in a sale and leaseback transaction. The consideration for the sale was realised in the form of a non-cash asset, being the freehold of the previous Spire Manchester Hospital, which was simultaneously acquired by the Group (the "Asset Swap Transaction"). The overall loss on these transactions was £7.7 million before sale costs of £1.2 million.

Full details of exceptional items are disclosed in note 7 of this announcement.

## EBITDA and underlying EBITDA
EBITDA for the year ended 31 December 2016 increased by £1.9 million, or 1.2%, to £162.0 million (2015: £160.1 million). Excluding the results of Spire St Saviour Hospital in 2015, underlying EBITDA increased by 1.4%, from £159.8 million to £162.0 million. Within underlying EBITDA, Spire St Anthony's Hospital contributed an EBITDA profit of £5.0 million in 2015 and an EBITDA loss of £1.2 million in 2016, in part as a result of the significant physical reconfiguration of the site and the establishment of a new six theatre block in September 2016. After adjusting for the performance of Spire St Anthony's Hospital, the balance of the underlying Group reported growth in EBITDA of 5.4%, from £154.8 million in 2015 to £163.2 million on comparable revenue growth of 5.8%.

## Net finance costs
Net finance costs decreased by 6.2% to £19.8 million (2015: £21.1 million) principally as a result of increased finance costs capitalised in the year in relation to the Group's development of the new Spire Manchester and Spire Nottingham hospitals.

# Financial review *continued*

## Taxation

The taxation charge for the year ended 31 December 2016 consisted of a £2.5 million charge for corporation tax and a charge of £17.1 million for deferred tax. The effective tax rate for the year ended 31 December 2016 was 26.8% (before exceptional and other items 13.3%). The effective tax rate of 13.3% is mainly due to the UK government's announcement of a further decrease in the future UK corporation tax rate from 18% to 17% from April 2020. This change has resulted in a deferred tax credit arising from the reduction in the balance sheet carrying value of deferred tax liabilities to reflect the anticipated rate of tax at which those liabilities are expected to reverse in the future. The difference in the effective tax rates is mainly due to the Group's review of its deferred tax approach on freehold properties discussed further below.

The taxation charge for the year ended 31 December 2015 consisted of a £7.9 million charge for corporation tax and a charge of £5.7 million for deferred tax. The effective tax rate for the year ended 31 December 2015 was 18.5% (before exceptional costs 18.3%).

| | Year ended 31 December | |
|---|---|---|
| (£ million) | **2016** | 2015 |
| Tax on profit before tax | **19.6** | 13.6 |
| Tax on exceptional items | **0.6** | 2.7 |
| Reassessment of property timing differences | **(8.4)** | – |
| Adjusted tax charge on the profit for the year | **11.8** | 16.3 |

During the year, the Group considered it to be appropriate to reassess the basis for calculating deferred tax on the property portfolio and has now based the assessment on solely held-in-use basis. This gives rise to a material tax charge and is excluded from tax on underlying profit.

## Profit after taxation

The profit after taxation for the year ended 31 December 2016 was £53.6 million (2015: £60.0 million).

## Cash flows analysis for the year

| | Year ended 31 December | |
|---|---|---|
| (£ million) | **2016** | 2015 |
| **Opening cash balance** | **78.9** | **74.5** |
| **Operating cash flows before exceptional items and income tax paid** | **186.3** | **166.7** |
| Exceptional items | (5.9) | (4.5) |
| Net income tax paid | (3.0) | (6.9) |
| Operating cash flows after exceptional items and income tax paid | 177.4 | 155.3 |
| Net cash used in investing activities | (149.9) | (109.6) |
| Net cash used in financing activities | (38.5) | (41.3) |
| **Closing cash balance** | **67.9** | **78.9** |
| **Closing net indebtedness** | **432.3** | **419.5** |

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

The cash inflow from operating activities before exceptional items and income tax paid for the year was £186.3 million, which constitutes a cash conversion rate from EBITDA for the year of 115.0% (2015: £166.7 million or 104.1%). The net cash inflow from movements in working capital in the year was £24.4 million (2015: £5.9 million), a significant improvement on that reported for the prior year.

### Investing and financing cash flows

Net cash used in investing activities for the year was £149.9 million. Capital expenditure for the purchase of property, plant and equipment in the year totalled £149.5 million, which included the development of the new Spire Manchester and Spire Nottingham hospitals, and theatre development at Spire St Anthony's Hospital.

Net cash used in investing activities for the prior year ended 31 December 2015 was £109.6 million. Capital expenditure for the purchase of property, plant and equipment totalled £109.5 million, which included the development of the Manchester and Nottingham hospitals, the Spire Specialist Cancer Care Centre in Baddow and theatre developments at Spire St Anthony's and Spire Elland hospitals.

Net cash used in financing activities for the year ended 31 December 2016 was £38.5 million, including interest paid of £21.5 million and dividend paid to shareholders of £14.8 million.

Net cash used in financing activities for the year ended 31 December 2015 was £41.3 million, including interest paid of £21.4 million, purchase of shares held in the Company's Employee Benefit Trust of £5.6 million and dividend paid to shareholders of £12.4 million.

As at 31 December 2016, net indebtedness was 2.67 times EBITDA (2015: 2.62 times).

# Financial review *continued*

## Dividend

Subject to shareholder approval, the Company will pay a final dividend in respect of the financial year ended 31 December 2016 of 2.5 pence (2015: 2.4 pence) per ordinary share.

## Principal risks

The principal risk factors faced by the Group are identified in the 'Principal Risks' section.

# Principal risks

There are a number of risks facing the business in the forthcoming financial year. The table below details the principal risks and how the Group mitigates these risks:

| Risk | Mitigation of risk |
|---|---|
| Availability of key medical staff | The Board focuses on staff retention, evidenced by very high levels of staff satisfaction and, hence, low staff turnover. |
| Clinical care | The Group continually monitors its clinical standards, policies and procedures through the Board's Clinical Governance and Safety Committee. |
| Macroeconomic conditions | The Board regularly reviews market conditions and economic indicators to assess whether actions are required. |
| Government policy | The Board continually monitors government policy, NHS requirements and associated tariff structures to consider the need for cost and/or investment reduction, whether in the short, medium or long term. |
| Compliance with laws, regulations and other applicable requirements | The Group continues to strengthen its Group-wide risk management framework (and associated policies and procedures) to ensure that risks are mitigated as far as possible. |
| Competitor challenge | 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. |
| Insurance | The Group holds third-party liability insurance to partially cover patient, third-party and employee personal injury claims, and is partially self-insured up to predetermined levels, above which its third-party liability insurance applies. The Group reviews and maintains insurance adequacy of cover annually with the Group's brokers. |
| Cybersecurity | Spire IT's technical teams continually monitor these developments as a business as usual activity. Working with a number of specialists, the Group has created multiple layers of business protection. Business processes are also kept under review and user education regularly carried out to minimise the possibility of ransomware incidents. Regular third party penetration testing is regularly performed on Spire's core IT systems. |
| Concentration of the private medical insurance ('PMI') market | The Group works hard to maintain good relationships and a joint product/patient health offering with the PMI companies, which, in the opinion of the Directors, assists the healthcare sector as a whole in delivering high-quality patient care. The Board believes continuing to invest in its well-placed portfolio of hospitals should provide a natural fit to the local requirements of all the PMI providers. |
| Investment plans and execution | The Group conducts a detailed financial and operational appraisal process to evaluate the expected returns on capital during the evaluation phase of the project. Regular reporting of all significant projects to the executive sponsor and the Board is provided. |
| Liquidity and covenant risk | The Group actively monitors and manages its liquid asset position, its financial liabilities falling due and the cover against its loan covenants. |

# Directors' responsibilities statement

Each of the Directors confirms that, to the best of their knowledge:

- the preliminary financial information, which has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS'), give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company on a consolidated and individual basis; and
- the preliminary announcement includes a fair summary of the development and performance of the business and the position of the Company on a consolidated and individual basis, together with a description of the principal risks that it faces.

By order of the Board

| | |
|---|---|
| **Garry Watts** | **Simon Gordon** |
| Executive Chairman | Chief Financial Officer |

1 March 2017

# Consolidated income statement

For the year ended 31 December 2016

| (£ million) | Notes | 2016 Total before exceptional and other items | 2016 Exceptional and other items (note 7) | 2016 Total | 2015 Total before exceptional and other items | 2015 Exceptional and other items (note 7) | 2015 Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | 6 | 926.4 | – | 926.4 | 884.8 | – | 884.8 |
| Cost of sales | | (485.9) | – | (485.9) | (460.0) | – | (460.0) |
| **Gross profit** | | 440.5 | – | 440.5 | 424.8 | – | 424.8 |
| Other operating costs | | (332.3) | (15.2) | (347.5) | (314.4) | (15.7) | (330.1) |
| **Operating profit** | 5 | 108.2 | (15.2) | 93.0 | 110.4 | (15.7) | 94.7 |
| Interest income | | 0.2 | – | 0.2 | 0.3 | – | 0.3 |
| Finance costs | 8 | (20.0) | – | (20.0) | (21.4) | – | (21.4) |
| **Profit before taxation** | | 88.4 | (15.2) | 73.2 | 89.3 | (15.7) | 73.6 |
| Taxation | 9 | (11.8) | (7.8) | (19.6) | (16.3) | 2.7 | (13.6) |
| **Profit for the year** | | 76.6 | (23.0) | 53.6 | 73.0 | (13.0) | 60.0 |
| **Profit for the year attributable to owners of the Parent** | | 76.6 | (23.0) | 53.6 | 73.0 | (13.0) | 60.0 |
| **Earnings per share (in pence per share)** | | | | | | | |
| – **basic** | 11 | 19.2 | (5.8) | 13.4 | 18.3 | (3.3) | 15.0 |
| – **diluted** | 11 | 19.1 | (5.8) | 13.3 | 18.2 | (3.3) | 14.9 |

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

| (£ million) | 2016 | 2015 |
|---|---|---|
| Profit for the year | 53.6 | 60.0 |
| | | |
| Other comprehensive income for the year | – | – |
| | | |
| **Total comprehensive income for the year attributable to owners of the Parent** | 53.6 | 60.0 |

# Consolidated statement of changes in equity

For the year ended 31 December 2016

| (£ million) | Notes | Share capital | Share premium | Capital reserves | EBT share reserves | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| As at 1 January 2015 | | 4.0 | 826.9 | 376.1 | – | (252.0) | 955.0 |
| Profit for the year | | – | – | – | – | 60.0 | 60.0 |
| Other comprehensive income for the year | | – | – | – | – | – | – |
| Share-based payments | 19 | – | – | – | – | 0.7 | 0.7 |
| Deferred tax on share-based payments | | – | – | – | – | (0.1) | (0.1) |
| Purchase of shares held in the Employee Benefit Trust ('EBT') | | – | – | – | (5.6) | – | (5.6) |
| Dividend paid | 10 | – | – | – | – | (12.4) | (12.4) |
| **As at 1 January 2016** | | **4.0** | **826.9** | **376.1** | **(5.6)** | **(203.8)** | **997.6** |
| Profit for the year | | **–** | **–** | **–** | **–** | **53.6** | **53.6** |
| Other comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **–** |
| Share-based payments | 19 | **–** | **–** | **–** | **–** | **0.4** | **0.4** |
| Deferred tax on share-based payments | | **–** | **–** | **–** | **–** | **(0.3)** | **(0.3)** |
| Corporation tax on share-based payments | | **–** | **–** | **–** | **–** | **0.6** | **0.6** |
| Purchase of shares held in the EBT | | **–** | **–** | **–** | **(1.8)** | **–** | **(1.8)** |
| Utilisation of EBT shares for Directors' Share Bonus Award | | **–** | **–** | **–** | **5.2** | **(5.2)** | **–** |
| Dividend paid | 10 | **–** | **–** | **–** | **–** | **(14.8)** | **(14.8)** |
| **Balance at 31 December 2016** | | **4.0** | **826.9** | **376.1** | **(2.2)** | **(169.5)** | **1,035.3** |

# Consolidated balance sheet

As at 31 December 2016

| (£ million) | Notes | 2016 | 2015 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Intangible assets | | 517.8 | 519.1 |
| Property, plant and equipment | 13 | 991.5 | 895.5 |
| | | 1,509.3 | 1,414.6 |
| **Current assets** | | | |
| Inventories | | 28.1 | 29.0 |
| Trade and other receivables | 14 | 119.1 | 134.7 |
| Cash and cash equivalents | | 67.9 | 78.9 |
| | | 215.1 | 242.6 |
| **Total assets** | | **1,724.4** | **1,657.2** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Share capital | 18 | 4.0 | 4.0 |
| Share premium | | 826.9 | 826.9 |
| Capital reserves | 18 | 376.1 | 376.1 |
| EBT share reserves | 18 | (2.2) | (5.6) |
| Retained earnings | | (169.5) | (203.8) |
| Equity attributable to owners of the Parent | | 1,035.3 | 997.6 |
| Non-controlling interests | | – | – |
| **Total equity** | | **1,035.3** | **997.6** |
| **Non-current liabilities** | | | |
| Borrowings | 15 | 495.7 | 493.5 |
| Deferred tax liability | | 71.2 | 53.6 |
| | | 566.9 | 547.1 |
| **Current liabilities** | | | |
| Provisions | 16 | 16.7 | 15.6 |
| Borrowings | 15 | 4.5 | 4.9 |
| Trade and other payables | 17 | 100.3 | 90.3 |
| Income tax payable | | 0.7 | 1.7 |
| | | 122.2 | 112.5 |
| **Total liabilities** | | **689.1** | **659.6** |
| **Total equity and liabilities** | | **1,724.4** | **1,657.2** |

# Consolidated statement of cash flows

For the year ended 31 December 2016

| (£ million) | Notes | 2016 | 2015 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | 73.2 | 73.6 |
| Adjustments for: | | | |
| Depreciation | 5 | 51.9 | 48.9 |
| Impairment of property, plant and equipment | 5 | 0.5 | 11.2 |
| Reversal of impairment on property, plant and equipment | 5 | (1.9) | – |
| Write-off of intangible assets | 5, 12 | 1.3 | – |
| Share-based payments | 19 | 0.4 | 0.7 |
| Loss on disposal of property, plant and equipment | 5 | 10.8 | 0.8 |
| Interest income | | (0.2) | (0.3) |
| Finance costs | 8 | 20.0 | 21.4 |
| | | 156.0 | **156.3** |
| Movements in working capital: | | | |
| Decrease in trade and other receivables | | 15.6 | 11.7 |
| Decrease/(increase) in inventories | | 0.9 | (3.0) |
| Increase/(decrease) in trade and other payables | | 6.8 | (4.4) |
| Increase in provisions | | 1.1 | 1.6 |
| **Cash generated from operations** | | 180.4 | 162.2 |
| Income tax received | | 1.4 | – |
| Income tax paid | | (4.4) | (6.9) |
| **Net cash from operating activities** | | 177.4 | **155.3** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | | (149.5) | (109.5) |
| Costs of disposal of property, plant and equipment | | (0.6) | (0.4) |
| Interest received | | 0.2 | 0.3 |
| **Net cash used in investing activities** | | (149.9) | **(109.6)** |
| **Cash flows from financing activities** | | | |
| Payment of share issue costs relating to 2014 IPO | | – | (1.1) |
| Interest paid | | (21.5) | (21.4) |
| Repayment of borrowings | | (0.4) | (0.8) |
| Purchase of shares held in the EBT | | (1.8) | (5.6) |
| Dividend paid to equity holders of the Parent | | (14.8) | (12.4) |
| **Net cash used in financing activities** | | (38.5) | **(41.3)** |
| **Net (decrease)/increase in cash and cash equivalents** | | (11.0) | **4.4** |
| Cash and cash equivalents at beginning of year | | 78.9 | 74.5 |
| **Cash and cash equivalents at end of year** | | 67.9 | **78.9** |
| | | | |
| **Exceptional costs** | | | |
| Exceptional costs paid included in the cash flow | | (5.9) | (4.5) |
| Total exceptional costs | 7 | (15.2) | (15.7) |

# Notes to the preliminary announcement

## 1. General information

Spire Healthcare Group plc (the 'Company') and its subsidiaries (collectively, the 'Group') owns and operates private hospitals and clinics in the UK and provides 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 the England (registered number: 09084066). The address of its registered office is 3 Dorset Rise, London EC4Y 8EN.

## 2. Basis of preparation

The preliminary financial information for the year ended 31 December 2016 included in this report was approved by the Board on 1 March 2017. The financial information set out here does not constitute the Company's statutory accounts for the year ended 31 December 2016, but is derived from those accounts. Statutory accounts for 2016 will be delivered following the Company's annual general meeting. The auditor has reported on those accounts; their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) of the Companies Act 2006.

**Going concern**

The Group is financed by a bank loan facility that matures in 2019. 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 preliminary announcement.

## 3. Accounting policies

In preparing this preliminary announcement, the same accounting policies, methods of computation and presentation have been applied as set out in the Group's Annual Report and Accounts for the year ended 31 December 2015, a copy of which can be found on the Company's website at www.spirehealthcare.com.

The auditors have reported on those accounts. Their reports were not qualified and did not contain any emphasis of matter paragraph.

**New and amended standards and interpretations**

The following amendments to existing standards and interpretations were effective for the Group from 1 January 2016, but either they were not applicable to or did not have a material impact on the Group:

- Amendments to IFRS 11: *Accounting for Acquisitions of Interests in Joint Operations*
- Amendments to IAS 16 and IAS 38: *Clarification of Acceptable Methods of Depreciation and Amortisation*
- Amendments to IAS 27: *Equity Method in Separate Financial Statements*
- Amendments to IAS 1: *Disclosure Initiative*
- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IFRS 10, IFRS 12 and IAS 28: *Investment Entities: Applying Consolidation Exception*

The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective on 1 January 2016.

**Standards and interpretations issued but not yet applied**

The following new and amended standards and interpretations in issue are applicable to the Group but not yet effective and have not been applied by the Group:

| | Effective date* |
|---|---|
| Amendment to IAS 7 *Statement of Cash Flows: Changes in Financing Liabilities* | 1 January 2017† |
| Annual Improvements to IFRSs 2014–2016 Cycle | 1 January 2017/18† |
| IAS 12 *(Income taxes) Recognition of Deferred Tax Assets for Unrealised Losses* | 1 January 2017† |
| IFRS 9 *Financial Instruments* | 1 January 2018 |
| IFRS 15 *Revenue from Contracts with Customers* | 1 January 2018 |
| Clarifications to IFRS 15 *Revenue from Contracts with Customers* | 1 January 2018† |
| Amendments to IFRS 2: *Classification and Measurement of Share-based Payment Transactions* | 1 January 2018† |
| IFRS 16 *Leases* | 1 January 2019† |

* The effective dates stated above are those given in the original IASB/IFRIC standards and interpretations. As the Group prepares its financial statements in accordance with IFRS as adopted by the European Union (EU), the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to early adopt standards.

† At the date of authorisation of these financial statements, these standards and interpretation have not yet been endorsed or adopted by the EU.

The Directors do not expect the adoption of these standards and interpretations to have a material impact on the Consolidated or Parent Company financial statements in the period of initial application, except for IFRS 16 *Leases*. The impact of this standard will be evaluated during 2017.

# Notes to the preliminary announcement *continued*

## 3. Accounting policies *continued*

### IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 will be effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. The standard establishes a five-step principle-based approach for revenue recognition and is based on the concept of recognising an amount that reflects the consideration for performance obligations only when they are satisfied and the control of goods or services is transferred. It applies to all contracts with customers, except those in the scope of other standards. It replaces the separate models or goods, services and construction contracts under the current accounting standards.

During 2016, the Group performed an impact assessment of IFRS 15 and concluded that the adoption of IFRS 15 will have a minimal impact on its consolidated results. The Group is in the business of providing healthcare services. Approximately, 70% of the Group's revenue is derived from in-patient and daycase admissions which are billed as an integrated service. In addition, services are typically provided over a short time frame, that is, one to three days.

Out-patient cases, which generally do not involve surgical procedures, are billed at an individual component basis when performance obligations are satisfied. Similarly, other revenue, which includes consultant revenue and other third-party revenue streams, is recognised when performance obligations are satisfied and the control of goods or services is transferred.

## 4. Significant judgements and estimates

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

In preparing this preliminary announcement, the significant judgements and estimates made by management in applying the Group's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2015, except for the following estimate:

### Deferred tax

The Group owns a portfolio of freehold and leasehold property interests. In previous years, the Group had 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 would have been disposed of in future years, whilst the remaining properties were realised through use. This calculation previously required judgement about the timing and number of the related property disposals, which was 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.

During the year, the Group considered it to be appropriate to reassess the basis for calculating deferred tax on the property portfolio and has now based the assessment on solely held-in-use basis. This gives rise to a material tax charge of £8.4 million (refer to notes 9).

## 5. Operating profit

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

| (£ million) | **2016** | 2015 |
|---|---|---|
| Rent of land and buildings under operating leases | **62.7** | 62.9 |
| Depreciation of property, plant and equipment | **51.9** | 48.9 |
| Impairment of property, plant and equipment | **0.5** | 11.2 |
| Reversal of impairment on property, plant and equipment | **(1.9)** | – |
| Write-off of intangible assets | **1.3** | – |
| Loss on disposal of property, plant and equipment | **10.8** | 0.8 |
| Staff costs | **268.0** | 253.0 |

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

## 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) | **2016** | 2015 |
|---|---|---|
| Insured | **429.3** | 434.8 |
| NHS | **293.4** | 262.0 |
| Self-pay | **170.4** | 156.2 |
| Other | **33.3** | 31.8 |
| Total | **926.4** | 884.8 |

# Notes to the preliminary announcement *continued*

## 7. Exceptional items

| (£ million) | 2016 | 2015 |
|---|---|---|
| Business reorganisation | 4.8 | 3.1 |
| Write-off of intangible assets | 1.3 | – |
| Hospitals set up costs | 1.0 | – |
| Hospital (reversal of)/impairment on property, plant and equipment | (1.9) | 5.7 |
| Hospital closure | 0.1 | 6.9 |
| Corporate restructuring | 0.5 | – |
| Loss on disposal of property, plant and equipment (also referred to as the Asset Swap Transaction) | 8.9 | – |
| Other (1) | 0.5 | – |
| Total exceptional costs | 15.2 | 15.7 |
| Income tax credit on exceptional items | (0.6) | (2.7) |
| Total post-tax exceptional costs | 14.6 | 13.0 |

1. Other exceptional items primarily relate to National Insurance on Directors' Share Bonus Award granted at the time of the IPO.

In the year ended 31 December 2016, business reorganisation mainly comprised staff restructuring costs and the closure costs relating to an onerous contract. In the year, the Group's goodwill in relation to the Lifescan business was written-off following a strategic review and the closure of this operation. Hospitals set up costs refer to pre-opening costs for the new Manchester and Nottingham hospitals. The reversal of the impairment is the result of the reassessment of the lives of medical and other equipment following the relocation of the assets from the previous Spire Manchester Hospital to the new hospital facility and other Group hospitals following its closure. Hospital closure costs relate to the decommissioning of the assets related to the previous Spire Manchester Hospital. Corporate restructuring related to an internal group reorganisation and transaction costs relating to the Asset Swap Transaction as described below. Except for the corporate restructuring costs, which were capital in nature, and write-off of intangible assets, all other exceptional costs are expected to be tax deductible.

On 31 August 2016, as a result of the development of a new hospital facility in Manchester and the closure of the previous Spire Manchester Hospital (previously held under an operating lease), the freehold interest in Spire Wirral Hospital with a net book value of £11.7 million was disposed of, and leased back in a sale and leaseback transaction. The consideration for the sale was realised in the form of a non-cash asset, being the freehold of the previous Spire Manchester Hospital, which was simultaneously acquired by the Group (the "Asset Swap Transaction"). The overall loss on these transactions was £7.7 million before sale costs of £1.2 million.

In the year ended 31 December 2015, business reorganisation costs mainly comprised staff restructuring costs. Hospital impairment relates to an impairment charge of £5.7 million on leasehold improvements and equipment associated with the previous Spire Manchester Hospital, as a result of the development of a new hospital facility in West Didsbury, South Manchester. Hospital closure costs relate to the closure of the Spire St Saviour's Hospital announced in June 2015 and includes an impairment charge on freehold property and equipment of £5.5 million.

Included in business reorganisations, hospital set up costs, hospital closure, other and corporate restructuring costs are £3.7 million (2015: £2.6 million) in respect of wages, salaries and social security costs.

## 8. Finance costs

| (£ million) | 2016 | 2015 |
|---|---|---|
| Interest on bank facilities | 12.7 | 13.2 |
| Finance charges payable under finance leases | 9.1 | 8.5 |
| | 21.8 | 21.7 |
| Finance costs capitalised in the year | (1.8) | (0.3) |
| Total finance costs | 20.0 | 21.4 |

Finance costs capitalised during the year were calculated based on a weighted cost of borrowing of 3.5% (2015: 3.6%).

# Notes to the preliminary announcement *continued*

## 9. Taxation

| (£ million) | 2016 | 2015 |
|---|---|---|
| Current tax | | |
| UK Corporation tax expense | **2.1** | 8.1 |
| Adjustments in respect of prior years | **0.4** | (0.2) |
| Total current tax | **2.5** | 7.9 |
| | | |
| Deferred tax | | |
| Origination and reversal of temporary differences | **16.3** | 9.4 |
| Effects of change in tax rate | **(5.2)** | (5.8) |
| Reassessment of property timing differences (note 4) | **8.4** | – |
| Adjustments in respect of prior years | **(2.4)** | 2.1 |
| Total deferred tax | **17.1** | 5.7 |
| | | |
| Total tax expense | **19.6** | 13.6 |

Corporation tax is calculated at 20.00% (2015: 20.25%) of the estimated taxable profit or loss for the year. The effective tax rate on profit before taxation for the year was 26.8% (2015: 18.5%).

During the year, the Group considered it to be appropriate to reassess the basis for calculating deferred tax on the property portfolio and has now based the assessment on solely held-in-use basis (see note 4). This gives rise to a material tax charge and is excluded from tax on underlying profit.

## 10. Dividends

| (£ million) | 2016 | 2015 |
|---|---|---|
| Amounts recognised as distributions to equity holders in the year: | | |
| – final dividend for the year ended 31 December 2015 of 2.4 pence per share (2015: 1.8 pence) | **9.6** | 7.2 |
| – interim dividend for the year ended 31 December 2016 of 1.3 pence per share (2015: 1.3 pence) | **5.2** | 5.2 |
| | **14.8** | 12.4 |

A final dividend of 2.5 pence per share, amounting to a total final dividend of approximately £10.1 million, is to be proposed at the Company's annual general meeting on 26 May 2017. In accordance with IAS 10 *Events After the Balance Sheet Date*, dividend declared after the balance sheet date is not recognised as a liability in these financial statements.

# Notes to the preliminary announcement *continued*

## 11. Earnings per share

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

| | 2016 | 2015 |
|---|---|---|
| Profit for the year attributable to owners of the Parent (£ million) | 53.6 | 60.0 |
| Weighted average number of ordinary shares | 401,081,391 | 401,081,391 |
| Adjustment for weighted average number of shares held in the EBT | (1,085,956) | (1,195,844) |
| Weighted average number of ordinary shares in issue (No.) | 399,995,435 | 399,885,547 |
| **Basic earnings per share (in pence per share)** | 13.4 | **15.0** |

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.

| | 2016 | 2015 |
|---|---|---|
| Profit for the period attributable to owners of the Parent (£ million) | 53.6 | 60.0 |
| Weighted average number of ordinary shares in issue | 399,995,435 | 399,885,547 |
| Adjustment for weighted average number of contingently issuable shares | 1,576,430 | 2,052,534 |
| Diluted weighted average number of ordinary shares in issue (No.) | 401,571,865 | 401,938,081 |
| **Diluted earnings per share (in pence per share)** | 13.3 | **14.9** |

## 12. Intangible assets

| (£ million) | Goodwill |
|---|---|
| **Cost** | |
| At 1 January 2016 | 520.1 |
| Written-off | (1.3) |
| **At 31 December 2016** | 518.8 |
| | |
| **Impairment** | |
| **At 1 January/31 December 2016** | 1.0 |
| | |
| **Net book value** | |
| **At 31 December 2016** | 517.8 |
| At 31 December 2015 | 519.1 |

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 the Lifescan business was written-off following a strategic review and the closure of the operation. The Directors do not believe that any further impairment is required in the current financial year.

# Notes to the preliminary announcement *continued*

### 13. Property, plant and equipment

| (£ million) | Freehold property | Long leasehold property | Equipment | Assets in the course of construction | Total |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2015 (as previously stated) | 623.9 | 174.0 | 263.1 | 1.4 | 1,062.4 |
| Reclassification | 28.3 | (28.3) | – | – | – |
| At 1 January 2015 (as restated) | 652.2 | 145.7 | 263.1 | 1.4 | 1,062.4 |
| Additions | 21.8 | 13.5 | 37.4 | 37.1 | 109.8 |
| Disposals | – | (0.7) | (2.2) | – | (2.9) |
| Reclassification | (0.7) | – | 0.6 | 0.1 | – |
| At 1 January 2016 | **673.3** | **158.5** | **298.9** | **38.6** | **1,169.3** |
| Additions | **9.7** | **14.2** | **32.6** | **103.9** | **160.4** |
| Disposals | **(15.3)** | **(2.3)** | **(25.7)** | **–** | **(43.3)** |
| Transfers | **18.7** | **6.4** | **2.6** | **(27.7)** | **–** |
| **At 31 December 2016** | **686.4** | **176.8** | **308.4** | **114.8** | **1,286.4** |
| **Depreciation** | | | | | |
| At 1 January 2015 | 83.9 | 34.2 | 97.7 | – | 215.8 |
| Charge for the year | 11.3 | 5.4 | 32.2 | – | 48.9 |
| Impairment | 4.9 | 2.7 | 3.6 | – | 11.2 |
| Disposals | – | (0.6) | (1.5) | – | (2.1) |
| Reclassification | (5.4) | (1.0) | 6.4 | – | – |
| At 1 January 2016 | **94.7** | **40.7** | **138.4** | **–** | **273.8** |
| Charge for the year | **11.7** | **4.7** | **35.5** | **–** | **51.9** |
| Impairment | **–** | **0.4** | **0.1** | **–** | **0.5** |
| Reversal of impairment | **–** | **–** | **(1.9)** | **–** | **(1.9)** |
| Disposals | **(3.0)** | **(2.0)** | **(24.4)** | **–** | **(29.4)** |
| **At 31 December 2016** | **103.4** | **43.8** | **147.7** | **–** | **294.9** |
| **Net book value** | | | | | |
| **At 31 December 2016** | **583.0** | **133.0** | **160.7** | **114.8** | **991.5** |
| At 31 December 2015 (as restated) | 578.6 | 117.8 | 160.5 | 38.6 | 895.5 |

On 31 August 2016, as a result of the development of a new hospital facility in Manchester and the closure of the previous Spire Manchester Hospital (previously held under an operating lease), the freehold interest in Spire Wirral Hospital with a net book value of £11.5 million was disposed of, and leased back in a sale and leaseback transaction. The consideration for the sale was realised in the form of a non-cash asset, being the freehold of the previous Spire Manchester Hospital, which was simultaneously acquired by the Group (the "Asset Swap Transaction"). Refer to note 7.

The reversal of the impairment in 2016 is the result of the reassessment of the lives of medical and other equipment following the relocation of the assets from the previous Spire Manchester Hospital to the new hospital facility and other Group hospitals following its closure.

As at 31 December 2016, included in the net book value of property, plant and equipment above is £21.7 million (2015: £22.5 million) relating to assets held under finance leases on which there was a depreciation charge of £1.2 million in the year (2015: £1.1 million). Also included in property, plant and equipment with a net book value of £4.0 million (2015: £nil) in respect of the previous Spire Manchester Hospital with has been retired from active use.

The amount of borrowing costs capitalised during the year ended 31 December 2016 was £1.8 million (2015: £0.3 million). The rate used to determine the amount of borrowing costs eligible for capitalisation was 3.5% (2015: 3.6%) which is calculated on a weighted cost of borrowing.

# Notes to the preliminary announcement *continued*

## 14. Trade and other receivables

| (£ million) | 2016 | 2015 |
|---|---|---|
| **Amounts falling due within one year:** | | |
| Trade receivables – net | **58.0** | 71.3 |
| Other receivables | **11.1** | 10.2 |
| Prepayments | **27.2** | 28.8 |
| Accrued income | **22.8** | 24.4 |
| | **119.1** | 134.7 |

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) | 2016 | 2015 |
|---|---|---|
| Not past due and not impaired | **38.3** | 32.7 |
| Past due 0–30 days, and not impaired | **8.0** | 17.0 |
| Past due 31–90 days, and not impaired | **6.7** | 9.2 |
| Past due and more than 91 days, and not impaired | **5.0** | 12.4 |
| Total | **58.0** | 71.3 |

Trade receivables comprise the following wider customer/payor groups:

| (£ million) | 2016 | 2015 |
|---|---|---|
| Private medical insurers | **34.0** | 41.4 |
| NHS | **10.8** | 14.4 |
| Patient debt | **4.9** | 2.8 |
| Other | **8.3** | 12.7 |
| Total | **58.0** | 71.3 |

## 15. Borrowings

| (£ million) | 2016 | 2015 |
|---|---|---|
| **Secured borrowings** | | |
| Bank loans | **424.1** | 423.1 |
| Obligations under finance leases | **76.1** | 75.3 |
| | **500.2** | 498.4 |

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)**

| (£ million) | 2016 | 2015 |
|---|---|---|
| Amount due for settlement within 12 months | **4.5** | 4.9 |
| Amount due for settlement after 12 months | **495.7** | 493.5 |
| | **500.2** | 498.4 |

# Notes to the preliminary announcement *continued*

## 15. Borrowings *continued*

**Obligations under finance leases**

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

| | 2016 | | 2015 | |
|---|---|---|---|---|
| (£ million) | **Minimum payments** | **Present value of payments** | Minimum payments | Present value of payments |
| Within one year | **8.7** | **7.0** | 8.5 | 7.5 |
| After one year but not more than five years | **35.8** | **21.2** | 35.2 | 23.6 |
| More than five years | **229.8** | **47.9** | 239.1 | 44.2 |
| Total minimum lease payments | **274.3** | **76.1** | 282.8 | 75.3 |
| Less amounts representing finance charges | **(198.2)** | **–** | (207.5) | – |
| **Present value of minimum lease payments** | **76.1** | **76.1** | 75.3 | 75.3 |

Property leases, with a present value liability of £75.4 million (2015: £74.2 million), expire in 2040 and carry an implicit interest rate of 12.9% (2015: 12.9%). Rent is reviewed annually with reference to RPI, subject to a floor of 3.0% and a cap at 5.0%.

**Terms and debt repayment schedule**

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

The carrying amounts drawn (after issue costs and including interest accrued) under facilities in place at the balance sheet date were as follows:

| (£ million) | Maturity | Margin over LIBOR | 2016 | 2015 |
|---|---|---|---|---|
| Senior finance facility | July 2019 | 2.00% | **424.1** | 423.1 |
| | | | | |
| Revolving credit facility (undrawn committed facility) | | | **100.0** | 100.0 |

On 23 July 2014, the Group was refinanced, and it entered into a bank loan facility with a syndicate of banks, comprising a five-year, £425.0 million term loan and a five-year £100.0 million revolving facility. The loan is non-amortising and carries interest at a margin of 2.00% over LIBOR (2015: 2.00% over LIBOR).

# Notes to the preliminary announcement *continued*

## 16. Provisions

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

| (£ million) | Medical malpractice | Business restructuring and other | Total |
|---|---|---|---|
| At 1 January 2015 | 4.8 | 1.3 | 6.1 |
| Utilised | (2.8) | (0.7) | (3.5) |
| Additions | 7.9 | 0.6 | 8.5 |
| Cash received for settlement of claims | 4.5 | – | 4.5 |
| At 1 January 2016 | **14.4** | **1.2** | **15.6** |
| Utilised | **(2.2)** | **(0.3)** | **(2.5)** |
| Additions | **2.1** | **1.5** | **3.6** |
| **At 31 December 2016** | **14.3** | **2.4** | **16.7** |

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.

Business restructuring and other includes staff restructuring costs and the closure costs relating to an onerous contract.

The provisions are shown gross of any expected reimbursement from insurers of the related risks. The reimbursement is recognised as a separate receivable when receipt of it is judged sufficiently probable. The amount included in other receivables in that respect was £6.7 million (2015: £6.2 million).

Provisions as at 31 December 2016 are expected to be utilised within three years.

The Group has received claims and notifications from patients of a consultant, who previously had practising privileges at Spire Healthcare. The patients are claiming against the consultant and other involved parties including the Group. Court hearings are scheduled for a limited number of claims in October 2017 through which precedent will be established regarding how future claims will be treated. The Group is defending such claims and the legal process is expected to take place over a period of several years. There is significant uncertainty regarding the number of claims, the outcome of the claims, any amounts to be awarded to each claimant and the apportionment of damages between the parties. It is, therefore, not possible to reliably estimate any liability of the Group. The Group maintains comprehensive medical malpractice insurance, and in the event that the Group is found liable, the Directors consider that insurers will meet any such liabilities, subject to certain terms and excess limitations.

## 17. Trade and other payables

| (£ million) | **2016** | 2015 |
|---|---|---|
| Trade payables | **49.7** | 46.8 |
| Other payables | **8.8** | 7.1 |
| Other taxation and social security | **3.5** | 4.2 |
| Accruals | **38.3** | 32.2 |
| Total | **100.3** | 90.3 |

## 18. Share capital and reserves

| | £0.01 ordinary shares | |
|---|---|---|
| | Shares | £'000 |
| **Issued and fully paid** | | |
| **At 31 December 2016** | **401,081,391** | **4,010** |
| At 31 December 2015 | 401,081,391 | 4,010 |

**Capital reserves**

This reserve represents the loans of £376.1 million due to the former ultimate parent undertaking and management that were forgiven by those counterparties as part of the reorganisation of the Group prior to the IPO in 2014.

**EBT share reserves**

Equiniti Trust (Jersey) Limited is acting in its capacity as trustee of the Company's Employee Benefit Trust ('EBT'). The purpose of the EBT is to further the interests of the Company by benefiting employees and former employees of the Group and certain of their dependants. The EBT is treated as an extension of the Group and the Company.

During 2016, the Employee Benefit Trust (EBT) purchased 561,860 shares at an average price of £3.18 per share (2015: 1,692,242 shares acquired at an average price per share of £3.31 per share).

Where the EBT purchases the Company's equity share capital the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. As at 31 December 2016, 670,559 shares (2015: 1,692,242) were held by the EBT in relation to the Directors' share bonus award and long term incentive plan.

# Notes to the preliminary announcement *continued*

At 1 January 2016, the EBT held 1,692,242 shares. On 1 April 2016, 801,825 number of shares were exercised in Tranche 1 of the Directors' Share Bonus Award and in August 2016, 781,718 shares were exercised for Tranche 2. A purchase of 561,860 shares was made in July 2016 for an average price of £3.18 per share; and at 31 December 2016, the EBT held 670,559 shares.

The EBT share reserve represents the consideration paid when the EBT purchases the Company's equity share capital, until the shares are reissued.

## 19. Share-based payments

The Group operates a number of share-based payment schemes for Executive Directors and other employees, all of which are equity settled. The Group has no legal or constructive obligation to repurchase or settle any of the options in cash. The total cost recognised in the income statement was £0.4 million in the year ended 31 December 2016 (2015: £0.7 million). Employer's National Insurance 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 National Insurance charge for the year was £0.2 million (2015: £0.1 million).

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

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Charge (£ million)** | **Number of options (thousands)** | Charge (£ million) | Number of options (thousands) |
| Long Term Incentive Plan | **0.4** | **950** | 0.7 | 944 |
| Deferred Bonus Plan | **–** | **–** | – | 29 |
| | **0.4** | **950** | 0.7 | 973 |

A summary of the main features of the schemes are 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 was divided into two equal tranches, the first of which vested on 23 July 2015 and the second tranche vested on 23 July 2016. The number of options that vested depended on conditions relating to share price on the relevant date. The second tranche, which vested on 23 July 2016, resulted in 781,718 options (23 July 2015: 801,824 options) being issued. All qualifying options relating to the Directors' Share Bonus Award were exercised during the year.

**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.

**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.

## 20. Commitments

**Operating leases**

The Group had future minimum lease payments under non-cancellable operating leases, based on rents prevailing at the year end, as set out below:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| (£ million) | **Land and buildings** | **Other** | Land and buildings | Other |
| Not later than one year | **63.1** | **1.1** | 62.9 | 0.9 |
| Less than one year and not later than five years | **249.7** | **2.2** | 250.1 | 1.7 |
| Later than five years | **1,282.9** | **–** | 1,334.2 | – |
| | **1,595.7** | **3.3** | 1,647.2 | 2.6 |

The Group has a number of long-term institutional lease arrangements. These include leases over 12 properties with a term up to December 2042, subject to renewal or extension over each of the 12 properties. The leases include key terms such as annual rental covenants and minimum levels of capital expenditure invested by the Group. Rent is indexed annually in line with RPI, upwards only and subject to a cap of 5.0%. The capital expenditure covenants measured on an average basis over each five-year period during the term of the leases, require the Group to incur, in total, £5.0 million of maintenance capital expenditure and £3.0 million of additional capital expenditure each year, such being subject to indexation in line with RPI.

Other operating leases are in respect of vehicles and medical transportation.

# Notes to the preliminary announcement *continued*

**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) | **2016** | 2015 |
|---|---|---|
| Contracted but not provided for | **63.8** | 39.4 |

## 21. Contingent liabilities

The Group had the following guarantees at 31 December 2016:

- The bankers to Spire Healthcare Limited have issued a letter of credit in the maximum amount of £1.5 million (2015: £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.
- See note 16 for details of a contingent liability in respect of Medical Malpractice.

## 22. Events after the reporting period

**2016 final dividend**

For 2016, the Board has recommended a final dividend of 2.5 pence per share, amounting to approximately £10.1 million, to be paid on 27 June 2017 to shareholders on the register at the close of business on 2 June 2017.

**Spire Manchester Hospital**

The new Spire Manchester Hospital in Didsbury was opened on 23 January 2017.

# Shareholders' information

### Registered Office and Head Office:

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(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

### Financial calendar

| | |
|---|---|
| 2017 Annual General Meeting (London) | 26 May 2017 |
| Ex-div date for 2016 final dividend | 1 June 2017 |
| Record date for 2016 final dividend | 2 June 2017 |
| Payment date for 2016 final dividend | 27 June 2017 |
| Announcement of 2017 half year results | September 2017 |